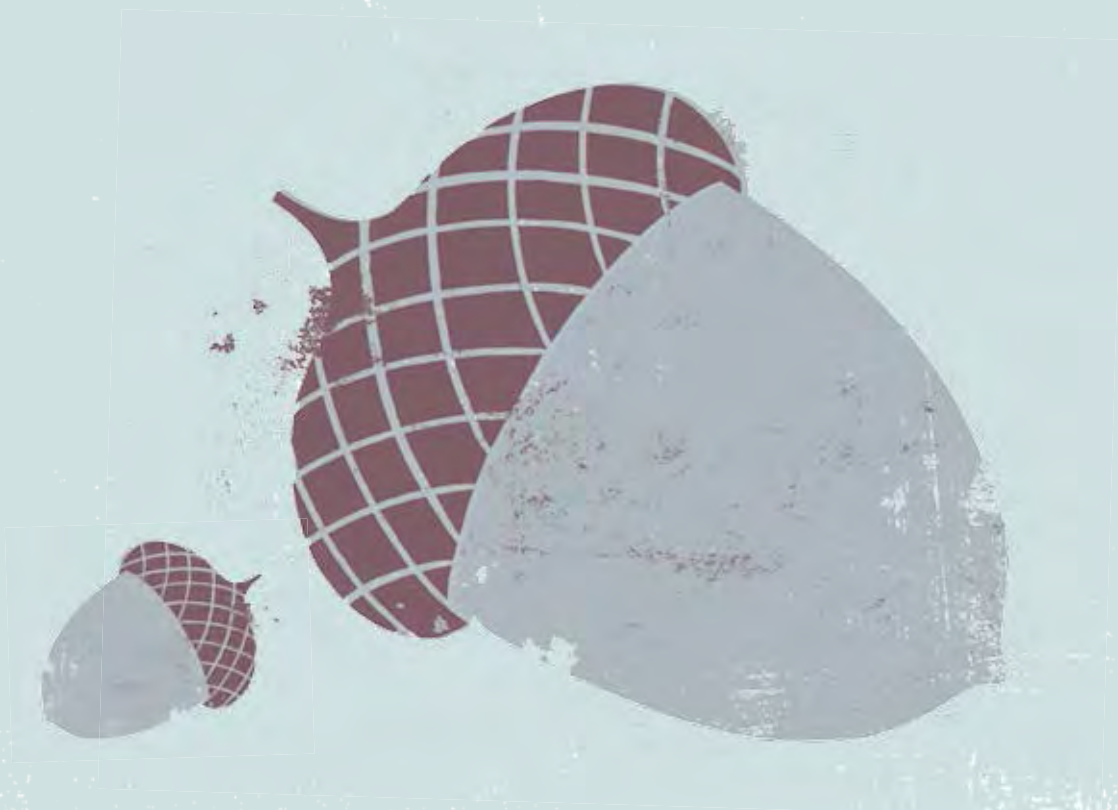


Growing bigger & stronger



We're proud to be working together with Post Office Insurance Society



Welcome to this year's Foresters Annual Report. We are delighted to welcome Post Office Insurance Society (POIS) policyholders to Foresters. The acquisition of POIS from Family Assurance on 26 September 2014 has resulted in an additional 21,000 new members for the Society to look after and £69m of funds to the balance sheet. The acquisition is part of the Society's strategy to seek growth through transfers of business alongside increased product sales.

Paul Osborn, Chief Executive, states "Our new POIS policyholders can be assured that they will be well looked after. We are very proud of our customer care standards and hope that the POIS policyholders will benefit from the service we provide and remain as long-term policyholders of the Society. The POIS policyholders will also be able to take advantage of the member benefits such as 24/7 GP helpline, healthcare counselling and discretionary grants to help with higher education costs and dental and optical bills".

Our Directors and Advisers

Board of Directors

Non-Executive Directors

Mike Wilkinson Chairman

Kathryn Vagneur Deputy Chairman

Cheryl Eagleson Senior Independent Director

John Instance

Penny O'Nions

Graham Setterfield

Executive Director

Paul Osborn Chief Executive

Company Secretary

Lisa Russell

Advisers

Actuarial Function Holder and With-Profits
Actuary

Trevor Fannin, Towers Watson

Independent Auditors

BDO LLP

Other key service providers

Investments

Legal & General (equities)

Quilter Cheviot (equities and fixed interest)

Aston Rose (property)

Bankers

Royal Bank of Scotland

Legal

Hogan Lovells International

Bond Dickinson

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Chairman's Statement



It is with great pleasure that I present my third Chairman's statement for the Society.

I am pleased to report that 2014 has been another year of progress against our strategic objectives, with the major success being the acquisition of the Post Office Insurance Society (POIS) in September 2014. This acquisition is a clear sign that our strategy to expand the business is beginning to work and that the future is looking much more promising.

In 2014, the Society reached its 180th year of being in existence. An amazing achievement but I do believe that it is worth reflecting on what sort of an organisation we are and what we want to be in the future.

Foresters is a Friendly Society that combines an insurance company with its origins of a branch based social/benevolent organisation (known as Courts). The two operations work side by side with each providing the other with benefits and sharing resources. In the case of the Courts, the benefits provided by them are unique selling points for the insurance operation and in the case of the insurance operation, sales provide new members for the Courts.

It is very satisfying to see these two operations now working much more closely together. We had a very successful 2014 Annual General Meeting (High Court) in Torquay which was the conclusion of Janet Clements' year as High Chief Ranger. A total of just over £88,000 was raised for Barnado's which was the charity nominated by Janet which was a fantastic achievement. The Courts also raise considerable sums of monies for other charities. David Watkins has been elected the High Chief Ranger for 2014/15 and his nominated charity is SENSE. I know by the time we reach the 2015 High Court, David will have worked tirelessly for the Society and another significant amount will have been raised for his nominated charity.

The Board has a clear strategy of growth, retaining our traditions but remaining relevant to modern times

As Chairman, working with the incumbent High Chief Ranger, direction is given to the Chief Executive to execute a successful strategy for the Society.

It is also probably worth reminding ourselves why we are a Friendly Society.

- No shareholders to pay. As a mutual we have no external shareholders to pay dividends to and we can focus our efforts entirely for the benefit of our members.
- Tax free savings. Because of our legal status, we can offer tax-exempt savings products that are not available from other insurance companies.
- Membership benefits. All profits are distributed in the form of bonuses or in the provision of member benefits.
- Helping people to help themselves. Whilst benefits can add value to taking out a product or policy with a Friendly Society, it should be remembered that mutuals are, and have always been, about helping people help themselves, playing a vital role in financial services and in today's society.

But we cannot stand still and the Board has developed a clear strategy of growth, retaining our traditions but remaining relevant to modern times. The strategic objectives are to increase the Society's scale through higher policy sales and actively seeking transfers in of business from other Societies, alongside a strict cost control culture. The Board is also sponsoring a detailed project to develop the Courts to ensure that they are fit for the 21st century and the benefits they provide members continue to be relevant.

Post Office Insurance Society (POIS)

I would like to offer a very warm welcome to all our new POIS Policyholders. POIS was acquired on 26 September 2014 from Family Assurance by means of a transfer of engagements. This acquisition has resulted in 21,000 new members and £69m of additional funds to look after. What was particularly pleasing was that the staff at Foresters took on the additional work with total commitment and enthusiasm which bodes very well for the future. Further details of the POIS acquisition are contained in the Chief Executive's report on page 5.

Courts

Courts are the local point of contact for members and they seek to promote the ethos of the Society. Courts enable members to meet regularly for social, benevolent and Foresters' business purposes. Courts also support their members by offering cash grants towards medical and educational costs and in 2014 £871,000 was awarded in grants to members.

As already mentioned, Courts do need to be fit for the 21st century and the Court review project is well underway with analysis and feedback undertaken. The overall objective of the project is to preserve our heritage but also to modernise the way the Courts operate, to increase the number of members participating in Court activities and to ensure that the benefits offered are appropriate. By implementing fully consulted changes, I am very confident that the Courts will continue to play a vital part in our future and ensure that we continue to be a member-centric Society.

Board

Our Board has worked together well throughout 2014 with plenty of open discussion, challenge and debate. The Board also operates through a number of committees, including a Membership Committee, which is chaired by the High Chief Ranger.

I was pleased to see all three Directors re-elected at High Court and particularly delighted to see that our Chief Executive, Paul Osborn, was elected with 94% of delegates voting in favour of his re-election.

I am also delighted to welcome Graham Setterfield who was co-opted as a Non-Executive Director on 31 July 2014. Graham was appointed following a full assessment of the skills required by the Board and an extensive search programme and brings with him a wealth of experience – particularly in the Marketing field.

We had two Executive Director departures in the year: Neil Armitage (Marketing Director) and Patrick Phelps (Finance Director). Neil left the Society on 9 May 2014 following a change in the Society's distribution strategy and Patrick left the Society on 31 October 2014 for personal reasons. I would like to express the Board's considerable thanks to these individuals for their contributions to the Society and to wish them both well for the future.

The role of Chief Financial Officer is currently being undertaken by Sally Butters, the Society's Actuarial Manager, on an interim basis as we determine the most appropriate course of action to take.

Regulatory

It is now 6 years since the financial crisis and almost two years since the Financial Services Authority (FSA) was replaced by the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA). Whilst the reforms put in place over the past few years are designed to try and avoid another new crisis, they are subjecting the insurance sector to considerable change and expense.

The main new regulatory challenge will be the implementation of the European Solvency II regime at the beginning of 2016 but there are also numerous other changes on the way in relation to raising standards, consumer protection and risk management. Although we are alert to these changes and have planned for them accordingly, they do require considerable resources and will be expensive to implement. It is important that the scale of the Society's membership remains sufficient to enable compliance with modern governance.

Results and Outlook

I do believe that we have made good progress in 2014. These results are commented on in the Chief Executive's report and set out in the financial highlights on pages 6 to 8.

Again it is particularly pleasing to see the excellent member feedback reported on page 12 and reassuring to see that the Society continues to remain financially strong as set out on page 17.

The economic outlook for the UK in 2015 is positive but there is considerable volatility in the markets and there are a number of serious risks facing the UK. It must be recognised that the UK is affected by events elsewhere in the world where the Euro area in particular continues to struggle and the prospect of deflation is very real. The general election in May 2015 could also result in reduced economic activity as a "wait and see" approach is adopted. And finally the threat and impact of external events can have a major impact on economic activity.

Nevertheless, the outlook for Foresters in 2015 is positive as we will benefit from having a full year of POIS sales and will be looking to generally increase the level of all our sales.

We must not be complacent and during 2015 we will continue to look at possible acquisitions and ways to increase the number of members in order to meet our strategic goals and remain relevant to existing and new members.

Mike Wilkinson
Chairman
26 March 2015

**turn over to
read the Chief
Executive's Review**



Chief Executive's Review



I am pleased to present my Chief Executive's report and to provide an update on an eventful year with much achieved thanks to the hard work of everyone at Foresters.

Without doubt, the major achievement has been the successful acquisition and integration of the POIS book of business which I refer to below in more detail. This has involved a huge amount of work by everyone and the acquisition is a clear demonstration of the Society's commitment and ability to grow.

I am also very pleased to report that we have had a number of other successes which are summarised below:

- A very successful High Court with all proposals/resolutions agreed.
- Our strategy and strategic goals have been reviewed and reconfirmed.
- Good progress has been made with the Court Review project.
- All Group business due for renewal was successfully renewed and one new scheme acquired.
- Our cost base has been reduced by putting a number of contracts out for tender and renegotiating other costs.

- Our senior management team has been restructured by matching our skills more closely with our strategy, which also achieved a reduction in costs.
- Our risk appetite and investment strategy have been updated and we are in the process of moving our investments to a new fund manager where some funds will be more actively managed.
- We achieved second place (out of 26) in the Barnet Waddingham 2013 with-profits investment performance survey for financial mutuals.
- We have continued to develop and improve the relationship with our regulators, remained compliant and made good progress with the project to comply with proposed new solvency requirements known as Solvency II.
- The effectiveness and skills of our committees were reviewed and changes made as necessary.

However, it has not all been positive and sales in 2014 were somewhat disappointing. The Retail Distribution Review (RDR) has changed the Society's distribution strategy in the last two years, and in 2014 this has unfortunately led to the closure of our IFA support team. The Court Introducer sales have been slow to take off and the scheme has recently been re-launched. Another challenge has been that the level of claims – particularly in Group business and individual sickness – has been higher than anticipated. This experience has resulted in additional claims and provisions at the year-end.

Courts

Progress with the Court Review and Court Introducer projects continues apace and is supported by independent research to help identify areas that need to be addressed. This research, together with extensive consultations, has resulted in an agreed Directional Statement and produced a list of actions that we will be working on during the coming months. The ultimate aims are to promote the Courts as a distribution channel for Foresters products, to grow the membership of the Courts and to increase the number of members engaging in Court activities. The research is also looking at the benefits offered by Courts to ensure that they remain relevant and appropriate for the future. An update on this work will be provided at the 2015 High Court.

The major achievement has been the successful acquisition and integration of POIS

Post Office Insurance Society (POIS)

The acquisition of the POIS book of business on 26 September 2014 was a significant step towards achieving our growth plans for the Society and has resulted in 29,000 new policies and an additional 21,000 members. This brings the number of members in the Society to 82,874 which is well on the way to our objective of increasing the number of members to 100,000. I very much hope that many of the new members will join in Court activities.

POIS consists of a closed with-profits fund that is ring-fenced and an open fund consisting of 3 unit-linked funds and other non-profit business. POIS members are primarily employees of the Post Office and Royal Mail. POIS funds amount to some £69m and initially the business will generate in the region of £5m API. The full financials of the acquisition are set out in note 25. In summary we paid £1.4m for POIS and incurred approximately £0.9m of project costs. Apart from providing more members for Courts, the acquisition has provided us with a suite of unit-linked products. I was particularly pleased that this acquisition was approved by 96% of delegates voting at the 2014 High Court.

We are now working hard on integrating our new POIS policyholders into Foresters and ensuring that they receive the same excellent service standard as Foresters policyholders. We are very hopeful that this acquisition will significantly increase our future sales as well as reduce our overall costs of administering each policy as a result of greater efficiency.

Review of 2014

Our financial highlights are summarised on pages 6 to 8. It is particularly pleasing to see that all but one key performance indicators (KPIs) are showing improved positions over 2013. The KPI not showing an improvement is the expense KPI where expenses have increased in 2014. However, the increase is due to 'one-off' costs such as the POIS acquisition costs and redundancy costs and I am confident that the KPI will show an improvement in 2015.

The results for 2014 include 3 months of POIS business (acquired at the end of September 2014) and our balance sheet at 31 December 2014 includes the POIS funds for the first time. At the end of 2014, our total assets amount to £264.5m (2013: £185m) with a membership of 82,874 (2013: 63,172).

Long term premium income in 2014 amounted to £14.2m – an increase of 11.5% over 2013.

After a strong year in 2013 for UK equity investment returns, 2014 has been somewhat disappointing with the FTSE 100 index down by 3%. This was mainly due to the impact of oil and mining stocks which fell in value as the price for their products reduced on the world market. Fixed income and international equities performed much better achieving returns of 15% (gilt total return) and 9% (world equities). By having our with-profit funds invested in a range of asset types (including property), we ensure that we can spread our risk and achieve a balanced return for policyholders.

Expenses have remained under very tight control but have included a number of "one off" costs in respect of redundancy costs and project costs to acquire POIS. It is particularly pleasing that we have managed to cope with the increased POIS workload without having to increase overheads to any significant extent.

Finally, I am pleased to report that the Society ended the year in a very strong financial position with surplus capital over regulatory requirements of £27.0m (2013: £19.3m).

Outlook

Although it is anticipated that 2015 will continue to be challenging, I am confident that the Society is well placed to meet these challenges. Our strategy is to continue to provide meaningful financial and supporting benefits to existing and future members benefitting from the scale of the Society and we have three clear strategic goals:

- Grow the Society's membership base
- Achieve a viable and consistent operating environment for capital and earnings
- Continue to be a fully compliant organisation with an appropriate governance structure

During the year we have made considerable progress with the first two of these strategic goals and achieved the third. In the next few years we will be seeking further growth through additional transfers of business alongside optimising sales as a result of the POIS acquisition. However it is not all about growth and we will continue to ensure that customer service standards remain at a very high level, our Courts are fit for the 21st century and that our benefits proposition remains strong.

Staff

Finally, I would like to pay tribute to the management and staff at Foresters who have worked extremely hard in 2014 and without whom I would not be able to report such an encouraging and optimistic assessment of the year or our future.

Paul Osborn
Chief Executive
26 March 2015

Financial Highlights

Introduction

The results for 2014 are set out in detail on pages 37 to 43 and summarised below together with the Society's Key Performance Indicators (KPIs).

The KPIs show the six key measures that the Society uses to assess its performance covering premium income, expenses, membership, complaints, financial strength and assets under management.

The 2014 results include POIS from the date of acquisition (26 September 2014) to the end of 2014. Details of the POIS acquisition are contained in note 25 and the impacts of POIS on the results for the year are included in the individual notes to the Accounts.

In summary, 2014 has been a successful year with all but one of our KPIs showing positive trends. It has also been a very busy year in acquiring and successfully integrating the POIS business. Sales were in line with expectation although a difficult decision had to be taken to close the unprofitable IFA sales channel in the year. The Society remains financially strong as set out on page 17.

Economic backdrop

Official figures show that the UK's economy grew by 2.6% in 2014, the fastest pace since 2007 and up from 1.7% in 2013. Unemployment also fell from 7.2% to 5.7% in the year although there has been only a very modest improvement in living standards for the UK population. However, recent falls in inflation (and particularly oil prices) should mean people should start to feel better off in 2015.

Obviously a key issue that is of crucial importance that affects everyone is interest rates which the Bank of England has kept at 0.5% for the past 5 years. With low inflation and a strong pound, it would appear quite likely that interest rates will not increase in 2015 and when they do increase it will be by modest amounts. But what is not in doubt is that they will increase at some point in the future and the potential impact on investment markets will need to be carefully monitored.

Sales

Sales have shown a healthy increase in 2014, mainly due to the acquisition of POIS. Gross long term premium income has increased by 11.5% to £14.2m (2013: £12.8m).

New business calculated on an Annual Premium Equivalent (APE) basis increased to £1.7m (2013: £1.1m) with annualised regular premiums of £1.4m (2013: £0.7m) and single premiums of £3.5m (2013: £3.3m).

Gross premium income of the Guernsey (medical insurance) general business increased to £2.1m (2013 £2.0m).

Investments

2014 was a disappointing year for UK equities with the FTSE 100 falling by nearly 3% despite evidence that the UK economic recovery is gaining traction. However, international equities performed much better – boosted primarily by US equities with the MSCI World index producing a capital return of over

9% for sterling denominated investors. Rather surprisingly, gilts once again confounded expectations as continuing yield compression enabled the asset class to post a near 15% return according to the IBOXX Gilt Total return Index.

The total investment return (including unrealised gains and losses) for the insurance funds amounted to £9.7m (2013: £5.7m). In 2014 the total investment returns for the three main insurance funds were 8.7% (2013: 10.7%) for the Order Insurance Fund, 5.9% (2013: 3.1%) for the Group Business Fund and 6.8% (2013: 3.1%) for the Group Capital Fund.

The total investment return (including unrealised gains and losses) for the other funds amounted to £10.4m (2013: £7.4m). This increase arises from unrealised capital gains on the property portfolio in 2014 compared to losses the previous year. The Courts' "secondary" property values have bounced back during 2014 after a few disappointing years. We continue to work closely with our property advisers to improve the performance of the portfolio. We are also working to reduce risk through further diversification of the types of assets held and reducing the exposure to property.

Claims

Claim payments (excluding claims administration expenses) were £16.4m (2013: £12.3m). This included £6.2m of death benefits (2013: £5.8m), £1.2m of disability benefits (2013: £1.0m) and £0.3m of annuity payments (2013: £0.2m). In respect of savings policies, there were £4.0m of maturity claims (2013: £2.3m) and a further £2.8m in surrender payments (2013: £1.1m). General business claims amounted to £2.0m (2013: £1.9m). Claims were in line with expectations although Group claims were higher than 2013 at 86% of premiums.

**The 2014 results
include POIS for the
period 26 September
to 31 December 2014**

Expenses

Total operating expenses (excluding investment expenses) amount to £8.9m (2013: £8.5m). The increase in expenses is mainly due to costs associated with acquiring POIS which have been expensed and redundancy costs following the closure of the IFA distribution channel. Expenses should reduce in 2015 as a result of the cost reduction measures taken in 2014.

Court Benefits

In 2014 the Courts paid out a total of £871,000 (2013: £853,000) in dental and optical grants, discretionary benefits and charitable donations. This is an important function of the Courts in continuing the fraternal and benevolent tradition of the Society.

Total Assets

The Society holds total assets of £264.5m (2013: £184.9m). The increase mainly arises from the acquisition of POIS which had assets of £69m at 26 September 2014. Assets are held in a mixture of equities, fixed interest stocks, property and cash. The holdings vary by fund and details of the three main insurance funds and how their assets are invested are set out on page 11.

Fund for Future Appropriations

The Fund for Future Appropriations (FFA) stands at £42.5m (2013: £31.7m) and represents the estimated surplus in the funds that has not been allocated and is available to meet regulatory and other solvency requirements. The FFA includes £11.2m in respect of POIS funds.

Surplus Capital

The Society has total available regulatory capital of £38.5m (2013: £28.8m). Regulatory capital requirements amount to £11.5m (2013: £9.4m) resulting in surplus capital of £27.0m (2013: £19.3m) and represents a strong solvency position.

The Society holds total assets of

£264.5m

The Fund for Future Appropriations (FFA) stands at

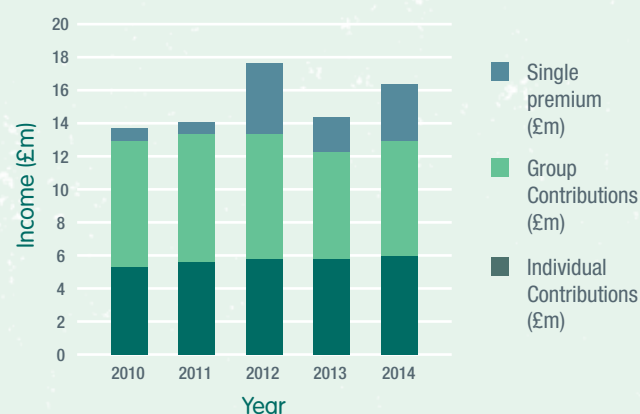
£42.5m

Key Performance Indicators

The Society uses a number of key performance indicators to manage and monitor its business performance. These are shown in the tables below and on the next page.

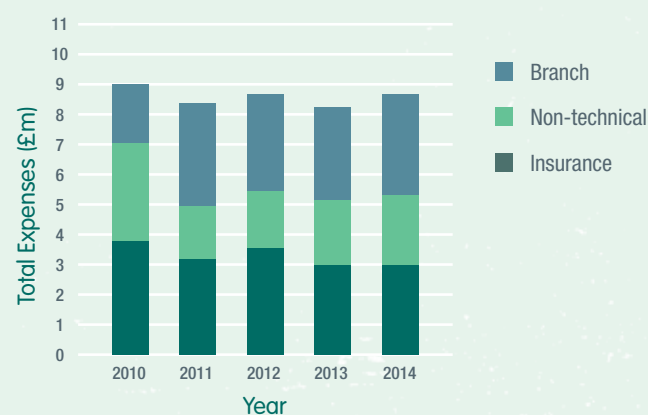
Gross Premium

Gross premium income is the total income generated by the Society through regular premiums, new business and additional contributions. This measure is used to indicate how the Society is performing against income generation targets. The main reason for the increase in premiums in comparison to 2013 is the addition of the POIS book of business. Further details of premium income are set out in note 3.



Total Operating Expenses

Expenses are managed through the setting of budgets within the business planning process and a regular review and challenge process through the year. This is a Key Performance Indicator due to the importance of controlling costs. The expense KPI excludes investment expenses. Expenses have slightly increased in 2014 mainly due to project costs for the POIS acquisition and redundancy costs. Further details on net operating expenses are set out in note 7.



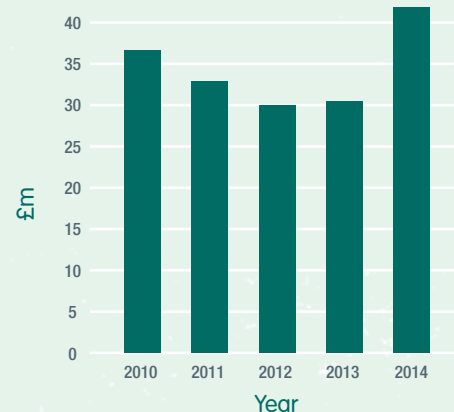
Financial Highlights (Continued)

Individual Membership



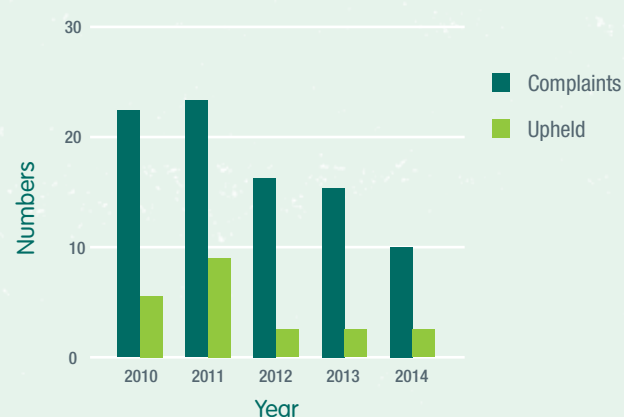
The size of the membership base is an indication of the scale of the Society. It is expressed as the total number of members (including the Guernsey branch) at the end of the financial year. As at 31 December 2014 the Society had 82,874 members which is 19,702 more members than 2013 (63,172), this increase is mainly due to the addition of POIS members.

Fund For Future Appropriations



The Fund for Future Appropriations (FFA) is used as an indicator of financial strength and the ability of the Society to meet its regulatory and solvency requirements. The current value of £42.5m exceeds the Society's regulatory capital commitments and has increased mainly as a result of the POIS acquisition.

Complaints



Membership satisfaction is core to the Society. The Society measures member satisfaction by a number of different means, principally member retention, member complaints, investment performance, and results of membership surveys. Complaints are managed through the Society's complaints process to ensure they are dealt with promptly and fairly. Membership complaints continue to be at a very low level.

Assets Under Management



The value of assets under management is another key indicator of the size of the Society as it seeks to grow. Total assets under management show the growth in the value of the business over time, through both increased sales, profitability, expense control and investment returns. As at the end of 2014 total assets under management were £264.5m. These assets include £70m in respect of POIS which was acquired on 26 September 2014.

About Foresters

Who Are We?

Foresters Friendly Society is a well-established UK friendly society that has been looking after our members and their finances for over 180 years. The Society offers customers affordable savings and investments as well as life assurance and protection products. The Society has 82,874 members and has total assets of £264.5m at 31 December 2014.

Being a mutual society means we have no shareholders to pay. Instead we are exclusively owned by and run for the benefit of our members. Profits are distributed to members through our Foresters Extras membership benefits package, to with-profit policyholders in the form of bonuses and by re-investing residual profits to enhance the customer service we provide. We aim to differentiate ourselves by putting our members at the heart of everything we do.

Our History

The Ancient Order of Foresters Friendly Society, which today trades as Foresters Friendly Society, was established in 1834, although its origins lie in a much older society called the Royal Foresters formed around 1723.

The Society's first members came to recognise they had a duty to assist their fellow men who fell into need "as they walked through the forests of life". This need arose principally when a breadwinner fell ill, could not work and received no wages. Illness and death left families financially distressed and often destitute.

Addressing this need has been the main purpose of Foresters Friendly Society throughout its long history. Members recognised that by paying a few pence a week into a common fund, they would be able to offer sick pay and funeral grants when needed to support families with their finances.

The Society incorporated in 2003 and that year acquired the Tunstall Assurance Friendly Society, followed by the Leek Assurance Collecting Society in 2005. In 2014 it acquired the Post Office Insurance Society (POIS).

Foresters Friendly Society Today

Today the Society has a head office in Southampton and a staff of 60 people. In 2014, the Society celebrated its 180th year anniversary proving that it has a strong heritage backing a brand which really cares about its members. Whilst remaining committed to its roots, the Society has ambitious plans to seek growth through transfers of business, alongside product sales and in 2014 acquired POIS as a clear demonstration of its commitment to grow.

The Society continues to enhance its profile and on line policy sales through the sponsorship of Archery GB which is in place until after the Olympic Games in Rio in 2016. It also aims to increase awareness within its target market and enhance member engagement through social media, its website blog, educational email newsletters and direct marketing campaigns.

The Board of Directors

The Society is led by a Board consisting of Executive and Non-Executive Directors. The Board is responsible for developing the strategy of the Society and the related business plans, as well as providing constructive challenge, advice and oversight to management.

**We aim to
differentiate ourselves
by putting our
members at the heart
of everything we do**



About Foresters (Continued)

The Courts (branches)

The structure of the Society encourages members to participate in local branches, known as a Court, or with the Central Office of the Society. The Society has 193 branches spread across the UK and Channel Islands that meet for social, business and benevolent purposes. Supporting charitable causes and getting involved in community activities is an essential part of the Society's work.

What Do We Do?

The Society currently offers a range of financial products that are simple and affordable and are backed by excellent customer service. The main products are:

Savings & Investments (with-profits and unit-linked)

A range of regular savings plans and lump sum investments. These include regular contribution tax-exempt savings plans for adults and children which are unique to Friendly Societies.

Life insurance cover (with-profit)

Life cover for the over 50s, to help members and their families with funeral costs, or just to leave a cash gift behind to provide a helping hand. This is not a typical over 50 product due to the with-profit element attached to the policies.

Group life and sickness cover

As well as providing a range of products to individual members, Foresters also provides group schemes for organisations. These include insuring more than 20 police federations and providing life insurance cover to a group of agencies of charity workers, with members based both in the UK and overseas.

Medical insurance

The Guernsey Branch sells private medical insurance which is classified as general insurance.

Further details of the products sold are set out on page 13.

Foresters Extras – Member Benefits

It's not just the Society's relevant, affordable financial products that work for its members. Foresters Friendly Society membership provides access to Foresters Extras – the Society's package of additional benefits. Foresters Extras includes social events, a 24/7 GP Consultation Service, a care and more generalised advice helpline, discretionary financial grants including assistance with hard times, higher education grants and much more – all as a bonus just for being a Foresters member. In 2014, Foresters gave back £871,000 to members in discretionary financial grants.

Foresters Extras are regularly reviewed to ensure they remain relevant.

"Thank you very much for the generous award of £800 (plus £150 from the local committee) which you recently donated to my granddaughter Victoria. We were surprised and delighted by your generosity and the money will be extremely useful to pay for her physio, re-training and rehabilitation."

Mr L Scott, writing about his granddaughter Victoria who suffered a car accident in 2014.

**In 2014, Foresters
gave back £871,000
to members in
discretionary financial
grants**

Insurance funds

Details of the three main insurance funds and how their assets are invested are set out below:

OIF £57.9m
(31 December 2014)



- 50% – Equities
- 8% – UK Gilts
- 14% – Fixed Interest
- 8% – Index Linked
- 10% – Property
- 10% – Other

This Order Insurance Fund is an insurance fund with assets of £57.9m. It mainly consists of with-profits policies issued by Head Office. It is open to new business.

POIS Fund £36.9m
(31 December 2014)



- 8% – Equities
- 62% – UK Gilts
- 24% – Fixed Interest
- 0% – Index Linked
- 0% – Property
- 6% – Other

The POIS fund is an insurance fund with assets of £36.9m. The fund mainly consists of with profit policies issued by POIS and closed to new business in 2002.

GCF £23.1m
(31 December 2014)



- 23% – Equities
- 16% – UK Gilts
- 46% – Fixed Interest
- 0% – Index linked
- 0% – Property
- 15% – Other

The Group Capital Fund (GCF) is an insurance fund with assets of £23.1m which are available to support all other funds, and to provide capital growth. It has no policyholders.

Other insurance funds

The Group Business Fund (GBF) is an insurance fund with assets of £9.1m, covering non-profit group schemes and individual sickness policies issued by Head Office. This fund is open to new business.

The Pure Endowment Fund (PEF) is an insurance fund with assets of £4.3m, covering both with-profits and non-profit policies issued by the Courts. It closed to new business from 31 December 2002 prior to incorporation.

The Tunstall Fund is a closed with-profits insurance fund with assets of £8.8m. Tunstall Assurance Friendly Society Limited transferred into the Society on 31 December 2003.

The Leek Fund is a closed with-profits insurance fund with assets of £1.8m. Leek Assurance Collecting Society transferred into the Society on 31 December 2005.

The Sick & Death Fund (S&D) is an insurance fund with assets of £4.8m, covering non-profit policies issued by the Courts. It was closed to new business from 31 December 2002 prior to incorporation.

The Non-Profit Fund includes 3 POIS unit-linked funds, of which two are open to new business, and some non-profit business acquired from Family. The POIS Savings Bond fund has assets of £21.7m, the POIS Flexible Growth fund has assets of £9.0m and the POIS Money Bond Fund (closed to new business) has assets of £2.3m.

Court Funds

The Court Funds are not part of our insurance business. They support the social and benevolent activities of the Courts. At 31 December 2014, they amounted to £74.5m. The funds have substantial direct holdings in property with the objective of providing a high level of income to support the activities of the Courts. More detail is referred to on pages 14 and 15.

Our Service to You



Putting Our Members at the Heart of Everything We Do

As a mutual organisation, our aim is to put the interests of our members first. At the end of 2014 we had 83,000 members. Following the acquisition of the Post Office Insurance Society (POIS) from Family Assurance in September 2014, we have welcomed 21,000 new members to the Society. The acquisition was part of the Society's strategy to seek growth through transfers of business alongside product sales. Bringing new members into the Society is essential for its future success.

POIS also presents an opportunity for us to acquire new members through our POIS Introducer scheme. We have a range of simple unit-linked savings and investment plans which are introduced to Royal Mail employees at their place of work, where contributions may be deducted through payroll. We have also re-launched the POIS website (www.pois.co.uk) to support this business.

Incorporating POIS into our business was a big focus in 2014 but not the only one. During 2014 we launched our Foresters Introducer scheme. As members of the Society, Court Introducers are ideal people to introduce the Society, our membership benefits and our product range, to new and existing members, and we have developed this scheme in order to assist them in making introductions.

Foresters also continued to develop the product literature by designing new brochures that incorporate the Key Features and an Application Form. All relevant documents are now in one easily accessible booklet. This was undertaken with the objective of making the application process simpler for new customers and easier for our Introducers. It also ensures we continue to comply with our 'treating customers fairly' (TCF) obligations by making all relevant information for our products easy to access and understand.



Distribution Strategy

The Society's distribution strategy was updated at the end of 2014 to incorporate the new channels created since acquiring POIS. Our channels to market are as follows:

- Foresters & POIS direct (individual sales) - sales made directly to consumers, via our website or direct marketing
- Court Introducers (individual sales) – sales made via a Court Introducer
- POIS Introducers (individual sales) – sales made via a POIS Introducer primarily to Royal Mail employees who can have contributions deducted through their payroll
- Group marketing (group sales) - sales made via specialist brokers
- Indirect (individual sales) - sales made via a financial adviser or intermediary.



Increasing our new business capability

Acquiring POIS gives the Society an opportunity to further develop its product range through unit-linked products. Our head office personnel has been expanded to bring in investment accounting expertise and we have enhanced our operations, by acquiring new fund accounting and unit pricing systems, (provided by Linedata, a global solutions provider).

Fund management of our three unit-linked funds; POIS Flexible Growth, POIS Savings and POIS Money Bond, is provided by Quilter Cheviot, one of the UK's largest discretionary investment management firms. All of the funds are actively managed.



Satisfied Members

For the fifth consecutive year, Foresters Friendly Society's annual Customer Satisfaction Survey¹, has shown high levels of customer satisfaction for the quality of service we provide. The survey sampled satisfaction levels across two customer segments: new policyholders and members who had made a recent claim.

In 2014, for the first year, new policyholders were split into two groups, depending on how they took out their plan. For example, customers who applied for a plan online were surveyed by online questionnaire, whereas customers who sent in their application by post were surveyed using our traditional telephone interview.

Highlights include:

- 96% of new policyholders and 89% of claimants surveyed were satisfied with the overall service provided by Foresters
- The number of customers who stated they were 'very satisfied' with our service has increased to 84% compared with 73% in 2013
- 91% of claimants agreed that Foresters really cares about its customers and 95% agreed that the Society treats its customers fairly
- Claimants gave Foresters Friendly a Net Promoter Score² of 52. For new policyholders the average was 71.5³

The survey results also revealed that friendliness remains an important factor for Foresters, and that value for money and trustworthiness are increasingly important to potential customers.

¹ The Survey was carried out amongst 368 customers using telephone interviews and an online questionnaire by an independent research company, during the period March 2014 to November 2014.

² Within the research, respondents were asked, on a scale of 0-10, how likely they are to recommend Foresters to friends and family (where 0 = not at all and 10 = definitely). The industry standard measure for weighting responses is: 9 & 10 = promoters, 7 & 8 = passives, 0 - 6 = detractors.

By deducting detractors from promoters, the Net Promoter Score (NPS) is calculated. The NPS can range from -100 to +100. Any positive score is good, and a score above 30 is considered excellent.

³ The Offline 2014 score is a record high NPS for Foresters at 78. When averaged with the online NPS of 64, the resultant score is 71.5 which is considered excellent (and even higher than last year).



The Society's current products at a glance

Unique to Friendly Societies, our tax-exempt savings plans provide an affordable monthly investment of £25 per month. These plans can be held in addition to other investments such as NISAs and Child Trust Funds. Investments are paid free of Capital Gains and Income Tax.

Forester's with-profits products

Tax Exempt Savings Plan

Build up a tax free guaranteed cash sum for the future. Save £25 a month for 10 years or more.

Guaranteed Savings Plan

Pays out a guaranteed cash sum with in built growth. Save any amount between £50 and £100 a month.

New Individual Savings Account (NISA)

A Stocks & Shares NISA providing tax free growth. Save from just £50 a month, transfer in or contribute lump sums.

Investment Bond

Invest lump sums between £1,000 and £150,000. Make tax efficient regular or partial withdrawals.

Child Tax Exempt Savings Plan

Guaranteed tax free cash sum for your child or grandchild. Save a regular amount of between £15 and £25 and use it as a gift for a special birthday.

50+ Life Cover

Pays a guaranteed cash lump sum, plus potential bonuses, to your loved ones after you die, to help with funeral or other expenses.

Post Office Insurance Society (POIS) unit-linked products

Children's Tax Exempt Plan

Give your child a head start in life and provide a tax free cash sum for their future. Contributions of £25 per month (£5.76 per week).

Tax Exempt Savings Plan

Contribute £25 per month (£5.76 per week) for 10 years or more and help achieve your goal, whether that's a new car, holiday of a lifetime or special celebration.

Savings & Investment Plan

Invest from £26 to £208 per month (£6 to £48 per week) for 10 years with the potential for growth.

Further details of our individual products can be found on our websites www.forestersfriendlysociety.co.uk and www.pois.co.uk

Group products

The Society insures Group schemes whereby we create a bespoke package which offers, but is not limited to, the following types of cover:

- **Life Insurance**
Provides a lump sum which is paid on the policyholder's death or on diagnosis of a terminal illness.
- **Critical Illness**
Provides cover for the standard Association of British Insurers (ABI) list of critical illnesses. If required, the Society can provide cover for illnesses outside of the ABI's standard list.
- **Sick Pay**
Covers a specified percentage of the policyholder's salary for a pre-agreed period when the policyholder is off work due to sickness.



The benefits of membership

It is not only just the relevant, affordable financial products that work for the Society's members. Being a member and policyholder of the Society automatically provides access to Foresters Extras – our package of additional membership benefits.

Foresters Extras includes many additional benefits ranging from the 24/7 GP Consultation Service, discretionary financial grants, access to social events arranged by local Courts and much more – all as a result of being a Foresters member.

You automatically gain access to Foresters Extras when you take out a financial policy with the Society. If you don't need to take out one of our financial products, you can still take advantage of all the Foresters Extras benefits for just £25 a year.



Plans for the future

The Retail Distribution Review was the catalyst for Foresters Friendly Society to reassess the way it distributed its financial products. We have, over the last two years, diversified our distribution strategy and now have a number of distribution channels as set out above. In 2015 we will focus on growing business through these channels.

Our online channel is increasingly a source of new business for the Society. Our primary focus is to strengthen our content and social media programme in order to drive more visitors to our website. We will also be building the relationships with affiliate partners and online influencers within our target market, to raise our profile and sales through this activity.

Introducers are targeted to produce over 50% of our business in 2015. We have plans to increase the number of both POIS and Court introducers and to maintain and enhance existing relationships with these important stakeholders.

In 2015 we plan to review the Foresters Extras package to ensure that the benefits on offer remain relevant.

Our Courts

Introduction

As explained in the Chairman's Statement, Foresters combines an insurance company and a branch based social/benevolent organisation all within one Friendly Society. At Foresters our branches are known as "Courts".

The two operations work side by side with each providing the other with benefits and sharing resources. In the case of the Courts, the discretionary benefits provided by them are selling points for the insurance operation and in the case of the insurance operation, sales provide new members for the Courts.

The Courts

The Courts operate with their own funds and support social, fraternal, educational and benevolent activities. Each Court elects delegates who represent their Court members at the High Court (Annual General Meeting) of the Society. Delegates elect a High Chief Ranger each year to represent all Courts at internal and external events. This approach provides a governance structure for members to have their say in an organisation which they own.

There are currently 193 Courts and they are the local point of contact for members. The Courts seek to promote the ethos of the Society and encourage members to meet together for social, business and benevolent purposes (such as dental and optical grants). They also organise charitable fund raising events.

Since 2008 a process known as accreditation has ensured that Courts operate to a consistent standard and members receive a high level of support from Courts in the following areas:

- Member participation
- Service standards
- Treating members fairly
- Social responsibility
- Effective management and regulation

Each Court is run by a Committee of Management which has overall responsibility to control the business of the Court within the Rules and procedures of the Society. Each Court has a Secretary who is responsible for the accounting and administration of a Court. Area Co-ordinators are staff members who ensure that the Courts in their Area adhere to corporate objectives and they, along with the Membership Committee, act as a contact between the Courts and Insurance operations.

High Chief Ranger

The role of High Chief Ranger (HCR) is of a presidential nature acting as a figurehead for the membership, representing and promoting Foresters Friendly Society. The HCR is elected annually at High Court and serves for 12 months. The HCR is the visible face of the Society and is a key link between the insurance side of the Society and the members.

The HCR is also the Chairman of the Membership Committee (a sub Committee of the Board) and shares the responsibility of chairing High Court with the Chairman of the Board. At the invitation of the Board, the HCR attends a number of Board meetings during their term of office.

At the 2014 High Court, David Watkins was elected as HCR. David has been an active member of Foresters for over 50 years and worked for Greater Manchester Police until he retired in 1991. David is only the second member of the Society to be elected as HCR on more than one occasion, the first being Michael Baker.

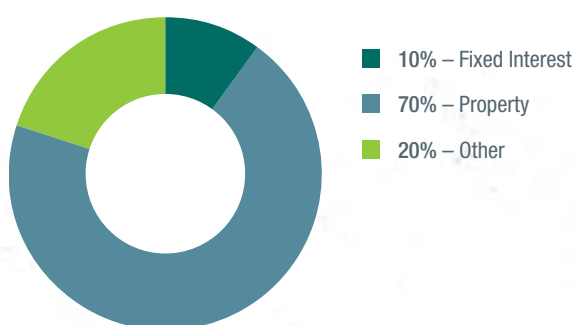
Each HCR chooses a charity to support and members throughout the country support the HCR's Appeal. For 2013/14, Barnardo's was the chosen charity and at the 2014 High Court a cheque for £86,000 was presented to Barnardo's bringing the total raised to just over £88,000. David Watkins has chosen SENSE as his charity for 2014/15 which supports deafblind people.



**A total of just over
£88,000 has been
raised for the HCR's
appeal in 2013/14**

Finances

Court funds are maintained in separate ring fenced funds which are only available to the Courts and are not available to support the insurance business activities of the Society. At 31 December 2014, total Court funds amounted to £74.5m (2013 £74.2m) as follows:



In addition to the Court funds there are a number of discretionary funds valued at £6.6m (2013 £2.8m) with specific purposes as determined by the Society. These are set out on page 57.

Court income primarily derives from investment income, membership fees and other fundraising activities. Court expenses consist of the costs of administering the Courts, investment charges and other outgoings (including grants and donations). An analysis of the Courts income and expenses (excluding the general insurance activities of the Guernsey branch) is as follows:

	2014 £000	2013 £000
Investment income	3,996	3,767
Other income	454	448
Total income	4,450	4,215
Administration costs	1,102	1,039
Grants and donations	647	599
Other expenses	563	501
Management levy	1,477	1,622
Total expenses	3,789	3,761
Excess of operational income over expenditure	661	454
Realised/unrealised gains / (losses) on investments	214	325
Excess of total income over expenditure	875	779

POIS

Following the acquisition of POIS in September 2014, all 21,000 POIS members have been allocated to their nearest Court and letters sent welcoming them to Foresters and encouraging them to join in their Court activities.

The Future

Work is well under way in reviewing how Courts should operate in the future with the Court Review Project and a summary of the work undertaken on the project to date is set out below. The review, which includes external research, is designed to cover all aspects of how the Courts operate and to address the challenges they face in order for them to thrive in the 21st century.

The external research undertaken has identified the pre and at retirement market as a growth area for the Society with health and wellbeing, financial security and companionship being the three key areas of need and with the Courts playing a strong role in the latter.

To increase the number of active members and volunteers in the Courts, the Society has implemented the "Court Introducers Scheme" whereby members are encouraged and rewarded for introducing new members to the Society.

The project has identified a key need to improve member involvement and Courts are being encouraged to develop improved social events and to improve communication with members by developing their own Facebook pages and a stronger web presence. Support is being provided to assist with this work.

The benefits being offered by the Courts are being reviewed to ensure they remain relevant and, where appropriate, enhanced.

The Society, through the Courts, should continually strive to improve its role in the community. "Helping one another" is a core historic Foresters value that must remain integral to the future and detailed proposals have been drawn up to help achieve this (including the support and encouragement of volunteering). It is also proposed to promote and report the financial support given to members and the money raised for charity.

Other areas in the process of being reviewed by the project include the funding of Courts, expenditure incurred by Courts, investment strategy, governance and reporting.

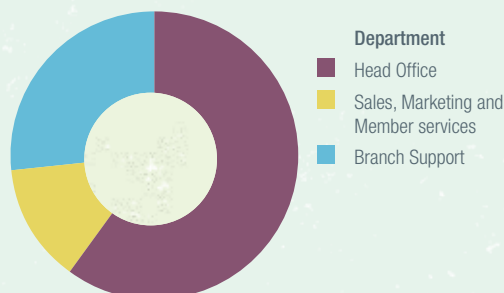
A further review of progress on the Court Review Project will be provided at the 2015 High Court.

Our Staff

Introduction

During the year, our staff have worked hard to deliver a high quality service to our members and contributed to our strategy and new ways of working. In turn, we have supported their work through training and development and kept them fully informed on how the Society is progressing, as well as its plans for the future. The POIS acquisition increased the workload for most teams and all staff responded positively to the challenge.

At the end of 2014 there were 60 employees. Unfortunately, redundancies in the sales team reduced the number of staff by 5 in the second quarter of the year. We were able to recruit 4 new members of staff in the latter part of the year to meet the demands of the POIS business. It is particularly pleasing to report that we have excellent staff retention levels at Foresters with over 66% of staff having served more than 5 years with the Society. This loyalty and commitment from our staff has a direct impact on the level of service we are able to provide to our members. It also provides our members with an opportunity to get to know us and build a relationship so they feel confident that any issues will be dealt with effectively.



Note – Non-Executive Directors are not included in this graph

Staff development

The Society recognises the importance of continuing development and supporting our staff to achieve their goals. Every member of staff has annual objectives, against which their performance is assessed. All staff attend performance review meetings with their line managers where their performance is discussed, along with any training or development requirements which are recorded on personal development plans.

Throughout 2014, staff roles were updated to ensure there is a clear link between the overall strategy for the Society and how each person can contribute to it. It is vital that everyone understands the strategy and works together to achieve the goals we have set ourselves.

Considerable emphasis is placed on training to ensure all staff have the appropriate skills and knowledge. This has included seminars, workshops and training from our external advisors.

Remuneration policy

Our approach to pay reviews and remuneration is reviewed each year and the decision whether to give a pay increase to our staff depends on a number of factors, including business performance and profitability, individual performance and benchmarking of salaries in the financial services sector in the south of England. Following a salary renew the Board agreed to award an RPI based salary increase to all staff in January 2015. This represents a modest increase following a pay freeze at the start of 2014.

The staff incentive scheme, which excludes all Directors, remained in place during 2014. This incentive is partly dependent on meeting individual targets and partly dependent on meeting the Society's financial targets. This new approach reflects a move towards a more target driven remuneration system and is designed to increase productivity as staff work together for a common purpose.

Communication

Communication is a key part of the success of any business, and the Society remains committed to involving all staff in delivering our strategic objectives. Staff involvement is actively encouraged and there is regular communication with staff through quarterly briefings where financial data and sales figures are shared and discussed so that all staff are aware of the progress we are making throughout the year. Staff are actively encouraged to make suggestions on ways we can improve how we work, including cost efficiencies and time savings which will benefit everyone, particularly our members.

Recruitment

The Society recognises its staff as being fundamental to its success. A strategic and professional approach to recruitment processes help enable the Society to attract and appoint staff with the necessary skills and attributes to fulfil its strategic aims, and support the Society's values.

We aim to recruit the best person for each vacancy through fair, systematic, effective recruitment and selection procedures. During 2014 the Society has recruited staff in a number of areas and these staff have been a great addition to the team. We look forward to working with all our staff throughout 2015 to deliver the excellent customer service and professionalism that our members and other stakeholders expect.

Over 66% of staff have served for more than 5 years

Financial Strength

The Society remains financially strong and continues to be managed such that it is adequately funded to meet its financial commitments to members. It is the Board's intention to ensure that there is adequate capital to exceed the regulatory requirements of the Society's insurance business, to meet any new business strain and to meet any additional capital requirements resulting from the Society's Individual Capital Assessment (ICA) of the risks faced in fulfilling its obligations to insurance policyholders. Looking ahead, the Board also intends that sufficient capital will be held to cover the new European-wide capital adequacy regime (Solvency II) due to be introduced from 1 January 2016.

In addition to the capital employed by the Society's insurance operations, the Society has capital in funds known as Court Funds and Discretionary Benefit Funds. However, these funds are not available to support the long-term insurance business activities of the Society.

The Society remains financially strong

Capital Resources

Capital resources have been determined in accordance with regulatory requirements and includes the Fund for Future Appropriations (FFA). The FFA represents the estimated surplus in the insurance funds that has not been allocated and is available to meet regulatory and other solvency requirements.

The total available capital resources amount to £38.5m (2013: £28.8m). The increase has arisen as a result of the acquisition of POIS in September 2014. This capital is available to support all funds in respect of regulatory and other commitments as well as to provide terminal bonuses to with-profits policyholders.

Regulatory capital requirement

It is also necessary for the Society to hold capital to cover its regulatory capital requirements. The total insurance regulatory requirements of the Society amount to £11.5m (2013: £9.4m) made up of the Long Term Insurance Capital Requirement (LTICR) of £8.1m (2013: £5.8m) and the Resilience Capital Requirement (RCR) of £3.4m (2013: £3.6m).

Solvency

The total available capital of £38.5m (2013: 28.8m), less the minimum capital requirement of £11.5m (2013: £9.4m), results in surplus capital of £27.0m (2013: £19.3m).

The surplus capital cover is 2.4 times the minimum capital requirement (2013: 2.1 times) which represents a strong solvency position under the regulatory basis.

Full details of the available capital resources, capital requirements and restrictions on the capital resources are set out in note 21.

Financial risk reduction

We actively manage financial risk and have taken a number of initiatives to reduce our exposures. For the with-profits funds, our overall aim is to balance risk and maximise returns to members, whilst ensuring that guarantees are met as they fall due. Particular activities include managing the proportion of equities, fixed interest and property backing the different liabilities in the funds, cash flow matching and the active management of bonuses. The Society has a policy of only investing in fixed interest stocks with a minimum credit rating of BBB and does not invest in any derivative contracts.

Further Information on how the Society manages risk is set out on pages 18 and 19.

Our overall aim is to balance risk and maximise returns to members



**turn over to review
how the Society
manages risk**

Risk

Risk Management

Effective risk management supports the Society in delivering its strategy. It also protects our policyholders and members and helps the efficient use of capital.

The Society's Risk Management and Control Framework

Risk is managed through the adoption of a Risk Management and Control Framework. This framework details the components in place to manage risk effectively.

Responsibility for risk management resides with all levels within the Society, from the Board and Executive it is cascaded through the organisation to the operational areas. The risk management processes are subject to review and challenge by the Risk and Capital Committee on behalf of the Board. Internal and External Audit will provide assurance over the effectiveness of the Society's risk management and control framework and processes to the Audit Committee.

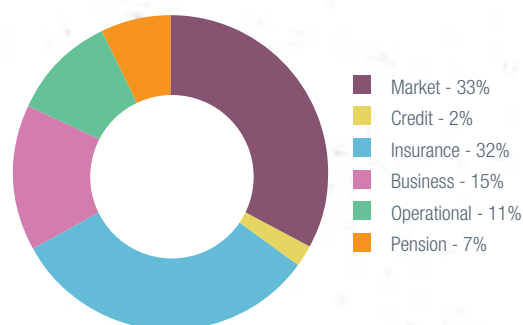
Risk is considered from a financial and non-financial perspective. Risks are categorised into the following risk types – Strategic, Conduct, Regulatory, Market, Operational, Insurance, Liquidity and Credit. For each categorised risk, mitigation and action plans are developed and monitored. Any material changes to those risks are reported to the Risk and Capital Committee and Board.

Risk Appetite

Risk appetite, which is the level of risk the Society is prepared to take whilst pursuing its business strategy, is approved by the Board. The Society monitors its risk profile against risk appetite and reports this to the Board.

The Society's risk profile is shown in the graph below – the graph sets out the relevant proportion of risk exposure in capital terms. The most significant capital requirements for the Society continue to be in respect of equity market falls (Market Risk), increases in mortality and morbidity (Insurance Risk), increases in expenses (Business Risk) and Operational risk. The risk profile has remained largely stable over the year with modest increases in capital held to cover Market, Expense, Persistency and Operational risks due to the acquisition of POIS.

Current Risk Profile



Risk Governance

Governance structure		
1 st line of defence	2 nd line of defence	3 rd line of defence
Business Ownership, accountability and responsibility for risk	Risk Function Facilitate, coordinate, challenge, support, train and educate	Assurance Independent assessment
Board	Risk and Capital Committee	Audit Committee
Executive Management	Business Risk and Compliance Committee	External Audit
Department Managers	Chief Risk Officer	Internal Audit
All Staff	Compliance	
	Actuarial	

The Society operates a three lines of defence model of risk management to enable defined roles and responsibilities for committees and individuals.

First line day to day risk management is delegated from the Board to the CEO and then to the management team.

Risk oversight is provided as the second line of defence by the Risk and Capital Committee, Chief Risk Officer and the Business Risk and Compliance Committee. Specialist risk management and compliance capability supports this. Standardised risk management information is produced for the Risk and Capital Committee to support the committee in discharging its responsibilities. This risk reporting is shared with the Board on a quarterly basis.

To ensure an effective third line of defence, an independent review of the adequacy and effectiveness of the risk management and internal control system is provided by the Audit Committee, which is supported by the Internal Auditors and External Auditors.

Further detail is provided on the role of the Risk and Capital Committee and the Audit Committee on pages 27 and 25 respectively.

Principle Risks and Uncertainties

The table below summarises the current principle risks that the Society has identified and is managing, taking into account the likelihood and the impact of the risk occurring. The Society maintains a top risk assessment that considers likelihood and impact of risks. The impact considers the financial, reputational, people and legal/regulatory aspects of the risk. These risks are closely monitored and regular updates are given to the Board and the Risk and Capital Committee. The Society is affected by inherent risks such as exposure to capital markets and insurance risk, for which the Society holds the largest proportion of its capital requirement as shown in the graph on the previous page.

Risk	2014 and beyond	Risk mitigation
Strategic acquisition execution risk – The Society was exposed to this risk in 2014 and will be in the future as it seeks further acquisitions.	This was a new risk to the Society in 2014 and arose from the Society's acquisition strategy. In 2014 The Society acquired the POIS book of business. The acquisition brought a strategic opportunity to the Society and challenges to embed new systems, new unit-linked capability, increased volumes of processing and a new distribution network.	A project management governance framework was used to control the transfer which consisted of a detailed Project Plan, Risk Assessment, Due Diligence, Independent Actuary's report, Steering Group chaired by the Chairman, regular reporting to the Board and the Risk and Capital Committee, a pre-implementation internal audit and a post-implementation audit in Q1 2015, and further review planned in Q3 2015.
Failure to capture market opportunities through its sales channels – The Society's business plan demonstrates the need to increase membership	The Society distributes products through a variety of sales channels with the addition of the POIS Introducers in Q4 2014. The Society is operating in a challenging sales environment.	The Society has a clear business plan aligned to its strategy and monitors progress through management information and Key Performance Indicators. The Society provides training and supervision to all of its Introducers.
Regulatory change – Changing shape of the industry due to changing customer needs and regulations	There is a continued regulatory change affecting the insurance industry. With Solvency II on the immediate horizon and changes to regulation on Packaged Retail and Insurance Based Investment Products (PRIIPS), Key Features Documents (KFDs) and Data Protection in the near future. Regulators continue to focus on the fair treatment of customers, particularly on product design, advice, product lifecycle and the after sales process.	The Society keeps abreast of regulatory change and for large regulatory projects invokes its project management processes. The Society has its risk management framework and compliance framework to aid in the monitoring of conduct risk and to ensure fair outcomes for customers. The Society obtains customer feedback regularly and completes an annual customer satisfaction survey.
Group and Sickness claims Insurance risk – inherent uncertainties as to the occurrence, amount and timing of insurance liabilities	Group life claims were higher in 2014 than historically over the past 5 years. Monitoring indicated that there was no systemic cause, just adverse fluctuations in claims.	The Society monitors claims experience against expected claims. Claims management processes are in place for the longer term sickness benefit claims. Catastrophe reinsurance is in place for multiple death claims arising from a single event. Pricing reviews will be undertaken as appropriate.
Market Risk – Failure of the financial markets as a whole or of a market participant	Volatility in the equity markets, with weaker growth in the Eurozone, and a risk of deflation in Europe plus political uncertainty were seen in 2014. Although market failure is deemed a rare probability, the impact to the Society would be significant and it is important to ensure the appropriate controls are in place should this situation arise.	The Society maintains a diversified portfolio of assets and benchmarks for each asset class. The Society has an investment strategy which is reviewed regularly. The Investment Committee reviews and monitors all investment activity on behalf of the Board. The Society has set management actions for responding to this risk. The Society has also commenced work on risk appetites at fund level.

Developments in Risk Management

Further work has been undertaken in 2014 to enhance the Society's Risk Management capabilities. The Society has developed an interim Own Risk and Solvency Assessment (ORSA) which is a key step in the progress towards Solvency II implementation in 2016. The ORSA is a key tool for the Society to link its Business Plan, Strategy and Risk Management processes together and to support risk based decisions. The ORSA will replace the Individual Capital Assessment that the Society currently produces under Solvency I. 2015 is a key year for the Society in terms of embedding the newly acquired POIS business and working towards the implementation of Solvency II.

Board of Directors



Mike Wilkinson
Chairman

Mike was appointed to the Board in September 2012 and subsequently elected Chairman. He was previously Chief Actuary of Genworth Financial Lifestyle Protection in Europe before retiring in March 2012. He has over 35 years of insurance experience in a variety of risk, actuarial, compliance, finance and senior executive or Board roles. He has a BSc (Class 1) in Mathematics, a PhD in Mathematical Foundations of Quantum Theory and is a Fellow of the Institute and Faculty of Actuaries.

Chairman of the Investment and the Nominations Committees, member of the Risk and Capital Committee, the With-Profits Advisory Arrangement and the Unit-Linked Advisory Arrangement.



Kathryn Vagneur
**Non-Executive Director,
Deputy Chairman**

Kathryn was appointed to the Board in March 2008, and elected to the position of Deputy Chairman in September 2012. She is a Director of Durant Ltd, a private investment fund, specialising in business improvement. Previously, a Director with PricewaterhouseCoopers, she has a PhD from London Business School where she did research for the CBI and consulted on strategy implementation with FTSE100 companies. She is an American Certified Public Accountant and has an MSc (Management), BSc (Maths) and researches and writes about corporate governance and business improvement.

Chairman of the Risk and Capital Committee and member of the Audit and the Investment Committees.



Paul Osborn
Chief Executive

Paul joined the Society in 2006 and was appointed to the Board as Finance Director in February 2007 and as Chief Executive in November 2012. He is a Chartered Accountant with over 19 years' experience in the friendly societies industry and over 10 years working for a London based firm of Chartered Accountants. Prior to joining Foresters, Paul worked for Teachers Provident Society holding senior positions in finance and investment.

Member of the Investment and the Risk and Capital Committees.



Cheryl Eagleson
**Senior Independent Director
and Non-Executive Member
Director**

Cheryl was elected to the Board in September 2008 and appointed Senior Independent Director in October 2012. Cheryl is retired, and has a technical background working in the paper and textile industries. She is an active Forester and holds offices within the Society.

Chairman of the Remuneration Committee and member of the Audit Committee.



John Instance
Non-Executive Director

John was appointed to the Board in December 2012. He is currently Acting Director, Actuarial Policy in the Codes and Standards Division at the Financial Reporting Council. His experience includes business management, product development and actuarial reporting, as well as setting and overseeing Business Plans. John is a Fellow of the Institute and Faculty of Actuaries and has a BA in Mathematics from Oxford University.

Chairman of the Audit Committee, the With-Profits Advisory Arrangement, and the Unit-Linked Advisory Arrangement, member of the Investment, Nominations and Risk and Capital Committees.



Penny O'Nions
Non-Executive Member Director

Penny was elected to the Board in 2007. During her 35 years in financial services, Penny has advised the public on investment, tax and protection; assisted insurers with policy design and marketing; contributed to national and trade press, a variety of terrestrial television channels and various money advice websites. Penny now offers financial, medical and legal services to the public.

Member of the Investment and the Remuneration Committees, the With-Profits Advisory Arrangement and the Unit-Linked Advisory Arrangement.



Graham Setterfield
Non-Executive Director

Graham was co-opted to the Board on 31 July 2014. Graham is semi-retired and involved with the Prince's Trust as an Enterprise & Next Steps Scheme Business Mentor. Prior to this, Graham held the positions of Director and Chief Executive for American Express Insurance Services Europe Limited as well as various marketing and management positions within the insurance sector including Aegon. Graham has a HND in Business Studies from the University of West England.

Member of the Audit and the Remuneration Committees, the With-Profit Advisory Arrangement and the Unit-Linked Advisory Arrangement.

**Graham Setterfield
was co-opted to
the Board on 31
July 2014**

**turn over to view the
Directors' Report**



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 2014. The Society is a friendly society, which incorporated under the Friendly Societies Act 1992 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. At 31 December 2014 the Society had 82,874 members (2013: 63,172 members). The Directors confirm that the Society did not carry out any activities outside its powers during the year.

Directors

The Directors who have served since 1 January 2014 are as follows:

Non-Executive Directors

Mike Wilkinson – Chairman

Kathryn Vagneur – Deputy Chairman

Cheryl Eagleson – Senior Independent Director

John Instance

Penny O'Nions

Graham Setterfield (co-opted 31 July 2014)

Executive Directors

Paul Osborn – Chief Executive

Neil Armitage – Marketing Director (redundant 9 May 2014)

Patrick Phelps – Chief Finance Officer/Chief Risk Officer (resigned 31 October 2014)

Details of the current directors are contained on pages 20 and 21.

Business Review

The results of the Society are set out in the income and expenditure accounts on pages 37 to 39.

The Society consists of its Insurance and Court operations. The consolidated results include the results of the Leeds Investment Association and the Sheffield Investment Association, as outlined in note 2 to the financial statements. The Society also has one subsidiary company – Foresters General Insurance Services Limited, but this subsidiary is effectively dormant and the results of this subsidiary are not material. In September 2014, the Society acquired the business of the Post Office Insurance Society (POIS) from Family Assurance for £1.4m. The acquisition resulted in the Society acquiring 29,000 new policies and £69m of funds to administer. Full details are set out in note 25.

A summary of the results for the year together with the Key Performance Indicators (KPIs) are contained in the Financial Highlights section on pages 6 to 8.

The Society remains financially strong with surplus capital of £27.0m (2013 £19.3m) as shown in note 21.

The key risks facing the Society together with how they are managed, mitigated and reported are documented on pages 18 and 19.

Future Developments

As explained in the Chairman's Statement, the Society has developed a clear strategy for growth with the objective of improving benefits to policyholders and members by increasing the Society's scale through higher policy sales and actively seeking transfers in of business from other Societies, alongside a strict cost control culture. The Board is also sponsoring a project to ensure that Courts are fit for the 21st century and the benefits they provide members continue to be relevant.

Governance

During 2014 there were a number of Board changes, commencing with the redundancy of the Marketing Director to align with the Society's new distribution strategy.

At the 2014 Annual General Meeting (AGM), the members showed overwhelming support for the Board's nominations and re-elected Kathryn Vagneur and Paul Osborn as Directors, and elected Patrick Phelps as Director. Patrick Phelps had been co-opted onto the Board during 2013.

Following an evaluation of the skills and experience on the Board, an open advertisement for a Non-Executive Director with marketing experience along with recent and relevant finance experience was placed. In July 2014, Graham Setterfield was co-opted onto the Board to fill this vacancy and brings with him a wealth of marketing experience.

In October 2014, Patrick Phelps resigned as an Executive Director to enjoy semi-retirement, necessitating a further evaluation. The role of Chief Financial Officer is currently being undertaken by Sally Butters, the Society's Actuarial Manager, on an interim basis as we determine the most appropriate course of action to take.

The Board believes the balance of skills, experience, independence and knowledge remains appropriate although it will continue to monitor the position to comply with evolving regulatory requirements and to complement the Society's Strategy.

In accordance with the UK Corporate Governance Code: An annotated version for Mutual Insurers', Non-Executive Directors are subject to a rigorous review once they have served a six year term, in order to consider the need for progressive refreshing of the board. Kathryn Vagneur was subject to such review during 2014.

A review of the Society's delegate system and structure of the AGM was carried out during 2014 to ensure they remained appropriate. A number of internal and external surveys showed that there was a high level of engagement at the AGM and it was recommended to continue with the current system and structure. A number of changes to further enhance the engagement and participation of members are being progressed.

In addition, a review of the Society Rules was carried out, resulting in a number of revisions which were approved at the 2014 AGM and subsequently registered with the Regulator. Full details of the Society's governance arrangements are set out on pages 32 to 34.

The Board and its committees have conducted a review of their effectiveness during the year. The Board considers that each Committee has the requisite recent and relevant skills to exercise its role effectively.

Regulatory

The Society is regulated by the Prudential Regulatory Authority (PRA) which is responsible for the prudential regulation of firms and the Financial Conduct Authority (FCA) which retains the responsibility for conduct issues concerning the distribution of products to customers and how these products are administered.

During 2014 the Society amended its compliance procedures and processes to accommodate the transfer-in of the POIS business.

During 2015 the main compliance challenge will be preparing for the implementation of Solvency II at the beginning of 2016 which marks the beginning of a period of considerable regulatory change with wide reaching new requirements, such as rules concerning data protection originating from the European Regulatory Bodies set up after the banking crisis. These new requirements will require considerable effort to implement successfully but the projects are fully planned and resourced. Another significant project in 2015 will be preparing for the new UK accounting rules that are being introduced for 2015.

The Society remains clear over its obligations to the Regulators and the Society's own Rules, its Principles and Practises of Financial Management (PPFM), the Money Laundering rules, the Bribery Act, the Data protection Act and Advertising and Health and Safety requirements and legislation.

**The Board believes it
has the appropriate
balance of skills,
experience and
independence**

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. The Directors consider the Report and Accounts herein, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's performance, business model and strategy.

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 on-going 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.

Directors and Officers Liability Insurance

The Society has maintained liability insurance cover for members of the Board and Senior Management of the Society.

Statement of Risk Management and Internal Control

The Board, the Audit Committee and the Risk and Capital 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 2014 to the date of approval of this Annual Report.

No significant failings or weaknesses were identified during this review.

Directors' Report (Continued)

Society's Relationship with Members

As a branch-based 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). The Annual General Meeting takes place over a number of days and includes detailed discussions between the Board and member delegates on the performance of the Society and discussion on strategic issues. The Membership Committee acts as a conduit between the Board and the members and any matters of direct interest are considered. In addition, conferences are held each year at which the views of Court members are obtained and training provided.

The Board is committed to the success of its Courts by ensuring Court social and benevolent activities meet the needs of current and future members. During 2014 a review of the Court System, both in terms of its operation and how to address the challenges facing them in order to thrive in the 21st century was progressed and the Board subsequently approved a Court Directional Statement. Work is now underway to address the recommendations. Further details are set out on page 14 and 15.

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. In assessing whether the going concern basis is appropriate, the Directors have considered all relevant information including the information contained in the financial statements, the latest business plan forecasts and estimated forecasts of solvency.

Donations

The Society donated £100 (2013: £575) to various charities during the year. The Society also donated £3,000 (2013: £3,000) to the Police Federation of Northern Ireland. No political donations were made during the year.

Courts carry out charitable fundraising work as part of social activities and in 2014 £66,000 (2013: £64,000) was raised. In total £160,054 (2013: £162,814) was paid out from branch held membership funds to various local and national charities.

Each year the Society's High Chief Ranger chooses a charity to support. Members and staff throughout the country support the appeal and during 2013/2014 a total of over £88,000 was raised for Barnardo's. As previously reported the HCR's chosen charity for 2014/2015 is SENSE, which supports deafblind people.

Statement of Solvency

As at 31 December 2014 the Society's Capital Resource for each class of relevant business exceeded the minimum capital resource required by the Prudential Regulation Authority.

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 7d) to the accounts, BDO LLP has confirmed their independence to the members of the Board of Directors.

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 2014 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
Lisa Russell
Company Secretary
26 March 2015



Committee Reports

The Society has established 6 Committees and 2 Advisory Arrangements of the Board to consider issues set out in their terms of reference. Details of the committees, the number of times they met in 2014, their key terms of reference and the key issues addressed are set out below.

Audit

Current Members:

John Instance (Chairman)
Kathryn Vagneur
Cheryl Eagleson
Graham Setterfield

The Chief Executive, Interim Chief Financial Officer, BDO LLP the external auditor and Baker Tilly, the external provider of internal audit services, attend meetings by invitation of the Committee. The Committee also invites other relevant managers as necessary to provide a deeper insight in to key issues..

Number of Meetings held in 2014: 6

Key terms of reference:

The main responsibilities of the Audit Committee are to:

- Monitor, review and challenge the integrity of the Annual Report and Accounts of the Society including a review of the significant judgements that may affect financial reporting;
- Receive regular reports from the Chief Finance Officer regarding accounting, auditing and other financial matters (including any fraud);
- Monitor the independence and objectivity of the external auditors and the effectiveness of the audit processes;
- Make recommendations to the Board on the appointment, reappointment and remuneration of the external auditors;
- Monitor and review the effectiveness of the Society's internal audit processes;
- Consider the recommendations of the external and internal auditors and management's responses to these;
- Identify and report to the Board on any other matters for which the Committee considers that action or improvement is required.

Key issues raised by the Committee:

Annual Report and Accounts

The Committee reviewed the 2014 Annual Report and Accounts and the report from the external auditor, BDO LLP on the outcome of their audit. In particular the material accounting and actuarial issues in which judgement was applied were considered. These included:

- The assumptions and methods used to calculate the technical insurance provisions where the Committee looked to understand the reasons for any changes in the valuation process from 2013;
- The allocation of management expenses between the insurance business and the Courts, and between the various sub-funds in the insurance business;
- The adequacy of the disclosures following the acquisition of POIS;
- The use of the going concern concept for the Report and Accounts.

Following the revision to the UK Corporate Governance Code (An Annotated Version for Mutual Insurers) (the Code), the Committee considered whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, providing the information necessary for members to assess the Society's performance, business model and strategy.

External Auditor

The Committee received and agreed BDO's audit plan which identified their assessment of the key audit risks. The significant risks identified included:

- Treatment and recording of the acquisition of POIS;
- Completeness and accuracy of the policy data and actuarial assumptions used as a basis for the Technical Provisions;
- The ability of management to circumvent internal controls and influence financial reporting; and
- Recognition of premium income

The Committee reviewed the effectiveness of the audit process including feedback from management and agreed with management's view that there had been appropriate focus and challenge on the primary areas of audit risk.

The independence and objectivity of the external auditor was considered. During the year BDO provided a small amount of non-audit advice on other matters and, as part of the 2014 audit, provided assurance concerning the transfer of POIS and the pricing of the new unit-linked funds established on the acquisition of POIS. The Committee considered that this did not impair BDO's ability to provide an independent and objective audit.

BDO LLP and its predecessor firms have been external auditors since the Society's incorporation in 2003. The Code recommends that the external audit contract be put out to tender at least every ten years. The Committee has recommended that the Society put the external audit out to tender in 2015, and management are currently commencing this process.

Committee Reports (Continued)

Internal Audit

In 2014, Baker Tilly acquired Mutual One, the Society's previous Internal Auditor, which has acted as Internal Auditor since 2007. The Internal Auditor reports directly to the Committee and reports were received on its findings following audits of Governance, Regulation, Information Security, and Operational Activities during the year. Consideration was given to the findings, and particularly to management actions and responses to the recommendations.

Investment

Current Members:

Mike Wilkinson (Chairman)
John Instance
Penny O'Nions
Kathryn Vagneur
Paul Osborn (CEO)

Number of meetings held in 2014: 7

Key terms of reference:

The main responsibilities of the Investment Committee are to:

- Recommend to the Board the investment strategy, including asset allocation;
- Review and monitor the fund performance of all asset classes, and the total portfolio, against performance measurement targets;
- Review and monitor the matching of assets and liabilities;
- Review and monitor error and breach logs for unit-linked funds;
- Make asset allocation decisions in line with agreed policy and strategy;
- Review and monitor the performance and fees of external investment managers;
- Approve the appointment of external investment managers and approve the investment management agreements in line with the Society's agreed risk appetite for market and credit risks and PPFM; and
- Review the investment risk management policy.

Key issues addressed by the committee:

Following a review of external Investment Managers, it was decided to appoint Quilter Cheviot to act as a holistic 'one-stop shop' investment manager to advise across the range of fixed interest, equity and cash allocations. New Investment Management Agreements with Quilter Cheviot were reviewed and approved.

The acquisition of POIS in September 2014 resulted in an additional £69m of funds to be managed and the Committee oversaw the transfer of these assets to the Society together with the re-investment of these funds by Quilter Cheviot.

Certain Foresters funds contain equities that are currently managed by Legal & General. The Committee has agreed that these will also be transferred to Quilter Cheviot during the first half of 2015. This staged transfer is to ensure that the process is fully controlled and any issues arising are minimised.

The Committee instructed Aston Rose who manage the Society's individual property portfolio to actively reduce the allocation to direct property investments during 2015 to take advantage of the recent improvement in property values.

The Committee has reviewed the performance of the various asset classes and funds carefully throughout the year and believe them to be in line with expectations and risk. This will continue to be a major part of the committee's work especially given the recent volatility in the world stock markets.

Nominations

Current Members:

Mike Wilkinson (Chairman)
John Instance
Penny O'Nions

Number of meetings held in 2014: 7

Key terms of reference:

The main responsibilities of the Nominations Committee are to:

- Evaluate the balance of skills, knowledge and experience on the Board and make recommendations to the Board with regard to any changes;
- Keep under review the leadership needs of the Society, both Executive and Non-Executive;
- Determine merit based criteria for the selection of Non-Executive Directors and ensure that in identifying suitable candidates open advertising or the services of external advisers is used in the search;
- Consider suitable candidates for the role of Senior Independent Director, Chief Risk Officer, High Chief Ranger and High Sub-Chief Ranger;
- Review the skills matrix for Directors and ensure all directors receive appropriate training;
- Consider succession planning for the Board and its Committee; and
- Consider and make recommendations for chairmanship and membership of the Board sub-committees.

Key issues addressed:

Following an open advertisement for the appointment of a Non-Executive Professional Director, the Committee reviewed a significant number of applications and short listed candidates to present to the Board. Graham Setterfield was subsequently co-opted as a Non-Executive Director on 31 July 2014 and will be subject to election at the 2015 High Court. Graham received a formal induction on joining the Board and as part of this process attended various conferences and meetings with members of the Society.

The Committee considered and recommended candidates for the position of High Chief Ranger, High Sub-Chief Ranger and a member of the Membership Committee at the 2014 Annual General Meeting. The Committee also recommended the re-election of Kathryn Vagneur and Paul Osborn as Directors, and the election of Patrick Phelps following his co-option as a Director during 2013. Kathryn Vagneur's re-election proposal was subject to a rigorous review during the year, as she had already served a six year term.

Following a change in our distribution strategy, the role of Marketing Director was made redundant resulting in Neil Armitage leaving the Society on 9 May 2014. In October 2014, Patrick Phelps resigned as Finance Director to enjoy semi-retirement. As a consequence of the various Board changes, recommendations were made to the Board regarding the composition of the Board sub-committees and the appointment of a Chief Risk Officer. Following Patrick Phelps's departure, Sally Butters was appointed as Chief Risk Officer and Interim Chief Financial Officer.

Jointly with the Non-Executive Directors, the Committee considered key person dependency and given the changes in Executive Directors during the year, a succession plan for the role of Chief Executive and other senior management positions is being updated.

The balance of skills, experience, independence and knowledge on the Board is under constant review and appropriate training provided using our own in-house expertise where relevant or by external providers.

Remuneration

Current Members:

Cheryl Eagleson (Chairman)
Penny O'Nions
Graham Setterfield

Number of meetings held in 2014: 7

Key terms of reference:

The main responsibilities of the Remuneration Committee are to:

- Determine the remuneration (including benefits) of the Executive Directors and Senior Management and approve the policy of remuneration for other staff. In doing so, it considers the remuneration trends in competitors, the financial services sector and local employment markets;
- Make recommendations to the Board regarding the basis of the remuneration of the Chairman, Non-Executive Directors, the High Chief Ranger, the High Sub Chief Ranger and, where appropriate, fees for membership and Chairmanship of sub committees of the Board.

- Recommend expense policies for the Board; and
- Ensure staff employment policies and practices meet current legislative requirements and good employment practice

Key issues addressed by the committee:

During the year, the Executive contracts of employment were updated in line with current best practise. In addition, the Committee agreed a bonus matrix based on the achievement of the Society's key performance indicators.

The Committee recommended and had implemented a performance driven remuneration package for staff where pay reviews reflect inflationary rises, and a bonus scheme rewarding individual performance and the achievement of corporate objectives.

In addition, the Committee recommended for the Executive Director and staff salaries to increase by inflation for 2015, which was subsequently approved by the Board. The RPI Index, which includes the costs of running a home in their calculations i.e. rises in mortgage payments, rents and council tax, was viewed to be a realistic benchmark.

The Committee took into account external research of the latest market data when considering whether remuneration packages and incentive schemes were fair and adequate and concluded they were. No Executive Director or employee participated in discussions or decisions of the Committee relating to his or her remuneration.

Further information on the Society's Remuneration Policy is shown on pages 30 and 31.

Risk and Capital

The name of the Committee and its Terms of Reference were amended in December 2014 to reflect the additional responsibilities in respect of the Society's capital.

Current Members:

Kathryn Vagneur (Chairman)
Mike Wilkinson
John Instance
Paul Osborn (CEO)
Sally Butters (Chief Risk Officer)

Number of meetings held in 2014: 5

Key terms of reference:

The main responsibilities of the Risk Committee are to:

- Review the Society's risk framework, risk strategy and risk appetite;
- Provide assurance that the Society's risks including emerging risks are identified, recorded, monitored and managed effectively;
- Monitor and challenge the risk, capital and compliance information; and
- Review and manage the actions and judgements of management used in compiling the Society's Own Risk and Solvency Assessment (ORSA).

Committee Reports (Continued)

Key issues addressed:

The Committee reviewed the top risks of the Society and provided oversight for the management of risk during the year, as well as monitoring the processes that deliver risk and capital management within the Society. The Committee received a quarterly Chief Risk Officer (CRO) report and Risk Management Information and any changes to risks were discussed and addressed.

The Committee reviewed and challenged the risk assessment at each scheduled meeting for the transfer-in and subsequent integration of POIS. This was an important role for the Committee as the Society had not completed a transfer of engagements of this size previously. The Chair of the Committee provided sign off to the acquisition prior to regulatory approval to ensure adequate second line oversight was achieved.

As part of the ongoing improvements to the Risk Management Framework and progress towards Solvency II, the Committee considered and recommended to the Board an initial ORSA Report and ORSA Policy. The annual production of the ORSA will be a regulatory requirement once the Solvency II Directive is implemented.

The Committee considered the risk profile of the Society and established risk preferences. A key development during the year was to review the risk appetite for the Society, which is expressed as having sufficient capital to be able to survive a 'poor' year followed by an 'extreme' year (a 'poor' year is a one that is expected only every 20 years; an 'extreme' year is one that is expected only once in 200 years). The stress testing used to set the risk appetite was reviewed in the development process.

Meetings have been held jointly with the Audit Committee to address combined issues and to give some input into Internal Audit priorities.

With-Profits Advisory Arrangement

Current Members:

John Instance (Chairman)
Mike Wilkinson
Penny O'Nions
Graham Setterfield

Number of meetings held in 2014: 6

Key terms of reference:

The Society has one open with-profits fund – The Order Insurance Fund and four closed with-profits funds – the Pure Endowment Fund, the Tunstall Fund, the Leek Fund and (with effect from 26 September 2014) the POIS Fund. Although each fund is considered individually, the main terms of reference apply to all funds.

The main responsibility of each with-profit advisory arrangement is to assess, report, and provide clear advice and, where appropriate, recommendations to the Board, for each of the Society's with-profit funds as to:

- Whether the Society has complied with the Principles and Practices as set out in the PPFM;

- The manner in which the with-profit funds are managed and whether this is properly reflected within the PPFM;
- Any proposed amendments to the PPFM; and
- Whether conflicts of interest between with-profits policyholders and members, non-profit policyholders and other stakeholders have been identified and managed in a way that is consistent with treating customers fairly.

Key issues addressed in respect of the Order Insurance Fund, the Pure Endowment Fund, the Tunstall Fund, the Leek Fund, and the POIS Fund:

The WPAA considered and agreed to recommend to the Board a proposal to revise the management of the Order Insurance Fund in order to reduce the volatility of terminal bonus rates while maintaining the exposure of with-profit policyholders' accumulated funds to assets that have a long-term prospect of growth in excess of inflation. It was agreed that the capital retained within the fund, the assets in excess of policyholders' accumulated funds, should be invested following a lower risk strategy to ensure that the fund was unlikely to need support from other sources.

WPAA Committee reviewed management's proposal and agreed to recommend to the Board the annual bonus rates for the with-profits funds in respect of 2014 which were subsequently approved by the Board.

A review of expenses charged to the with-profit funds was undertaken.

The committee received and considered the report of the With-Profits Actuary.

A review of proposals for managing the run-off in the Leek Fund in future periods was undertaken.

In accordance with the FCA rules, the Committee considered whether the Society had complied with the Principles and Practices of Financial Management (PPFM) during 2013 and recommended the Annual Report to the With-Profit Policyholders 2013 be published. The Board approved publication of the Report and a copy is available at:

<http://www.forestersfriendlysociety.co.uk/media/1065/annual-report-to-wp-policyholders-on-compliance-2014.pdf>

Management's proposal for terminal bonus rates payable on maturity and death claims was reviewed and it was agreed to recommend them to the Board. These were subsequently approved by the Board and implemented effective 1 August 2014.

The terms on which surrender values on ISAs and Bonds might be reduced in the event of substantial falls in the assets backing these policies was reviewed.

A review of product profitability of the new business being written in the Order Insurance Fund was undertaken and it was concluded that the terms on which they were written were fair to existing with-profit policyholders.

Unit-Linked Advisory Arrangement

The Unit-Linked Advisory Arrangement (ULAA) was formed following the transfer-in of the POIS business in September 2014.

Current Members:

John Instance (Chairman)
Mike Wilkinson
Penny O'Nions
Graham Setterfield

Number of meetings held in 2014: 1

Key terms of reference:

The Society has three Unit-Linked funds in operation – the POIS Flexible Growth Fund, the POIS Money Bond Fund and the POIS Savings Fund.

The main responsibilities of the Unit-Linked Advisory Arrangement are to assess, report, and provide clear advice and, where appropriate, recommendations to the Board on;

- The manner in which the unit-linked funds are managed and whether this is properly reflected within the 'How we manage our unit-linked funds';
- Whether the Society has complied with the 'How we manage our unit-linked funds';
- Whether the operation and pricing of the unit-linked funds, including the exercise of discretion, has been managed in a way that is consistent with Treating Customers Fairly, or, where applicable, how it is proposed they should be managed;
- Any proposed amendment to the 'How we manage our unit-linked funds';
- Targets for accuracy within fund pricing;
- The costs incurred in operating the unit-linked funds; and
- Changes to Annual Management Charge, tax and expenses made to funds.

Key issues addressed by the Committee:

In accordance with the ABI Guide to Good Practice For Unit-Linked Funds, the ULAA reviewed and recommended to the Board, a public document entitled, 'How we manage our unit-linked funds'. This document helps explain to customers how the funds will be operated and how the exercise of discretion may occur in relation to deriving unit-linked fund prices for use in working out policyholder benefits. The document was approved by the Board and is available on http://www.pois.co.uk/media/252940/how_we_manage_our_ul_funds.pdf

Membership

Current Members:

David Watkins (Chairman)
Linda Levett
Janet Clements
John Garrett
Andrew Pooley
Michael Nightingale
Mike Wilkinson

Number of meetings held in 2014: 6

Key terms of reference:

The main function of the Committee is 'To act as a conduit between the Board of Directors and the Membership and vice versa.' In 2014, the Committee absorbed the main functions of a Steering Group encompassing how the Courts operate, their finance model, and the range of benefits and services offered to Court members. The main responsibilities of the Committee are to:

- Establish a Raison D'être for an individual Court and the Courts collectively;
- Determine a long term viable financial model for a Court and the Courts collectively;
- Monitor internal procedures for the resolution of complaints by members in respect of non-regulated activities;
- Receive the decisions of meetings of the Society's Arbitrators;
- Review the Court Rules and Court Handbook and make any recommendations to the Board;
- Make recommendations to the Board of Directors regarding the funding of Courts as required;
- Review the operation of the Society's Discretionary Funds;
- Make recommendations to the Board on any amendments needed to the Memorandum and Rules of the Society;
- Review Court membership and the range of activities offered to Court members; and
- Establish the most cost effective and quality orientated structure for the management, support, development and growth of Courts.

Key issues addressed by the Committee:

The role of the Committee has continued to grow and is the key link with the membership for the Board to consult with.

During 2014, the Committee provided input to and subsequently recommended a Directional Statement for the Future Operation of Courts to the Board. The Committee continues to be involved in the development of the associated strategies and is currently reviewing its care package and the possibility of sponsoring a Credit Union to enable the Society's members to invest small amounts and have access to borrowing at reasonable rates of interest.

The committee provided input to a governance review of the Society's Delegate Voting system and updating the Society Rules. It also considered and approved a number of amalgamations and transfers of Courts.

The Committee considered and approved proposals for allocating POIS members to Courts.

Directors' Remuneration Report

This report sets out the remuneration policy for the members of the Society's Board and will be submitted to the delegates for approval at the Annual General Meeting. It details the various elements of their remuneration in 2014, 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 27. The Chief Executive is invited to attend the meetings to participate in discussions on remuneration policy but is excluded from detailed discussions relating to his own remuneration.

Remuneration Policy

The Society's remuneration policy aims to attract, motivate, support and retain high 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 and a good working environment. Salaries are reviewed annually and all staff are entitled to join a defined contribution pension scheme.

Remuneration Policy for Non-Executive Directors

Non-Executive Directors are elected for a three year period by the members at the Annual General Meeting, subject to FCA/PRA approval. This appointment can be extended for two further periods of three years at which point the Non-Executive Director has to stand down in accordance with the Society's Rules. 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 which then puts a proposition to the delegates at the Annual General Meeting to receive any remuneration changes. The Non-Executive Directors are only entitled to fees and expenses, and do not participate in any performance related 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 performance related 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 and team 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. The employment contract of the Executive Directors requires a contractual notice period of 6 months by either party.



Directors' Remuneration

	Salary/Fees	Bonuses	Benefits	Pension Contributions	Total 2014	Total 2013
	£	£	£	£	£	£
Non-Executives						
Mike Wilkinson	25,000	-	-	-	25,000	25,000
Cheryl Eagleson**	20,416	-	-	-	20,416	22,500
John Instance**	20,416	-	-	-	20,416	20,833
Penny O'Nions	22,500	-	-	-	22,500	22,500
Graham Setterfield (appointed 31 July 2014)	9,744	-	-	-	9,744	-
Kathryn Vagneur	22,500	-	-	-	22,500	22,500
Carl Genese (resigned 10 June 2013)	-	-	-	-	-	10,002
Mike Allen (resigned 31 October 2013)	-	-	-	-	-	18,125
Executives						
Paul Osborn	140,000	23,660	18,275	13,510	195,445	201,275
Neil Armitage (redundant 9 May 2014)*	43,750	-	2,488	9,625	55,863	154,117
Patrick Phelps (resigned 31 October 2014)	87,500	5,000	10,500	2,625	105,625	74,926
	391,826	28,660	31,263	25,760	477,509	571,778

*In addition, Neil Armitage received £46,442 in lieu of his notice period and £93,603 in compensation for loss of office.

**Chose to waive their supplementary fee of £2,500 as Chairman of Sub-Committees in recognition of the Society's strategy to reduce costs.

Directors' Pension Benefits

Non-Executive Directors do not receive any pensionable benefits from the Society. Paul 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. Neil Armitage had his pension contributions, again as shown in the above table, paid into a personal pension scheme.

Benefits in Kind

Benefits in kind were standardised amongst the Society's Executive Directors during 2013 and include medical Insurance to cover the employee's spouse or partner and dependants and critical illness cover. A revised contract to reflect the benefits in kind was issued and signed by the Chief Executive in 2015.

Bonus Scheme

The Executive Directors were awarded a total bonus of £28,660 in respect of 2014 (2013: £59,798).

The bonus scheme for the Chief Executive contains two elements, the first of which rewards performance in the previous twelve months and the second element reserving a percentage of the bonus for the attainment of long term strategic objectives with both elements of the bonus being split to recognise individual and collective performance. In 2014, the Chief Executive was awarded £23,660. The bonus scheme for 2015 remains unchanged.

Patrick Phelps was awarded £5,000 in respect of the successful completion of the transfer in of the POIS business. Neil Armitage was not awarded a bonus.

Cheryl Eagleson
Chairman Remuneration Committee
26 March 2015

Governance Arrangements

The Board of Directors

The Board of Directors is the Governing Body of the whole of the Society's activities. The Board is responsible for the direction and management of the business of the Society in the fulfilment of its mission and strategic objectives and in compliance with the Society's Memorandum, Rules and any applicable legislation and regulation and the Society's policies, principles and values.

In pursuance of its strategic objectives, the Board maintains a schedule of matters specifically reserved for the Board and it exercises all those powers that are not by Regulation, Legislation, or by the Rules required to be exercised by the Society at the Annual General Meeting or a Special General Meeting.

During 2014, the number of Executive Directors reduced by two, one being a redundancy following a change in the Society's strategy and one being a retirement. The composition at the end of 2014 is a mix of four Non-Executive Professional Directors, two Non-Executive Member Directors and one Executive Director (Chief Executive). The Board believes the balance of skills, experience, independence and knowledge remains appropriate although it will continue to monitor the position to comply with evolving regulatory requirements and to complement the Society's Strategy. A 'Professional Director' is identified as having recent insurance industry knowledge and experience, and a 'Member Director' is one drawn directly from the membership, having knowledge of the Society's fraternal activities.

The Board delegates certain parts of its responsibilities to Sub-Committees and to Advisory Arrangements which operate within defined Terms of Reference. Their associated reports on their activities during 2014 are provided on pages 25 to 29.

The Terms of Reference for the Board, its Sub-Committees and Advisory Arrangement are available on the Society's website at www.forestersfriendlysociety.co.uk/company-reports-and-governance.aspx

Board Attendance Table

Directors' attendance at meetings of the Board, the Sub-Committees and Advisory Arrangements of which they were members in 2014 is set out in the table below. During 2014 there were a number of changes to directors and the composition of Sub-Committees and Advisory Arrangements but in all cases there was a quorum for the meetings held.

	Board	Nominations Committee	Remuneration Committee	Audit Committee	Risk and Capital Committee	Investment Committee	Membership Committee	With Profits	Unit-Linked
Number of Meetings	11	7	7	6	5	7	6	6	1
Mike Wilkinson ² (Chairman)	11/11	7/7	5/5	-	5/5	7/7	6/6	6/6	1/1
Neil Armitage ¹ (Redundant 9 May 2014)	5/5	-	-	-	-	-	-	-	-
Cheryl Eagleson ³	10/11	6/6	7/7	6/6	-	-	-	-	-
John Instance ⁴	11/11	1/1	-	6/6	5/5	7/7	-	6/6	1/1
Penny O'Nions	11/11	6/7	7/7	-	-	7/7	-	6/6	1/1
Paul Osborn ¹	11/11	-	-	-	5/5	5/7	-	-	-
Patrick Phelps ¹ (Resigned 31 October 2014)	9/9	-	-	-	3/3	6/7	-	-	-
Graham Setterfield ⁵ (Co-opted 31 July 2014)	3/3	-	2/2	2/2	-	-	-	1/1	-
Kathryn Vagneur	11/11	-	-	6/6	5/5	7/7	-	-	-

An entry of 6/8 means 6 out of a possible 8 meetings.

¹ The Executive Directors are invited to attend the Sub-Committees and Advisory Arrangement meetings, of which they are not members, as required.

² Mike Wilkinson stepped down from the Remuneration Committee on 24 September 2014

³ Cheryl Eagleson stepped down from the Nominations Committee on 24 September 2014

⁴ John Instance was appointed to the Nominations Committee on 24 September 2014

⁵ Graham Setterfield was appointed to the Audit Committee, the Remuneration Committee, the With-Profits Advisory Arrangement and the Unit-Linked Advisory Arrangement on 24 September 2014

Chairman and Chief Executive

The roles of the Chairman and Chief Executive are held by different people and the division of responsibilities between the two is clearly established, set out in writing and agreed by the Board of Directors.

The Chairman is non executive and is responsible for leadership of the Board and ensuring the Board acts effectively. In the opinion of the Board the Chairman is independent in character and judgement (although this is not a requirement of the Annotated Code of Governance) and prior to his election as a Non-Executive Director in 2012 he had no previous relationship with the Society. On appointment the Chairman had no other significant commitments to disclose to the Board of Directors, a situation that has not changed since his appointment. The Non-Executive Directors and the Executive Directors met without the Chairman present to appraise the Chairman's performance.

The Chief Executive has overall responsibility for managing the Society and for implementing the strategies and policies agreed by the Board.

Non-Executive Directors

The Non-Executive Directors are responsible for bringing independent judgement and challenge to the Board debate and its decisions. In the opinion of the Board each Non-Executive Director including the Chairman, is independent in character and judgement.

The Non-Executive Directors meet without the Executive Directors present at least annually. Each Non-Executive Director is formally appraised annually and more rigorously at 6 years.

Copies of the letters of Appointment of the Non-Executive Directors are available for inspection at the Society's Head Office and can be viewed by contacting the Company Secretary.

Executive Directors

One Executive Director was in post at the end of 2014: Paul Osborn, Chief Executive Officer.

Independence

The UK Corporate Governance Code: An Annotated Version for Mutual Insurers (the Code) requires the Board to determine whether each Non-Executive director is independent in character and judgement and whether there are relationships or circumstances which are likely to affect, or could appear to affect, the director's judgement. 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 been employed by the Society within the last five years
- has had a material business relationship with the Society in the last three years

- has received additional remuneration from the Society apart from a director's fee
- has close family ties with any of the Society's advisers, directors or senior employees
- holds cross-directorships or has significant links with other directors through involvement in other companies or bodies
- has served on the Board for more than nine years

The Board has determined that Mike Wilkinson, Cheryl Eagleson, John Instance, Penny O'Nions, Graham Setterfield and Kathryn Vagneur meet the standards set out in the Code and can be considered independent Non-Executive Directors, although the code does not require the Chairman to be assessed after appointment.

Senior Independent Director

The Code recommends that Mutual Insurers maintain a dialogue with their Members and maintain a Senior Independent Director to handle issues and concerns raised by Members. The Senior Independent Director also provides counsel for the Chairman and to serve as an intermediary for the other directors when necessary.

Cheryl Eagleson is the Society's nominated Senior Independent Director and she may be contacted by emailing her at ceagleson@forestersfriendlysociety.co.uk

Appointments to the Board and Re-election

The Appointment of new Directors is considered by the Nominations Committee which makes recommendations to the Board.

Following co-option to the Board, a Director is subject to election by Members at the next Annual General Meeting. Thereafter, in accordance with the Society's Rules each Director must retire at the Annual General Meeting three years after the meeting at which they were last elected or re-elected as a Director. Cheryl Eagleson is due to retire at this year's Annual General Meeting and having served on the Board for 7 years, has confirmed her intention not to seek re-election. The vacancy has been advertised within the membership and potential candidates will be interviewed by the Nominations Committee prior to making a recommendation to the Board. The Board will subsequently recommend the candidates to the Annual General Meeting. Graham Setterfield who was co-opted on 31 July 2014 will also be subject to election at this year's Annual General Meeting.



Governance Arrangements (Continued)

Diversity Policy

The Board recognises the benefits of having a diverse Board and sees increasing diversity as an essential element in maintaining an effective Board without compromising on the calibre of new Directors. The Board adopted a Diversity Policy during 2014 which embraces knowledge and understanding of relevant diverse geographies, Courts, people and their backgrounds.

Appraisal and Evaluation

The Code recommends that the Board should undertake a formal annual evaluation of its own performance and that of its committees and individual Directors. During 2012 an independent externally facilitated evaluation of the effectiveness of the Board was undertaken by Pinsent Masons and the competency of each Director was assessed by The Young Company.

For the year under review the Board conducted an internal evaluation of its own performance and that of its Audit, Risk and Capital, and Membership Sub-Committees led by the Chairman and assisted by the Company Secretary. Meetings were held between each Director and the Chairman in which issues and developments over the year were discussed and performance was considered by reference to the objectives of the Board and its Sub-Committees. The issues raised during this process were discussed by the Board.

The Directors, led by the Senior Independent Non-Executive Director also evaluated the performance of the Chairman and gave feedback which was also reflected in the Board discussion.

Each Director is 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 Senior Independent Director is responsible for reviewing training requirements for the Board as a whole and sources such training as required. CPD records for each director are held by the Company Secretary and form part of the annual appraisal evaluation.

Compliance with The UK Corporate Governance Code: An Annotated Version for Mutual Insurers

The Board is committed to following best practice as regards corporate governance wherever appropriate for the Society. The recommendations of the UK Corporate Governance Code: An Annotated Version for Mutual Insurers (the Code) 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.

The Society commissioned an independent external review of the effectiveness of the Board and its supporting governance framework by Pinsent Masons (a legal firm with no previous connection with the Society). Recommendations from this work have largely been implemented with the exception of the annual election of directors and proxy voting (see below). The Board believes that, in all material respects, the Society is now in compliant with the provisions of the Code subject to the following areas:

Ref	Provision	Explanation
B.7.1	All Directors of FTSE 350 companies (and mutual societies the size of Foresters) should be subject to annual election by shareholders.	As part of a review of the Society's delegate system, consideration was given on whether annual elections would be appropriate. Given the size and delegate structure of the Society it was recommended not to adopt annual elections and to continue with the three year term as provided in the Society Rules. This resolution was passed at High Court. The election process will remain under review.
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. A review of whether the system was appropriate was carried out in 2014, using internal and external surveys. Given a high level of engagement at the Society's AGM, it was recommended to continue with the current system and structure. A number of changes to further enhance the engagement and participation of members are being progressed.

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 2014, 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 directors' responsibilities, the directors are responsible for the preparation of the 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 Financial Reporting Council's (FRC) 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 FRC's website at www.frc.org.uk/auditscopeukprivate

Opinion on Financial Statements

In our opinion:

- The financial statements give a true and fair view of the state of the Consolidated and Society's affairs as at 31 December 2014 and of the Consolidated and Society income and expenditure for the year then ended;
- The Consolidated and Society financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- The financial statements have been prepared in accordance with the requirements of the Friendly Societies Act 1992 and the regulations made under it.

Our Assessment of Risks of Material Misstatement

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

- The completeness and accuracy of the technical provisions in respect of policy liabilities – as detailed in the accounting policies on pages 44 to 46, the Groups' technical provisions are 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. This risk is considered significant due to the complex and judgemental nature of the calculations and the attendant risk of management over-ride. An independent external reviewing actuary acts as our auditor's expert to assist us with our audit of these aspects of the financial statements. The scope of work covered by the audit was as follows:

- o Completeness and accuracy testing of the underlying policy data used as a basis for the technical provisions valuation;
- o Review of the Actuarial Function Holder and With-Profits Actuary's processes, including controls and checks;
- o Critically assess the valuation methodology and assumptions;
- o Review and benchmark of yields assumed on bonds;
- o Sample testing and recalculation of the policy reserves that the Society calculates;
- o Review of the Society's documentation explaining any changes to models used to calculate reserves;
- o Review of evidence that the technical provisions have been checked and reviewed by the Actuarial Function Holder;
- o Assessment of the Society's explanation of reasons for change in the size of the technical provisions between 2013 and 2014;
- o Review of analysis of change in technical provisions and analysis of surplus.

- Premium Income – as detailed in the accounting policies on pages 44 to 46, the Group's income consists mainly of the sale of insurance and protection policies, investment and savings products. This risk is considered significant due to the presumed fraud risk around revenue recognition and specifically the cut off of premium income. We reviewed in detail the income recognition principles supporting the recognition of gross written premiums, paying particular attention to significant new products or individual schemes written during the year. We carried out IT system focused procedures to verify the completeness and accuracy of the recording of written premium. We performed a test in total in respect of premium income per the financial statements when compared with the expected income from the underlying policy data records and investigated significant differences. We also checked the cut-off of revenue by inspecting premium income recorded pre and post year end.

- The acquisition of the POIS book of business – this transaction involved transferring into the Society significant assets and liabilities, and the administration post-acquisition of additional funds including particularly and newly for the Society, unit linked policies. The significant risks associated with this transaction are that the assets and liabilities concerned are not correctly brought into the books of the Society, and that the administration of the unit-linked business is not correctly undertaken. We carried out detailed testing on the incorporation of the acquired assets and liabilities into the books of the Society, and we also tested the processes involved in the administration of the unit-linked business, and the year-end valuations of both assets and unit-linked liabilities.

Independent Auditors Report (Continued)

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

We determined planning materiality for the financial statements as a whole to be £1,000,000. We have determined planning materiality based on our professional judgement in the context of our knowledge of the Society, including consideration of factors such as member expectations, industry developments, financial stability and reporting requirements for the financial statements. As outlined in Practice Note 24 "The Audit of Friendly Societies in the United Kingdom" a key difference of friendly societies from other entities is that balance sheet balances tend to be much larger compared to the income and expenditure account, so that the application of materiality based on income may be too low when auditing some aspects of elements of the balance sheet. Indeed, based on the above measures applied to the Society's 2014 accounts, this would give a range of materiality on BDO's standard measures between £81,000 (0.5% revenue) and £5,200,000 (2% of total assets).

Our materiality has been set within this range at £1,000,000 in order to ensure an efficient yet effective audit process. Whilst we have set a quantitative threshold to direct the focus of our work, we have been mindful of qualitative issues arising from our audit findings, and have recommended audit adjustments arising under this threshold are posted to the financial statements if, in our view, they are warranted.

On the basis of our risk assessment, together with our assessment of the company's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £750,000. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £1,000,000 for the financial statements as a whole.

The materiality levels used for each key component separately ranged from £50,000 to £750,000.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An Overview of the Scope of Our Audit

Our group audit identified four components, all four of which were subject to a full scope audit for the year ended 31 December 2014. BDO LLP undertook the statutory audit of components holding 92% of the Group's Assets, and responsible for generating 84% of the Group's premium income.

The statutory audit opinions for 'Court Pride of Sarnia of the Ancient Order of Foresters Friendly Society Limited' and 'The Leeds District of the Ancient Order of Foresters' Investment Association of the Ancient Order of Foresters Investment Association' were given by other registered auditors not connected to BDO LLP. The group audit team issues each of these registered auditors with

full group audit instructions in order to direct the audit work required on their respective components for the group audit opinion. These group instructions include the individual component materiality level in respect of each component. The group audit team undertake a range of procedures to support its reliance on component auditors including site visits on a cyclical basis.

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

Under the International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

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

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

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

- proper records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- we have not received all the information and explanations we require for our audit; or
- whether the annual accounts are not in agreement with the accounting records.

We have nothing to report in respect of these matters.

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the 11 provisions of 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.

David Roberts
(Senior Statutory Auditor)
26 March 2015

For and on behalf of BDO LLP, Statutory Auditor London, United Kingdom. BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated and Society Income and Expenditure Account

for the year ended 31 December 2014

Technical Account - Long Term Business	Notes	2014 £'000	2013 £'000
Earned premiums, net of reinsurance			
Gross premium written		14,235	12,759
Outward reinsurance premiums		(52)	(42)
	3	14,183	12,717
Investment income	4	4,185	2,386
Unrealised gains/(losses) on investments	4	5,486	3,287
Transfer from non technical funds		-	1,055
Total Technical Income		23,854	19,445
Claims incurred, net of reinsurance			
Claims paid: Gross amount		(13,770)	(10,755)
Reinsurers' share		-	-
		(13,770)	(10,755)
Change in provision for claims: Gross amount		(1,016)	(39)
Net claims incurred	5	(14,786)	(10,794)
Long term business provision			
Gross amount		(4,614)	(1,632)
Reinsurers' share		(1)	-
	6	(4,615)	(1,632)
Other Expenditure			
Net operating expenses	7	(3,275)	(3,404)
Investment expenses and charges	4	(236)	(188)
Taxation attributable to long-term business	9	-	-
		(3,511)	(3,592)
Total Technical Charges		(22,912)	(16,018)
Surplus/(deficit) of technical income over technical charges		942	3,427
Transfer from/(to) Non-Technical Account		602	(295)
Transfer from/(to) Fund for Future Appropriations	19	(1,427)	(3,132)
Transfer from/(to) Unit-Linked Technical Provisions		(117)	-
Balance on Technical Account		-	-
Technical Account – General Business			
Technical Income			
Gross premium written		2,111	2,017
Investment income		90	88
Total Technical Income		2,201	2,105
Technical charges			
Claims incurred gross		(1,976)	(1,914)
Transferred to general business provision		(86)	(54)
Net operating expenses	7	(139)	(137)
Total Technical Charges		(2,201)	(2,105)
Balance on Technical Account		-	-

Consolidated Income and Expenditure Account

for the year ended 31 December 2014

Non-Technical Account	Notes	2014 £'000	2013 £'000
Income			
Investment income	10	5,600	3,084
Unrealised gains/(losses) on investments	10	4,543	4,101
Unrealised gains/(losses) on Court investments	10	301	259
Discretionary fund donations and levies		43	97
Total Income		10,487	7,541
Expenditure			
Net operating expenses	7	(1,830)	(1,529)
Court operating expenses	7	(3,300)	(3,077)
Investment expenses and charges	10	(358)	(381)
Discretionary benefits paid and approved Court distributions		(871)	(853)
Transfer to technical fund		-	(1,055)
Total Expenditure		(6,359)	(6,895)
Excess/(deficit) of income over expenditure for the financial year		4,128	646
From/(to) Discretionary Fund	17	(3,780)	(1,496)
From/(to) Long Term Business Technical Account		(602)	295
From/(to) Mainland Court funds	18	(730)	(939)
From/(to) Court funds – Guernsey	18	(54)	(75)
From/(to) Fund for Future Appropriations	19	1,038	1,569
Balance on the Non-Technical Account		-	-

Consolidated and Society's Statement of Total Recognised Gains and Losses

for the year ended 31 December 2014

	2014 £'000	2013 £'000
Transfer from/(to) Fund for Future Appropriations (Technical Account)	1,427	3,132
Transfer from/(to) Fund for Future Appropriations (Non-Technical Account)	(1,038)	(1,569)
Pension schemes actuarial gain/(loss)	(88)	(71)
Total recognised gains and losses	301	1,492

The notes on pages 44 to 71 form an integral part of these accounts.

Society Income and Expenditure Account

for the year ended 31 December 2014

Non-Technical Account	Notes	2014 £'000	2013 £'000
Income			
Investment income	10	5,597	2,857
Unrealised gains/(losses) on investments	10	4,208	3,480
Unrealised gains/(losses) on Court investments	10	301	259
Discretionary fund donations and levies		43	97
Total Income		10,149	6,693
Expenditure			
Net operating expenses		(1,649)	(1,325)
Court operating expenses	7	(3,300)	(3,077)
Investment expenses and charges	10	(358)	(381)
Discretionary benefits paid and approved Court distributions		(871)	(853)
Transfer from non technical funds		-	(1,055)
Total Expenditure		(6,178)	(6,691)
Excess/(deficit) of income over expenditure for the financial year		3,971	2
From/(to) Discretionary Fund	17	(3,511)	(1,001)
From/(to) Long-Term Business Technical Account		(602)	295
From/(to) Mainland Court funds	18	(842)	(790)
From/(to) Court funds – Guernsey	18	(54)	(75)
From/(to) Fund for Future Appropriations	19	1,038	1,569
Balance on the Non-Technical Account		-	-

The notes on pages 44 to 71 form an integral part of these accounts.

Consolidated Balance Sheet

as at 31 December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Intangible assets			
Present value of in force business	11	1,330	-
Investments			
Land and buildings	12	58,620	55,807
Investment in subsidiary	13	10	10
Other financial investments	13	140,338	103,939
		198,968	159,756
Assets held to cover linked liabilities	13	32,869	-
Reinsurers share of long term business provision	20	404	-
Debtors			
Debtors arising out of insurance operations		732	591
Other debtors	14	2,112	2,240
		2,844	2,831
Other assets			
Tangible assets	15	196	115
Certificates of deposit		7,101	8,574
Cash at bank and in hand		18,574	11,797
		25,871	20,486
Prepayments and accrued income			
Accrued interest and rent		1,336	966
Deferred acquisition costs	16	415	340
Other prepayments and accrued income		148	189
		1,899	1,495
Pension asset	23	306	328
TOTAL ASSETS		264,491	184,896

Consolidated Balance Sheet

as at 31 December 2014

Liabilities	Notes	2014 £'000	2013 £'000
Reserves			
Discretionary Funds	17	6,618	2,838
Court Funds	18	74,459	74,175
		81,077	77,013
Fund for future appropriations	19	42,470	31,747
Technical provisions			
Long term business provision	20	100,058	69,645
Technical provision for linked liabilities	20	32,869	-
Claims outstanding	20	2,303	1,287
General business provision (Guernsey)	20	3,142	2,556
		138,372	73,488
Provision for other risks and charges	22	-	-
Creditors			
Other creditors including taxation and social security		910	824
Accruals and deferred income		1,662	1,824
TOTAL LIABILITIES		264,491	184,896

Society Balance Sheet

as at 31 December 2014

	Notes	2014 £'000	2013 £'000
Assets			
Intangible assets			
Present value of in force business	11	1,330	-
Investments			
Land and buildings	12	51,514	48,745
Investment in subsidiary	13	10	10
Other financial investments	13	141,618	105,303
		193,142	154,058
Assets held to cover linked liabilities	13	32,869	-
Reinsurers share of long term business provision	20	404	-
Debtors			
Debtors arising out of insurance operations		732	591
Other debtors	14	1,952	2,050
		2,684	2,641
Other assets			
Tangible assets	15	196	115
Certificates of deposit		2,200	2,200
Cash at bank and in hand		12,644	7,358
		15,040	9,673
Prepayments and accrued income			
Accrued interest and rent		1,336	966
Deferred acquisition costs	16	415	340
Other prepayments and accrued income		147	189
		1,898	1,495
Pension asset	23	306	328
TOTAL ASSETS		247,673	168,195

Society Balance Sheet

as at 31 December 2014

	Notes	2014 £'000	2013 £'000
Liabilities			
Reserves			
Discretionary Funds	17	(2,775)	(6,286)
Court Funds	18	67,077	66,681
		64,302	60,395
Fund for future appropriations	19	42,470	31,747
Technical provisions			
Long term business provision	20	100,058	69,645
Technical provision for linked liabilities	20	32,869	-
Claims outstanding	20	2,303	1,287
General business provision (Guernsey)	20	3,142	2,556
		138,372	73,488
Provision for other risks and charges	22	-	-
Creditors			
Other creditors including taxation and social security		886	741
Accruals and deferred income		1,643	1,824
TOTAL LIABILITIES		247,673	168,195

The notes on pages 44 to 71 form an integral part of these accounts.

The accounts were approved by the Board on 26 March 2015 and signed on its behalf by:

Mike Wilkinson
Chairman

Paul Osborn
Chief Executive

Lisa Russell
Company Secretary

Notes to the Accounts

1. Accounting Policies

a) Basis of Presentation

The Society prepares its Annual Report & 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 UK generally accepted accounting practice (UK GAAP). 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.

All policies sold by the Society (including with-profit policies) are classified and accounted for as insurance policies.

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 including the branches (Courts) and the Investment Associations (see note 2) where the Society has the ability to exercise control. Internal transactions and balances between the various components of the Society have been eliminated.

The consolidated financial statements incorporate the results of acquisitions using the acquisition method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated income and expenditure accounts from the date on which control is obtained. They are deconsolidated from the date control ceases. In the case of the acquisition of policy engagements and related assets and liabilities, the acquisition method is applied as if the engagements acquired constituted an entity.

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. Investment Association deposits are investments of the Courts.

There were no changes to accounting policies in 2013. As a result of the acquisition of the Post Office Insurance Society (POIS) policy engagements and related assets and liabilities from Family Assurance Friendly Society Limited (Family Investments) on 26 September 2014, additional accounting policies have been applied during the year ended 31 December 2014 in respect of Unit-Linked Business and Present Value of In-Force Business. These are set out in items q and r respectively. Further details regarding the acquisition are given in note 25.

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

Maturity claims are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date when the policy ceases to be included within the calculation of the long-term business provision. Death claims are accounted for when notified. Claims on with-profit business include bonuses payable. Claims payable include related claims handling costs.

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. In accordance with normal insurance practice, certain reserves required for the statutory valuation returns are not required to be included in these accounts that are designed to present a true and fair view. This adjusted basis is referred to as the modified statutory solvency basis. This makes sufficient provision for future expenses of fulfilling the long-term contracts and includes a provision for existing reversionary bonuses and current reversionary bonuses declared as a result of the valuation. Future reversionary bonuses are implicitly provided for by use of valuation rates of interest below those expected. No provision is made for terminal bonuses, which can be varied at any time depending on investment conditions.

The long-term business provision also includes actuarially calculated liabilities in respect of Group business. These liabilities are calculated using historic Society experience and include reserves for claims which have occurred but not reported, a reserve for unexpired risks and a reserve for claims already in payment.

Further details of these technical provisions are contained in note 20.

e) General Business Provision

General Business comprises the medical and medical services insurance protection conducted by Guernsey branch. The liabilities are calculated in accordance with local regulatory requirements and made up of the unearned premium reserve, the estimated cost of claims incurred but not reported, an unexpired risk reserve plus an appropriate margin.

f) Fund for Future Appropriations

The fund for future appropriations 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.

g) 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 sheet. Deferred acquisition costs are amortised over the term the policies are written.

h) Taxation

Special rules apply to the taxation of friendly societies and only part of the business of the Society is subject to taxation.

Provision for taxation is calculated at the current tax rate on the taxable business of the Society less any tax losses brought forward that can be utilised.

Deferred taxation is provided at the current tax rate on all timing differences (including revalued investments) that have not reversed at the balance sheet date less any tax losses brought forward that can be utilised.

Tax assets are only recognised to the extent that they are considered recoverable or likely to be able to be used in the foreseeable future.

i) 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 accounted for 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 on an open market value basis by qualified external professional valuers. Land and buildings held for operational purposes are valued annually on an existing use value basis by qualified external professional valuers.

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 generally accepted accounting principle set out in SSAP 19 for Investment Properties, that no depreciation should be provided on such investments. The Board consider that, as these properties are held for investment, to depreciate them would not give a true and fair view, and that it is necessary to adopt SSAP 19 in order to give a true and fair view. 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.

j) Investments

Other financial 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 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. Investment associations are shown at cost plus interest accrued on the deposit. The Society does not invest in derivative investments and has no directly held investments that are denominated in a foreign currency,

k) 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 when declared. Interest on fixed interest securities, deposits and rental income is recognised on an accruals basis.

l) Gains and Losses on Investments

Unrealised gains and losses 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 are calculated as the difference between purchase costs and net sales proceeds. An adjustment is made to unrealised gains and losses previously recognised for the impact of any disposals in the year.

Realised and unrealised gains and losses are taken to the Income and Expenditure Account.

1. Accounting Policies (Continued)

m) Pension Schemes

The Society operates a group stakeholder personal pension scheme covering most permanent employees. This is a defined contribution scheme and the Society's contributions are charged to the Income and Expenditure account in the year in which they relate. The Society has no further liability in respect of this defined contribution scheme other than future contractual contributions.

The Society also operates two defined benefit pension schemes, both of which are closed to new members. Both schemes are administered by Trustees and are independent of the Society's finances. The pension cost for these two schemes 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 changes to retirement benefits, are recognised on a straight line basis over the period in which the change in benefits vests. The net return on scheme assets comprises the expected return on the assets less interest on the scheme liabilities.

As required by the provisions of FRS 17, the difference between the assets and liabilities (including the long term liabilities to pay pension benefits) of the two defined benefit pension schemes, are recognised as an obligation of the Society. Accordingly, the surplus or deficit in the schemes (net of deferred tax) is included as either an asset or liability of the Society's balance sheet. In accordance with FRS 17, any surplus is restricted to the amount that can be recovered by way of reduced employer contributions or through refunds.

Actuarial gains and losses arising from the pension scheme valuations are included in the Statement of Total Recognised Gains and Losses. Other gains and losses are reflected in the Income and Expenditure Account.

Further details of the pension schemes are contained in note 23.

n) Operating Leases

Rentals payable under operating leases are charged to the technical and non-technical accounts on a straight-line basis inline with the accruals concept over the lease term.

o) Fixed Assets and Depreciation

Fixed assets are valued at cost less depreciation or provision for impairment. Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful lives based on cost, less estimated residual value. The principal rates used for this purpose are as follows:

Fixtures and fittings - 4 to 10 years

Motor vehicles - 4 to 5 years

p) Cash Flow Statement

The Society, being a mutual life assurance company, is exempt from the requirement under FRS 1 to produce a cash flow statement.

q) Unit-Linked Business

Assets held in respect of unit-linked business are fair valued on a daily basis at bid price, using market prices supplied by third party data providers. The prices derived from the valuation apply to the next working day after the valuation point.

The provision for unit-linked business is equal to the value of the assets to which the contracts are linked. This liability is included within the long-term business provision liabilities.

r) Present Value of In-force Business (PVIF)

On acquisition of a portfolio of insurance contracts, the net present value of the Society's interest in the expected cash flows of the in-force business is capitalised as an intangible asset. The relevant element is that part of PVIF which will be recognised as profit over the remaining lifetime of the in-force policies.

PVIF is amortised over the remaining anticipated lives of the related contracts which is generally between 5 and 15 years.

The carrying value of PVIF is assessed for possible impairment on an annual basis.

The test for impairment of the PVIF involves a comparison of the portfolio movements over the accounting period with the assumptions made in the original PVIF calculation. This includes analysis of the number and type of policies in-force, the nature and value of policy exits, the value of funds under management, the level of premium income and the costs of administering the business.

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. 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. 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 2014	2014		2013	
	Profit/(loss) for the year	Net Assets	Profit/(loss) for the year	Net Assets
	£'000	£'000	£'000	£'000
The Leeds District of the Ancient Order of Foresters' Investment Association	153	16,656	655	16,502
The Sheffield & Hallamshire District of the Ancient Order of Foresters Investment Association	4	162	(12)	199

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. Professional advisers have been appointed by the Association's Committee of Management to support the Committee through the dissolution process. As at 31 December 2014 the dissolution process had not been completed but it is expected to conclude in the near future.

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 31 December 2014 these deposits totalled £3,287,443 (2013: £3,085,000) as shown in note 13, Other Financial Investments.

3. Earned Premiums – Long Term Business

	2014 £'000	2013 £'000
Gross premiums written	14,235	12,759
Outward reinsurance premiums	(52)	(42)
Total earned premiums	14,183	12,717
Gross premiums written:		
Unit-linked Premium Income		
Investment and savings - regular premiums	1,330	-
Non-linked Premium Income		
Life cover business - regular premiums	3,449	2,943
Pensions business - regular premiums	77	63
Investment and savings - single premiums	3,519	3,278
Industrial business - regular premiums	104	117
Group business - regular premiums	5,756	6,358
	14,235	12,759
The above includes premiums in respect of participating business	6,657	5,981
Gross new business premiums (annualised)		
Life cover business – regular premiums	301	478
Group business – regular premiums	877	255
Investment and savings – single premiums	3,519	3,278
Investment and savings – regular premiums	167	-
	4,864	4,011

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.

The figures for the year ended 31 December 2014 include the following totals in respect of POIS from 26 September 2014:

Unit-linked Premium Income		
Investment and savings – Regular premiums	1,330	-
Non-linked Premium Income		
Life cover business - regular premiums	352	-

4. Investment Returns - Long Term Business

	2014 £'000	2013 £'000
a) Investment Income		
Income from property investments	543	647
Income from listed investments	2,847	2,015
Income from other investments	244	42
Losses/(gains) on the realisation of listed investments	551	(318)
	4,185	2,386
b) Unrealised gains/(losses) on Investments		
Unrealised gains/(losses) from property investments	854	(4)
Unrealised (losses)/gains from investments	4,691	2,417
Reversal of previously recognised unrealised gains	(59)	874
	5,486	3,287
c) Investment Expenses and Charges – Long Term Business		
Investment management expenses and charges	236	188

5. Claims Incurred – Long Term Business

	2014 £'000	2013 £'000
Gross claims payable	14,434	10,440
Cost of administration	352	354
	14,786	10,794

Included within 2014 gross claims payable is £3,093,000 of claims paid in respect of POIS business

6. Change In Technical Provisions – Long Term Business

	2014 £'000	2013 £'000
Gross change in long term business provision	2,899	2,169
Reinsurers share of long term business	1	-
Gross change in technical provision for linked liabilities	934	-
Bonuses	179	(242)
Pension annuity guarantee	602	(295)
	4,615	1,632

The gross change in the long term business provision in respect of POIS is a reduction of £1,276,000. The gross change in technical provision for linked liabilities is all in respect of POIS business.

Bonuses in relation to the POIS business total £121,000.

7. Net Operating Expenses

	2014 £'000	2013 £'000
a) Operating Expenses		
Long-term business	3,275	3,404
General business	139	137
Non-technical account	1,830	1,529
Court operating expenses	3,300	3,077
	8,544	8,147
Expenses increased in 2014 mainly due to one-off costs of acquiring POIS and redundancy costs.		
b) Long-Term Business		
Acquisition costs	1,403	1,705
Change in deferred acquisition costs	32	7
Administrative expenses	1,840	1,692
	3,275	3,404
Acquisition costs include commissions paid of £319,170 (2013: £402,000).		
c) Non-Technical Account and Court Operating Expenses		
Non-Technical Account expenses of £1,830,000 (2013: £1,529,000) consist of the allocation of central expenses which are not directly related to individual insurance funds or Courts. They represent the indirect costs of running the business of the Society and include strategy and project costs such as Solvency II.		
Court Operating expenses of £3,300,000 (2013: £3,077,000) include both the allocated expenses from central expenses and the directly borne expenses.		
Transfers between the Technical and Non-Technical Accounts reflect the allocation of monies received or paid in respect of insurance and other business activities, including any financial support provided to the insurance business.		
d) Net operating expenses includes:		
Fees payable to the Society's auditor for the audit of the annual accounts	110	95
Other services supplied pursuant to legislation – PRA Returns	30	30
Total audit fees	140	125
Audit related services	25	-
Other non-audit fees	11	8
Total fees paid to BDO LLP	176	133
Expenses in respect of the POIS acquisition	591	300
Depreciation on tangible fixed assets	74	69
Operating lease rental charges	13	14
e) Operating leases		
Annual commitments under operating leases for motor vehicles which expire between one and five years	13	14

8. Staff Costs

	2014 £'000	2013 £'000
a) Employees		
i) Staff Costs		
Wages and salaries	2,268	2,156
Social security costs	233	236
Other pension costs	170	176
	2,671	2,568
ii) Average number of persons employed:	number	number
Board and senior management	8	10
Administration and other	43	44
Area co-ordinators	12	13
	63	67
b) Board emoluments	£	£
Remuneration (including benefits in kind)	451,749	534,807
Compensation for loss of office/lieu of notice	140,045	-
Pension scheme contributions (money purchase)	25,760	36,971
Total	617,554	571,778

Full details of directors' emoluments are contained in the Directors Remuneration report on pages 30 and 31.

9. Taxation

There was no current tax charge in either 2014 or 2013 due to the losses the Society is carrying forward. At 31 December 2014, these losses stood at £5,457,000 (2013: £5,436,000) in respect of excess management expenses. As at 31 December 2014 there are realised capital losses carried forward of £1,423,000 (2013: £133,000) which can be relieved against unrealised gains of £559,000 (2013: £647,000). These losses are available to be used against future profits of the Society.

The excess management expenses of £5,457,000 take account of £882,000 transferred from Family Assurance Friendly Society Limited in connection with the acquisition of the POIS business on 26 September 2014, of which £405,000 was relieved against taxable profits arising from the acquired business during the period. Family also transferred £1,187,000 of realised capital losses and £321,000 of unrealised gains in connection with this transaction which are included in the figures reported above.

10. Non-Technical Investment Returns

	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
a) Investment Income				
Income from property investments	2,585	2,393	3,162	2,936
Income from listed investments	1,282	1,080	1,089	892
Income from other investments	89	207	371	329
Gains/(losses) on the realisation of listed investments	720	720	167	167
Gains/(losses) on the realisation of property investments	3	(3)	(2,825)	(2,825)
Income from property investments – Courts	118	118	134	134
Gains/(losses) on realisation of investments – Courts	(43)	(43)	144	144
Income from mainland Court investments	309	588	291	529
Other income – Courts	537	537	551	551
	5,600	5,597	3,084	2,857

	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
b) Unrealised (losses)/gains on Investments				
Unrealised gains/(losses) on investments	4,476	4,141	987	366
Reversal of previously recognised unrealised (gains)/losses on listed investments	(482)	(482)	14	14
Reversal of previously recognised unrealised (gains)/losses on investments	549	549	3,100	3,100
	4,543	4,208	4,101	3,480

	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
c) Unrealised (losses)/gains on Court Investments				
Unrealised gains on court investments	301	301	259	259

	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
d) Investment Management Expenses and Charges				
Investment expenses and charges	358	358	381	381

11. Intangible Assets

	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
Cost	PVIF		PVIF	
At 1 January	-	-	-	-
Additions	1,400	1,400	-	-
At 31 December	1,400	1,400	-	-
Amortisation				
At 1 January	-	-	-	-
Charged during the period	(70)	(70)	-	-
At 31 December	1,330	1,330	-	-
Net Book Value				
31 December 2014	1,330	1,330	-	-
31 December 2013	-	-	-	-

On acquisition of the POIS portfolio of insurance contracts on 26 September 2014, the net present value of the Society's interest in the expected cash flows of the in-force business was capitalised as an intangible asset as shown above as the Present Value of In-force Business (PVIF).

PVIF is amortised over the remaining anticipated lives of the related contracts which is between 5 and 15 years.



12. Land and Buildings

Group	Freehold £'000	Long Leasehold £'000	Occupied by Society £'000	Court Properties £'000	Total £'000
Market Value					
At 1 January 2014	39,475	2,420	1,200	12,712	55,807
Additions	-	-	-	227	227
Disposals	(806)	-	-	(2,032)	(2,838)
Revaluation	5,231	(260)	60	393	5,424
At 31 December 2014	43,900	2,160	1,260	11,300	58,620
Cost					
At 1 January 2014	46,513	5,278	1,714	4,603	58,108
Additions	-	-	-	227	227
Disposals	(1,188)	-	-	(700)	(1,888)
At 31 December 2014	45,325	5,278	1,714	4,130	56,447

Society	Freehold £'000	Long Leasehold £'000	Occupied by Society £'000	Court Properties £'000	Total £'000
Market Value					
At 1 January 2014	39,475	2,420	1,200	5,650	48,745
Additions	-	-	-	-	-
Disposals	(806)	-	-	(1,711)	(2,517)
Revaluation	5,231	(260)	60	255	5,286
At 31 December 2014	43,900	2,160	1,260	4,194	51,514
Cost					
At 1 January 2014	46,513	5,278	1,714	1,250	54,755
Additions	-	-	-	-	-
Disposals	(1,188)	-	-	(379)	(1,567)
At 31 December 2014	45,325	5,278	1,714	871	53,188

All investment properties, except the Court and Investment Association properties, were valued by Aston Rose Chartered Surveyors as at 31 December 2014 in accordance with the Royal Institution of Chartered Surveyors' guidelines on the basis of Market Value, taking into account the remaining periods of leases granted to tenants. The property occupied by the Society, Foresters House and the property occupied in Tunstall were valued at the same date by Aston Rose Chartered Surveyors 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 different professional independent valuers on a Market Value basis as at 31 December 2014, taking into account the remaining periods of leases granted to tenants. Property costs have been restated as at 1 January 2003 at the value at the Society's Incorporation.

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.

13. Other Financial Investments

At Market Value	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
Shares and other variable yield securities and units in unit trusts	48,829	42,702	47,703	42,084
Debt securities and other fixed income securities	86,670	85,881	51,924	51,185
Investments listed on UK recognised investment exchange	135,499	128,583	99,627	93,269
Loans secured by mortgages	253	215	277	236
Other investments	161	161	59	59
Deposits in Investment Associations	3,287	11,772	3,085	11,098
Court held other investments-mainland	265	14	262	12
Court held other investments-Guernsey	873	873	629	629
	140,338	141,618	103,939	105,303

At Cost	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
Shares and other variable yield securities and units in unit trusts	38,640	33,525	36,930	32,241
Debt securities and other fixed income securities	77,381	76,692	48,270	47,581
Investments listed on UK recognised investment exchange	116,021	110,217	85,200	79,822
Loans secured by mortgages	253	215	277	236
Other investments	161	161	59	59
Deposits in Investment Associations	3,287	11,772	3,085	11,098
Court held other investments-mainland	265	14	262	12
Court held other investments-Guernsey	821	821	430	430
	120,808	123,200	89,313	91,657

Listed investments were valued at their bid value at 31 December 2014. 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. The figures for the year ended 31 December 2014 include new assets held to cover linked liabilities following the acquisition of POIS on 26 September 2014 (see note 25 for further details). The market value of other investment figures for the year ended 31 December 2014 include the following totals in respect of POIS:

	2014 Group £'000	2014 Society £'000
Analysis of assets held to cover linked liabilities		
Debt securities and other fixed income securities	2,635	2,635
Investments listed on UK recognised investment exchange	30,200	30,200
Other investments	34	34
	32,869	32,869

14. Other Debtors

	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
Trade debtors	867	698	840	840
Other debtors including taxation recoverable	1,245	1,254	1,400	1,210
	2,112	1,952	2,240	2,050

All debtors are due within one year.

15. Tangible Fixed Assets (Group and Society)

	Motor Vehicles £'000	Fixtures & Fittings £'000	Total £'000
Cost			
As at 1 January 2014	41	1,744	1,785
Additions	-	166	166
Disposals	(41)	-	(41)
As at 31 December 2014	-	1,910	1,910
Depreciation			
As at January 2014	25	1,645	1,670
Charge for the year	5	69	74
Disposals	(30)	-	(30)
As at 31 December 2014	-	1,714	1,714
Net Book Value			
31 December 2014	-	196	196
31 December 2013	16	99	115

16. Deferred Acquisition Costs (Group and Society)

	2014 £'000	2013 £'000
Deferred acquisition costs	415	340

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 £415,000 (2013: £340,000) on the balance sheet represents the Zillmer asset as at 31 December 2014. This figure has been added back so as to gross up the long term business provision and the deferred acquisition costs.

17. Discretionary Funds

	2014		2013	
	Group £'000	Society £'000	Group £'000	Society £'000
At 1 January	2,838	(6,286)	1,342	(7,287)
Transfer from/(to) non-technical account	3,780	3,511	1,496	1,001
At 31 December	6,618	(2,775)	2,838	(6,286)
These funds are comprised as follows:				
Court Reserve Fund	5,866	(3,527)	2,002	(7,122)
Convalescent Home Benefit Fund	42	42	63	63
Foresters Child Support Fund	401	401	400	400
Foresters Lifeboat Fund	3	3	2	2
150th Anniversary Educational Awards Fund	213	213	234	234
Foresters Support Fund	13	13	36	36
Police Benevolent Fund	29	29	41	41
Subsidiary Benefit Funds	51	51	60	60
At 31 December	6,618	(2,775)	2,838	(6,286)

The Discretionary funds are those funds with specific purposes as determined by the Society. In the Society's balance sheet the Court Reserve Fund (CRF) has a negative balance mainly due to reductions in property valuations but, on consolidation, is offset by the surplus in the Leeds Investment Association.

18. Court Funds

Group	Mainland Courts £'000	Guernsey Court £'000	Total £'000
At 1 January 2014	73,155	1,020	74,175
Transfer from non-technical account	730	54	784
Transfer to-technical account	-	(500)	(500)
At 31 December 2014	73,885	574	74,459

Society	Mainland Courts £'000	Guernsey Court £'000	Total £'000
At 1 January 2014	65,661	1,020	66,681
Transfer from non-technical account	842	54	896
Transfer to-technical account	-	(500)	(500)
At 31 December 2014	66,503	574	67,077

19. Fund For Future Appropriations (Group and Society)

	2014 £'000	2013 £'000
At 1 January	31,747	30,255
Transfer from/(to) technical account	1,427	3,132
Transfer from/(to) non-technical account	(1,038)	(1,569)
Pension schemes actuarial gain/(loss)	(88)	(71)
POIS FFA at 26 September 2014	10,422	-
At 31 December	42,470	31,747

The Fund for Future Appropriations (FFA) stands at £42.5m (2013: £31.7m) and represents the estimated surplus in the funds that has not been allocated and is available to meet regulatory and other solvency requirements. A breakdown of the FFA by fund is shown in note 21.

20. Technical Provisions (Group and Society)

	Long Term Business Provision £'000	Technical Provision for Linked Liabilities £'000	General Business Provision £'000	Outstanding Claims £'000	Total £'000
At 1 January 2014	69,645	-	2,556	1,287	73,488
Acquired in the period (i)	26,327	31,935	-	-	58,262
Premiums received (ii)	10,181	1,302	-	-	11,483
Liabilities paid on exits	(11,849)	(1,009)	-	-	(12,858)
Interest (iii)	1,208	-	-	-	1,208
New business	1,850	28	-	-	1,878
Assumption changes					
- Valuation interest rate	2,450	-	-	-	2,450
- Mortality/Morbidity	(478)	-	-	-	(478)
- Expenses	(785)	-	-	-	(785)
Other	1,106	613	586	-	2,305
Change in provision for outstanding claims	-	-	-	1,016	1,016
Reinsurers' share of the change in technical provisions	(1)	-	-	-	(1)
	99,654	32,869	3,142	2,303	137,968
Amounts ceded to reinsurers	404	-	-	-	404
At 31 December 2014	100,058	32,869	3,142	2,303	138,372

The Long Term Business Provision includes current bonuses of £727,000 (2013: £548,000) and pension annuity guarantees of £1,587,000 (2013: £985,000).

- i. This refers to the POIS business being transferred in on the 26 September 2014 and the analysis is based on the period from the date of transfer to 31 December 2014 (see note 25).
- ii. Premiums received are calculated as net premiums for business calculated on a net premium reserving basis and gross premiums for business calculated on gross premium reserving basis.
- iii. Interest expected on a reserving basis.

(a) Funds

The Long Term Business Provision consists of the actuarially calculated liabilities of the following funds:

- Order Insurance Fund (OIF) - an open with-profits fund
- Non-Profit Fund (NPF) – an open non-profit fund mainly selling unit-linked business
- Group Business Fund (GBF) - an open non-profit fund selling Group and PHI business
- Group Capital Fund (GCF) – a fund that supports the capital requirements of the Society
- POIS Fund (POIS) – a closed with-profits fund
- Tunstall Fund (TF) – a closed with-profits fund
- Sick and Death Fund (S&D) – a closed non-profit fund
- Pure Endowment Fund (PEF) – a closed with-profits fund
- Leek Fund (LF) – a closed with-profits fund

The General Business provision is held to meet future payments in respect of medical and medical services insurance protection business conducted by the Court in Guernsey. This is classified as general overseas business and is shown separately in the Technical Account.

The provision for outstanding claims consists of all claims notified to the Society by 31 December 2014 but not yet paid.

(b) Types of insurance contracts

The main types of insurance contracts that the Society currently has in force are savings, life assurance and income protection contracts.

The Order Insurance Fund is open to with-profits savings and life assurance business and the main products currently offered are as follows:

Product name	Description
Guaranteed Savings Plan	A long-term regular savings plan with a guaranteed cash sum at the end of the chosen term and the potential for bonuses to increase the policy value.
Tax Exempt Savings Plan	A long-term regular tax exempt savings plan with a guaranteed tax-free cash sum at the end of the chosen term and the potential for bonuses to increase the policy value.
With-Profit (Stocks & Shares) ISA	A flexible medium to long-term tax exempt savings plan which can accept regular investments or one-off lump sum investments up to the maximum annual ISA limit. There is the potential for bonuses to increase the policy value.
Bond	A single lump sum investment with the potential for bonuses to be added over the medium to long-term.
50+ Life Cover	A with-profit whole of life insurance policy for the over 50s, providing a guaranteed tax-free cash sum on death which has the potential to grow with bonuses over time. The monthly premiums are fixed at outset and guaranteed not to change.

The Non-Profit Fund is open to unit-linked savings business and the products currently offered are as follows:

Product name	Description
Tax Exempt Savings Plan	A long-term regular tax exempt savings plan of which the premium is used to allocate units in the POIS Flexible Growth Fund. The fund invests in a range of investments such as gilts, corporate bonds and equities, both UK and overseas, for the potential of long term growth.
Savings and Investment Plan	A long-term regular savings plan of which the premium is used to allocate units in the POIS Savings Fund. The fund invests mainly in stocks and shares, both UK and overseas, for a potential for growth over the longer term.

20. Technical Provisions (Group and Society – continued)

The Group Business Fund is open to non-profit business for both individuals and employers and the main products are as follows:

Product name	Description
Group Life & Sickness Schemes	These are Group schemes set up by employers to provide life assurance, critical illness and/or income protection benefits for employees. The employees have the option of joining the scheme and paying the appropriate premiums for the selected benefits. A range of different benefit types is available and these are tailored to the individual scheme.

No new business (other than increments to existing policies) is written in the other funds of the Society.

(c) Method used for calculating technical provisions

The liability for insurance contracts is calculated on the basis of recognised actuarial methods having due regard to actuarial principles and best practice. The methodology takes into account risks and uncertainties of the business written.

Calculations are generally made on an individual policy basis, although for Group schemes the reserves are set at a portfolio level allowing for the mix of different schemes (by size and benefit type).

For the with-profits business, the liabilities are calculated on the regulatory basis as the funds size is significantly below the £500m level the PRA has determined should be applied for calculating liabilities under the realistic reporting methodology.

The liabilities for the conventional with-profit business are calculated using a net premium valuation basis, for accumulating With-profit business a Bonus Reserve method is used.

The liabilities for the individual sickness policies are calculated using the inception annuity method on a gross premium basis, which values the expected future claim payments from the valuation date to the end of each policy term.

The liabilities for the Group business are calculated using historic Society experience and consist of:

- IBNR (Incurred But Not Reported) reserves to allow for claims which have already occurred but have not been notified to us;
- A reserve for unexpired risk to allow for the deferred period on sick pay and disability claims; and
- A reserve for all periodic claims already in payment.

The liabilities for the General business written in Guernsey are calculated in accordance with local regulatory requirements made up of the unearned premium reserve, an IBNR reserve, an unexpired risk reserve plus an appropriate margin.

The liabilities for non-profit business in the POIS and NPF are calculated using a gross premium basis.

For unit-linked business, the liabilities are made up of the unit liability together with a non-linked element. The liability in respect of the linked business is at least as much as the amount of surrender value.

The unit-linked liabilities with provision for guarantees are valued using closed-form solutions (Black-Scholes). All other liabilities that include provisions for options and guarantees are valued on a deterministic basis as if the guarantee is taken up.

(d) Assumptions used for calculating technical provisions

Economic assumptions are the same as those used for reporting to the PRA under the regulatory peak. The principal assumption is the valuation interest rate which has generally increased in line with the average market value yield on the backing assets.

The valuation interest rates used to calculate the main classes of policy liabilities are as follows:

	31 Dec 2014 %	31 Dec 2013 %
OIF With-profits contracts (taxable)	1.50	2.00
OIF With-profits contracts (non-taxable)	1.75	2.25
PEF With-profits and Non-profit contracts	1.80	2.00
S&D Non-profit contracts	1.50	2.25
Tunstall With-profits (non-taxable) contracts – Industrial branch	1.50	2.50
Tunstall With-profits (non-taxable) contracts – Ordinary branch	1.75	2.75
Tunstall With-profits (taxable) contracts	1.00	2.00
Leek Industrial and Ordinary branch contracts	1.15	1.80
POIS With-profits contracts (taxable)	0.50	-
POIS With-profits contracts (non-taxable)	0.75	-
NPF Non-profit contracts (taxable)	1.25	-
NPF Non-profit contracts (non-taxable)	1.50	-

Non-economic assumptions are based on standard tables adjusted where necessary to take into account the Society's own experience. Where appropriate tables are not available industry experience is used on a conservative basis to calculate provisions. The principal assumptions are mortality, morbidity and persistency although the relative sensitivity will depend on the class of long-term business.

Experience investigations for mortality, morbidity and persistency are performed on a regular basis. Where industry analysis indicate that changes in expected future mortality, morbidity or other specific circumstances mean that claim costs are likely to rise in future, then this is taken into account in the valuation. No benefit is taken where industry analysis indicates that future trends are likely to reduce claim costs in future. Assumptions are generally intended to be a prudent estimate of future experience.

The key insurance assumptions used to calculate the liabilities are as follows:

		Mortality tables used	
		31 Dec 2014	31 Dec 2013
OIF With-profits	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)
NPF unit-linked contracts	Males & Females	52% AMC00+52% AFC00	-
PEF With-profits	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)
Tunstall Industrial business	Males & Females	ELTM 14	ELTM 14
Tunstall Ordinary business	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)
Leek Industrial business	Males & Females	ELT14M	ELT14M
Leek Ordinary business	Males & Females	AM80	AM80
S&D 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)
POIS/NPF all contracts except whole life non-profit contracts	Male Females	100% AM80 100% AF80	-
POIS/NPF whole life non-profit contracts	Male Females	150% AMC00 150% AFC00	-

The main change to the valuation assumptions has been the interest rate change which has resulted in higher policy liabilities by approximately £2.45m (2013: Lower policy liabilities by approximately £1.2m). Other valuation assumption changes have not been significant.

21. Capital Statement (Group and Society)

The Capital Statement in respect of the Society's Life insurance business is set out below. The statement shows the analysis of the available capital resources calculated on a regulatory basis, the total regulatory capital requirements and the overall surplus capital over regulatory requirements. In addition the statement provides an analysis of policyholders' liabilities.

At 31 December 2014	With-profits funds £'000	POIS with- profit fund £'000	POIS non- profit fund £'000	Non-participating funds £'000	Group Capital Fund £'000	Total £'000
Qualifying capital						
Fund for Future Appropriations (FFA)	13,237	11,091	158	6,374	11,610	42,470
Regulatory adjustments – assets	-	(404)	-	-	(2,249)	(2,653)
Regulatory adjustments – liabilities	-	404	-	-	(1,707)	(1,303)
Total available capital resources	13,237	11,091	158	6,374	7,654	38,514
Capital requirement						(11,526)
Overall surplus capital						26,988
Analysis of policyholders' liabilities						
With-profits	58,455	24,737	-	-	-	83,192
Non-participating	-	-	314	6,775	9,374	16,463
Unit-linked	-	-	32,869	-	-	32,869
Claims outstanding	802	554	-	763	184	2,303
	59,257	25,291	33,183	7,538	9,558	134,827

As explained in note 25, the Society acquired the POIS book of business on 26 September 2014. This explains the main changes to the Capital Statement at 31 December 2014

At 31 December 2013	With-profits funds £'000	Non-participating funds £'000	Group Capital Fund £'000	Total £'000
Qualifying capital				
Fund for Future Appropriations (FFA)	10,253	4,868	16,626	31,747
Regulatory adjustments – assets	-	-	(444)	(444)
Regulatory adjustments – liabilities	-	-	(2,543)	(2,543)
Total available capital resources	10,253	4,868	13,640	28,760
Capital requirement				(9,441)
Overall surplus capital				19,319
Analysis of policyholders' liabilities				
With-profits	54,590	-	-	54,590
Non participating	-	8,155	6,900	15,055
Claims outstanding	782	336	169	1,287
	55,372	8,491	7,069	70,932

(a) Summary

As shown in the above table, the total available capital resources of the Society's insurance operations amount to £38.5m (2013: £28.8m), its regulatory capital requirements amount to £11.5m (2013: £9.4m) resulting in a surplus of available capital over regulatory capital of £27.0m (2013: £19.3m).

Apart from the capital employed by the Society's insurance operations, the Society also has capital in funds known as Court Funds and Discretionary Benefit Funds. These funds are not available to support the long term insurance business activities of the Society.

It is the Board's intention to ensure that there is adequate capital to exceed the regulatory requirements of the Society's insurance business, to meet any net new business strain and to meet any additional capital requirements of the Individual Capital Assessment.

(b) Basis for calculating available capital resources

The available capital has been determined in accordance with PRA 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.

Adjustments have been made to restate all assets and liabilities onto a regulatory basis and allowance has been made in the technical provisions for Guarantees and Options which are features of life assurance that confer potentially valuable benefits to policyholders. The Society maintains two types of guarantees in the with-profits funds: Maturity Guarantees and Guaranteed Annuity Options (GAOs). Maturity Guarantees are in respect of conventional with-profits business and represent the sum assured and reversionary bonuses declared to date. GAO's apply to some personal pensions on retirement but are not considered material and are largely matched with suitable assets with no material risk to market or interest rate changes.

(c) Basis of calculating capital requirements

The Society must hold sufficient capital to meet its regulatory requirements.

The total insurance regulatory requirements of the Society amount to £11.5m (2013: £9.4m) made up of the Long Term Insurance Capital Requirement (LTICR) of £8.1m (2013: £5.8m) and the Resilience Capital Requirements (RCR) of £3.4m (2013: £3.6m). The RCR is the additional capital required when a prescribed set of stress tests as set by the PRA 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 2014:

- a fall in property prices of 20% (2013: 20%),
- a fall in equity of 10% (2013: 10%), and
- the more onerous of an increase or decrease of 0.44% (2013: 0.69%) on fixed interest yields.

(d) Restrictions on available capital resources

The Society is required to hold sufficient capital to meet the PRA'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.

In general, as the Society is a mutual, all surplus belongs to members. As a result of the exercise to clarify the fund structures that took effect from 1 January 2012, each insurance fund has its own capital. The assets for each of the with-profit funds have been ring-fenced which means that the associated assets are for the benefit of the with-profit policyholders of the various funds and cannot be used to support other areas of the business except in exceptional circumstances.

The Group Capital Fund constituent of the FFA is available to support all other funds in respect of regulatory and other commitments as the Board shall decide after taking advice from the Actuarial Function Holder. The reduction from £16.6m in 2013 to £11.6m in 2014 is primarily due to increases in the technical provisions for guaranteed annuity options and the new business closure reserve, together with the expenses borne by the Group Capital Fund, from new business, non-insurance and project costs.

Full details of these restrictions are publicly available within the Society's Principles and Practices of Financial Management.

(e) Movement in available capital

	2014 £'000	2013 £'000
Total available capital at 1 January	28,760	28,161
Change in long-term business assets	72,341	4,667
Change in non-insurance liabilities	(208)	(2,011)
Change in insurance liabilities	(62,379)	(2,057)
Total available capital at 31 December	38,514	28,760

The available capital 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 investment returns, mortality, expenses and policy lapse rates. The mix of assets is kept under review taking into account the level of capital required and the anticipated returns for members.

22. Provisions for Other Risks and Charges (Group & Society)

	2014 £'000	2013 £'000
Deferred Taxation		
Movements in provision		
At 1 January	-	-
Charge in technical account	-	-
At 31 December	-	-
Asset not provided for		
Realised and unrealised (losses)/gains on investments	(109)	67
Acquisition costs	(231)	(170)
Trading losses	(860)	(853)
Deferred tax asset not recognised in the balance sheet	(1,200)	(956)

In accordance with Financial Reporting Standard 19 Deferred Taxation, the Society is required to disclose that it has an unbooked deferred tax asset of £1,200,000 (2013: £956,000). No deferred tax asset has been booked, due to the uncertainty over when the losses will be utilised.

23. Pension Schemes

(a) Defined contribution scheme

The Society operates a defined contribution group stakeholder pension scheme: The Ancient Order of Foresters Friendly Society Group Stakeholder Pension Plan (FGSPP) for all employees joining the Society after 2003. The majority of current staff are members of the scheme and contribute to it. The Society contributes 10% of salaries of all contributing staff into the scheme. The contributions made by the Society amounted to £143,434 (2013: £128,583). The funds of the scheme are administered by a third party and are independent of the Society's finances. The Society has no further liability in respect of this defined contribution scheme other than future contractual contributions.

(b) Defined benefit schemes

The Society operates two defined benefit schemes: The Ancient Order of Foresters 1978 Retirement & Death Benefit Scheme (the AOF scheme) and The Tunstall and District Assurance Collecting Society Staff Superannuation Fund Scheme (the Tunstall scheme). The funds of the schemes 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 adviser.

Both defined benefit schemes are closed to new entrants. The AOF scheme has 3 (2013: 3) active members, 27 (2013: 30) deferred members and 49 (2013: 46) pensioners (including 32 pensioners where an annuity has been purchased). The Tunstall scheme has 2 (2013: 2) active members, 11 (2013: 12) deferred members and 14 (2013: 14) pensioners. As the schemes are closed to new entrants, the age profile of the active members will tend to rise and under the projected unit method the current service cost will tend to increase with time.

The employer contributions amount to 0% (2013: 21.1%) in respect of the AOF scheme and 22.1% (2013: 22.1%) in respect of the Tunstall scheme. In total, employer contributions to the schemes amounted to £16,000 (2013: £35,000) and other costs amounted to £75,248 (2013: £80,000).

Details in respect of the schemes are provided below in accordance with Financial Reporting Standard 17 (FRS 17). A full triennial valuation of the AOF scheme was carried out at 6 April 2013 and of the Tunstall scheme at 31 December 2013. Following the triennial valuation of the AOF Scheme at 6 April 2013, the Trustees have agreed a proposal that an employer's contribution holiday will be introduced in 2014 and applied until the next triennial valuation. There has therefore been no employer contributions to the AOF Scheme during the year ended 31 December 2014 (2013: £19,000 of employer contributions were made). A triennial valuation of the Tunstall Scheme as at 31 December 2013 has been undertaken in 2014.

The actuarial valuations of both schemes have been 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 have 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.

Both schemes are in surplus.

(c) Assumptions for defined benefit schemes

The following table set out the key FRS 17 assumptions used for the two schemes:

	31 December		
	2014 %	2013 %	2012 %
Discount rate	3.4	4.4	4.2
Retail price inflation	2.9	3.3	2.7
Consumer price inflation	2.0	2.6	1.9
Pension increases	0.0-3.0	0.0-3.2	0.0-3.0
Salary growth	3.0	3.6	3.0
Life expectancy of a current 65 year old	21-23 yrs	21-23 yrs	22-24 yrs

(d) AOF Scheme

The assets in the AOF scheme and expected rate of return were as follows:

	31 December					
	2014		2013		2012	
	Expected return %	Fair value £'000	Expected return %	Fair value £'000	Expected return %	Fair value £'000
Equities	*	1,844	7.4	1,909	6.7	1,618
Bonds	*	1,928	3.8	1,724	3.3	1,719
Annuity policies	*	1,648	4.4	1,631	4.2	1,845
Other	*	580	5.2	465	4.4	444
Total	3.4*	6,000	5.3	5,729		5,626
Balance Sheet						
Total fair value of assets		6,000		5,729		5,626
Present value of liabilities		(5,173)		(4,843)		(5,021)
Surplus in scheme		827		886		605
Asset not recognised		(561)		(649)		(335)
		266		237		270
Deferred tax		(53)		(47)		(62)
Net pension asset		213		190		208

The net pension asset represents the amount of surplus available to the Society by way of possible reduced future contributions.

* The profit and loss charge for the period to 31 December 2014 takes into account the expected return on assets, net of expenses, set by the Directors at the start of the financial period. Taking into account the underlying distribution of the assets at that time, this was 5.3% per annum as shown above. An assumption for the expected return on assets will not be required for the period to 31 December 2015 once the Society has adopted the new UK financial reporting framework, FRS102. Instead the finance element of the profit and loss charge will be based on the discount rate at 31 December 2014, which as noted above, has been set at 3.4%.

	Year to 31 December	
	2014 £'000	2013 £'000
Analysis of change in assets:		
Assets in scheme at 1 January	5,729	5,626
Expected return on scheme assets	297	259
Actuarial gain	229	56
Employer contributions	-	19
Employee contributions	5	5
Benefits paid	(260)	(236)
Assets in scheme at 31 December	6,000	5,729
Actual return on assets	526	315

23. Pension Schemes (Continued)

	Year to 31 December	
	2014 £'000	2013 £'000
Analysis of change in liabilities:		
Liabilities in scheme at 1 January	4,843	5,021
Current service cost	58	59
Interest cost on scheme liabilities	209	207
Actuarial loss / (gain)	318	(213)
Employee contributions	5	5
Benefits paid	(260)	(236)
Liabilities in scheme at 31 December	5,173	4,843

The actuarial loss in 2014 is made up of a £338,000 loss (2013: gain of £95,000) arising from the change in interest rate assumption and £20,000 (2013: £118,000) of experience gains.

	Year to 31 December	
	2014 £'000	2013 £'000
Analysis of the amount charged to operating profit:		
Current service cost and total operating charge	58	59

	Year to 31 December	
	2014 £'000	2013 £'000
Analysis of the amount credited to other finance income:		
Expected return on pension scheme assets	297	259
Interest on pension scheme liabilities	(209)	(207)
Net return	88	52

	Year to 31 December	
	2014 £'000	2013 £'000
Amount recognised in statement of total recognised gain and losses (STRGL):		
Actual return less expected return on scheme assets	229	56
Experience gains/(losses) arising on scheme liabilities	20	118
Changes in assumptions underlying the present value of scheme liabilities	(338)	95
Restriction on surplus	89	(314)
Actuarial gains/(losses) recognised in the STRGL	-	(45)
Cumulative actuarial gains/(losses) recognised in STRGL	(22)	(22)

	31 December				
History of experience gains and losses:	2014	2013	2012	2011	2010
Actual less expected return – £'000's	229	56	218	758	(388)
as a percentage of assets	4%	1%	4%	14%	(10%)
Experience gain (losses) on the liabilities – £'000's	20	118	(24)	(96)	(166)
as a percentage of liabilities	0%	2%	(0%)	(2%)	(4%)
Total amount recognised in STRGL – £'000's	-	(45)	(49)	274	(85)
as a percentage of liabilities	-	(1%)	(1%)	6%	(2%)

(e) Tunstall Scheme

The assets in the Tunstall scheme and expected rate of return were as follows:

	31 December					
	2014		2013		2012	
	Expected return %	Fair value £'000	Expected return %	Fair value £'000	Expected return %	Fair value £'000
Equities	*	1,064	7.4	981	6.7	902
Bonds	*	1,091	3.4	955	2.7	918
Other	*	16	2.1	30	1.7	14
Total	3.4*	2,171	5.4	1,966	4.7	1,834
Balance Sheet						
Total fair value of assets		2,171		1,966		1,834
Present value of scheme liabilities		(2,055)		(1,673)		(1,593)
Surplus in scheme		116		293		241
Asset not recognised		-		(120)		(62)
		116		173		179
Deferred tax		(23)		(35)		(41)
Net pension asset		93		138		138

The net pension asset represents the amount of surplus available to the Society by way of possible reduced future contributions.

* The profit and loss charge for the period to 31 December 2014 takes into account the expected return on assets, net of expenses, set by the Directors at the start of the financial period. Taking into account the underlying distribution of the assets at that time, this was 5.4% per annum as shown above. An assumption for the expected return on assets will not be required for the period to 31 December 2015 once the Society has adopted the new UK financial reporting framework, FRS102. Instead the finance element of the profit and loss charge will be based on the discount rate at 31 December 2014, which as noted above, has been set at 3.4%.

23. Pension Schemes (Continued)

	Year to 31 December	
	2014 £'000	2013 £'000
Analysis of change in assets:		
Assets in scheme at 1 January	1,966	1,834
Expected return on scheme assets	105	86
Actuarial gain	154	70
Employer contributions	16	16
Benefits paid	(70)	(40)
Assets in scheme at 31 December	2,171	1,966
Actual return on assets	259	156

	Year to 31 December	
	2014 £'000	2013 £'000
Analysis of change in liabilities:		
Liabilities in scheme at 1 January	1,673	1,593
Current service cost	18	16
Interest cost on scheme liabilities	72	66
Actuarial loss	362	38
Benefits paid	(70)	(40)
Liabilities in scheme at 31 December	2,055	1,673

	Year to 31 December	
	2014 £'000	2013 £'000
Analysis of the amount charged to operating profit:		
Current service cost and total operating charge	18	16

	Year to 31 December	
	2014 £'000	2013 £'000
Analysis of the amount credited to other finance income:		
Expected return on pension scheme assets	105	86
Interest on pension scheme liabilities	(72)	(66)
Net return	33	20

	Year to 31 December	
	2014 £'000	2013 £'000
Amount recognised in statement of total recognised gain and losses (STRGL):		
Actual return less expected return on scheme assets	154	70
Experience gains/(losses) arising on scheme liabilities	(175)	(1)
Changes in assumptions underlying the present value of scheme liabilities	(187)	(37)
Restriction on surplus	120	(58)
Actuarial gains/(losses) recognised in the STRGL	(88)	(26)
Cumulative actuarial gains/(losses) recognised in STRGL	(57)	31

	31 December				
History of experience gains and losses:	2014	2013	2012	2011	2010
Actual less expected return – £'000's	154	70	39	53	81
as a percentage of assets	7%	4%	2%	3%	5%
Experience gain (losses) on the liabilities – £'000's	(175)	(1)	0	(1)	61
as a percentage of liabilities	(9%)	(0%)	0%	(0%)	5%
Total amount recognised in STRGL – £'000's	(88)	(26)	8	(157)	125
as a percentage of liabilities	(4%)	(2%)	1%	(10%)	9%

24. 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 £10,709 (2013: £10,280) in respect of the Society's products. The Court in Guernsey had the following transactions with Orion Insurance Management Limited, an insurance management company that is owned by members of the Court Committee of Management:

	2014 £'000	2013 £'000
Management fee to Orion Insurance Management Limited	137	135
Rent to Orion Insurance Management Limited	20	20

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.



25. Acquisitions

Acquisition of Post Office Insurance Society ('POIS') book of business

On 26 September 2014 the Society acquired the entire Post Office Insurance Society (POIS) book of business from Family Assurance Friendly Society Limited (Family). The acquisition was by way of a transfer of engagements in accordance with section 86 and Schedule 15 of the Friendly Societies Act 1992. Although the disclosures in the Annual Report & Accounts are in line with FR6 Acquisitions and Mergers, this is not an acquisition in the technical accounting sense as it is not the acquisition of a company.

Under the Instrument of Transfer, the POIS business was transferred comprising with-profits, unit-linked and non-profit policies, the Post Office Information and Management System (PIMS) and investment/other assets relating to POIS.

The Society acquired 29,000 new policies consisting of 21,000 members to its books. The policies transferred were a mixture of those in the closed with-profit fund (13,000 policies), the unit-linked funds (15,000 policies) and standalone non-profit policies (1,000 policies). The funds acquired were the POIS With Profit Fund (£36.6m), the POIS Non-Profit Fund (£0.5m), POIS Money Bond Fund (£2.2m), POIS Savings Bond Fund (£21.0m) and the POIS Flexible Growth Fund (£8.7m).

The purchase consideration amounted to £1.4m which was paid in cash and financed from existing cash resources. In line with the requirements of the ABI Statement of Recommended Practice on Accounting for Insurance Business (ABI SORP), this amount has been recognised as the Present Value of Acquired In-Force Business (PVIF) in the balance sheet as an intangible asset. Costs in respect of the acquisition have been written off as incurred. The PVIF represents the estimated net present value of the profit to be generated over the remaining lifetime of the in-force policies

Cash and cash equivalents of £12,302,000 were acquired on the transfer, leading to a net cash inflow on acquisition of £10,902,000.

Expenses relating to the acquisition of £591,000 (2013: £300,000) have been immediately expensed to the income and expenditure account. Further details are provided in note 7.

As outlined above, the POIS acquisition was completed as a Transfer of Engagements and has been integrated into the Society's existing operations. The material results of the POIS funds for the period from 26 September 2014 to 31 December 2014 are as follows:

Gross Written Premiums	£1,672,000
Investment Income	£815,000
Claims Paid	£3,093,000

There were no acquisitions in the year ended 31 December 2013.

The fair value of net assets of acquired with POIS has been assessed and no adjustments from book value have been deemed necessary. A summary of the net assets acquired is as follows:

	Fair value £'000
Investments	
Investments - Unit linked	20,814
Investments - With-profits	34,907
Current assets	
Debtors	967
Cash at bank and in hand	12,302
Total assets	68,990
Fund for future appropriations	10,422
Technical provisions	26,327
Unit-linked liabilities	31,935
Outstanding claims	305
Other creditors	1
Total liabilities	68,990

26. Creditor Payment Policy

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

27. With-Profits Actuary and Actuarial Function Holder

Mr Trevor Fannin of Towers Watson LLP held the Actuarial Function Holder and With-Profits Actuary roles throughout 2014. In accordance with section 77 of the Friendly Societies Act 1992 the Society has requested Mr Fannin to provide certain particulars and they have confirmed the following information:

- That neither Mr Fannin or his family were members of the Society throughout the year;
- Neither Mr Fannin, or his family, have any pecuniary interests in the Society; and
- The aggregate amount fees paid to Towers Watson Limited in 2014 were £284,000 (2013: £256,000) exclusive of Value Added Tax.

28. Approval of financial statements

These financial statements were approved by the Board on 26 March 2015.



Abbreviations

ABI	Association of British Insurers	NISA	New Individual Savings Account
AFH	Actuarial Function Holder	NPF	Non-Profit Fund
AGM	Annual General Meeting	OIF	Order Insurance Fund
AOF Scheme	The Ancient Order of Foresters 1978 Retirement & Death Benefit Scheme	ORSA	Own Risk and Solvency Assessment
AP	Annual Premiums	PEF	Pure Endowment Fund
API	Annualised Premium Income	PIMS	Post Office Information Management System
APE	Annualised Premium Equivalent (representing annualised new regular premiums plus 10% of single premiums)	POIS	Post Office Insurance Society (transferred to the Society on 26 September 2014)
CIF	Court Investment Fund	PPFM	Principles and Practices of Financial Management
CRF	Court Reserve Fund	PRA	Prudential Regulation Authority
DAC	Deferred Acquisition Costs	PVIF	Present Value of In-force Business
DBF	Discretionary Benefit Fund	RCR	Resilience Capital Requirement
ERM	Enterprise Risk Management	RCSA	Risk and Control Assessment
FCA	Financial Conduct Authority	RDR	Retail Distribution Review
FFA	Fund for Future Appropriations	S&D	Sick & Death Fund
FGSPP	The Ancient Order of Foresters Friendly Society Group Stakeholder Pension Plan	SID	Senior Independent Director
Foresters	The Ancient Order of Foresters Friendly Society Limited	Society	The Ancient Order of Foresters Friendly Society Limited
FRS	Financial Reporting Standard	STRGL	Statement of Total Recognised Gains and Losses
FSA	Financial Services Authority	TCF	Treating Customers Fairly
GAAP	Generally Accepted Accounting Practice	Tunstall	Tunstall Assurance Friendly Society Limited (transferred to the Society on 31 December 2003)
GAO	Guaranteed Annuity Option	Tunstall scheme	The Tunstall and District Assurance Collecting Society Staff Superannuation Fund Scheme
GBF	Group Business Fund	ULAA	Unit-Linked Advisory Arrangement
GCF	Group Capital Fund	WP	With-profits
GRF	General Reserve Fund	WPA	With-profits Actuary
HCR	High Chief Ranger		
HMRC	Her Majesty's Revenue and Customs		
IBNR	Incurred But Not Reported		
ICA	Individual Capital Assessment		
IFA	Independent Financial Adviser		
ISA	Individual Savings Account		
KPI	Key Performance Indicator		
KRI	Key Risk Indicator		
Leek	Leek Assurance Collecting Society Limited (transferred to the Society on 31 December 2005)		
LTB	Long Term Business		
LTBP	Long Term Business Provision		
LTICR	Long Term Insurance Capital Requirement		
MVR	Market Value Reduction		
NED	Non-executive Director		



Putting our members
at the heart of
everything we do



Supporting families
with their finances
since 1834



Society Information

Foresters Friendly Society (the Society) is the trading name of The Ancient Order of Foresters Friendly Society Limited.

The Society is registered and incorporated under the Friendly Societies Act 1992, registered number 511F.

The Society's registered office is 29 – 33 Shirley Road, Southampton, SO15 3EW.

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w: **www.forestersfriendlysociety.co.uk**

The Society is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) registration number 110029. The Society is a member of the Association of Financial mutuals (AFM).