Exeter Friendly Society Limited

Annual Report and Accounts 2015

The Exeter

Protect tomorrow today.

Board of Directors

Chairman	W W Dobbin, BA, Barrister
Senior Independent Director	D S Brand, BA, FIA
Other Non-Executive	P E J Le Beau, MBE, JP, FCII K F Richardson, FCA S J Payne, BSc, FIA (appointed to the Board 8 September 2015)
Chief Executive	A D S Chapman, ACII, APFS
Other Executive	P Austin, BSc, FCA Professor W T Hamilton, MD, BSc, FRCP, FRCGP S J Philp, MBA, BA
Company Secretary	J P Edwards, BSc, ACIS

Audit, Risk and Compliance Committee

Chairman	K F Richardson, FCA D S Brand, BA, FIA P E J Le Beau, MBE, JP, FCII S J Payne, BSc, FIA (appointed to the Committee 24 September 2015)

Nomination and Remuneration Committee

Chairman	P E J Le Beau, MBE, JP, FCII D S Brand, BA, FIA W W Dobbin, BA, Barrister K F Richardson, FCA S J Payne, BSc, FIA (appointed to the Committee 24 September 2015)

Investment Committee

Chairman	D S Brand, BA, FIA A D S Chapman, ACII, APFS P E J Le Beau, MBE, JP, FCII S J Payne, BSc, FIA (appointed to the Committee 24 September 2015)

Professional Advisers

Independent Auditors	PricewaterhouseCoopers LLP
Bankers	Barclays Bank PLC
Investment Advisers	Royal London Asset Management Limited

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Chairman's Message

Society performance

It gives me great pleasure to introduce Exeter Friendly Society's Annual Report and Accounts for 2015.

Regular readers of the Society's financial statements will note that the format and content of many of the disclosures has altered this year with results now reported at both Society and Group level. I am pleased to advise that this is as a result of the acquisition of a subsidiary company from Family Assurance Friendly Society at the end of October 2015. The subsidiary, re-named 'The Exeter Cash Plan' upon transfer, consists of a book of approximately 28,000 policies that typically provide payments towards the cost of dental, optical and other routine health treatments.

As I have mentioned in previous reports, part of the Board's strategy is to expand the business of the Society through merger or acquisition as well as through organic growth, and so it was particularly pleasing when this opportunity presented itself. Whilst the book of business was no longer core to its previous owner's future strategy, it will ably complement the Society's existing books of business as well as making a positive contribution to the Group's finances. Accordingly, the Board will be proposing some changes to its Rules at the Annual General Meeting in May 2016, to allow these customers to be recognised as members of the Society.

In many ways the year has been a challenging one for your Society. In the face of intense competitive pressures in our key markets, sales of new policies contracted for the second year in succession. This reduction was most marked in the Income Protection (IP) business, as the fall-off in sales seen in the second half of 2014 proved difficult to reverse in a more price-driven market, despite our best efforts to promote our better-rounded, value proposition to our key supporting intermediaries. Sales of Private Medical Insurance (PMI) fared slightly better, but were not sufficient to replace all the members lost to policy cancellations.

Despite a net reduction in membership numbers on the IP book of business, an additional £0.4 million in gross written premiums was recorded. The PMI business fared less well, with gross written premiums decreasing by £1.7 million compared to 2014, adversely affected by the policy cancellations already mentioned.

Financial markets took a pause for breath, after several years of gains during the post-recession period and, therefore, the contribution of investment returns to the Society's overall performance was less significant than in recent years.

Despite these setbacks the Society remains financially strong with a healthy capital position. Additional background information to the Society's performance can be found in the Strategic Report on pages 13 to 16 and in the financial statements.

Delivering on our promises

The Society takes pride in the high standards of service offered to members and the financial adviser community, which is evidenced by the many letters of appreciation and support we received during the year. Claims acceptance rates for the year for both PMI and IP have remained around the 95% mark with gross benefit payments totalling £45.8 million, a further indication of our commitment to treating members fairly at the time when they need us most.

Once again, the Society received a number of industry accolades during 2015 – including the Cover Excellence Awards for Best Individual IP Provider and a maximum 5-star rating in the Financial Adviser Service Awards – further endorsement of our commitment to customers. Nevertheless we never rest on our laurels and are always striving to improve our products and services.

An ongoing commitment to staff development is viewed as a key element in continually improving our service standards, as evidenced by our Investors in People accreditation, which we successfully retained during the year. This will be supported by new developments in information technology as we progress through 2016, which will improve the customer experience for members and financial advisers alike.

Regulatory developments

After many years of anticipation, the Solvency II capital adequacy regime finally became a reality on 1 January 2016. Solvency II is a European Union (EU) directive designed to harmonise standards and practices throughout Europe. In practice this means all EU insurance firms, including Exeter Friendly Society, are required to demonstrate they have strong systems of risk governance in place that are fully integrated into business decision making and financial modelling processes. Insurers also need to meet demanding new public and regulatory reporting requirements that have been designed to improve transparency across the industry.

The Board has been preparing for the new regulations for a number of years, having chosen to adopt the standard model for the calculation of the Society's regulatory capital requirement relatively early in the planning process. I am pleased to advise that the significant investment in management resources that this has demanded and our strong capital position meant that the Society was well placed to comply with the new regime and members can be confident that this will continue as we move into a Solvency II environment.

Corporate governance

As Chairman I am elected to lead the Board and my primary role is to ensure that it is effective in setting and implementing the strategy and direction of the Society. Therefore, it is important that the Board continues to provide the right balance of skills, knowledge and background and considers succession planning.

In September 2015 we appointed Stephen Payne as a new independent Non-Executive Director to the Board. Steve brings with him a wealth of experience in the financial services sector and, as a qualified actuary, brings competencies to the Board that are much in demand as insurers move into the post-implementation phase of the Solvency II regime.

Kevin Richardson has signalled his intention to retire from the Board at the 2016 Annual General Meeting after 8 years' service as an independent Non-Executive Director. Kevin's extensive knowledge and experience of financial matters has proved invaluable to the Board, particularly in the work of the Audit, Risk and Compliance Committee, which he has chaired throughout this time. We are indebted to Kevin for the loyalty and commitment he has shown to the Society and its members and we wish him well for the future.

In accordance with good governance guidelines, all the other Directors will be required to seek election or re-election at the Annual General Meeting on 26 May 2016 and papers for the meeting will be issued to all eligible members in order that they can readily exercise their right to vote.

Further information about the Directors can be found on pages 8 to 12.

Other developments

The beginning of October 2015 saw the launch of the new 'The Exeter' brand. This new name reflects and captures our strong history and our ambitions for the future by being both simple and confident. However, 'The Exeter' is more than just a name and a logo, it's a brand with clear objectives and values, a brand that reflects who we are and what we do. Our vision, as we have always done, is to put the customer first by developing quality products, simple processing and efficient service. We aim to become the protection provider of choice for our distribution partners and their customers.

There was much media attention given to cyber security during the year, with a number of well-known companies and public institutions being subject to high-profile data thefts and breaches. The Board takes this threat very seriously and, therefore, I am pleased to report that the Society successfully retained its accreditation under the ISO 27001 information security standard. Members can therefore be confident that their personal information is being protected by suitably robust systems, policies and procedures.

The Society continued to support the 7 Families charity-led campaign during the year. In order to highlight the need for people to plan financially in case they become too ill to earn an income, Disability Rights UK has been working with the seven families where the main breadwinner has been forced out of work by an accident or illness and not received any related insurance pay out. The Society, like a number of other leading participants in the IP insurance industry, is proud to be part of this initiative.

The Board is mindful of its corporate social responsibilities and a Community, Charity & Environment Committee has been in place for a number of years to support its objectives in this area. Part of the Committee's remit is to provide charitable support to the wider community in which the Society operates. During the year it was instrumental in raising over £14,000 for the benefit of a number of local and national charities.

Looking ahead

Although 2015 has proved to be a difficult year, the strengths that have previously delivered the strategy successfully remain in place: we have an excellent executive and management team ably supported by a committed workforce; products that deliver when members need them; an enviable reputation for customer service; which are all supported by a strong capital position.

Whilst the challenging market conditions are expected to continue for the foreseeable future, the Board believes that the Society is well-placed to resume its growth strategy as we move forward. Choosing the correct product and distribution strategy will be key to our future success and so we will continue to work closely with our business partners to provide innovative and competitive products and services that appeal to prospective members.

Thanks and acknowledgements

As I end this year's review, I would like to personally thank the Society's employees for all their continuing hard work, commitment and enthusiasm. I must also thank the financial advisers and insurance intermediaries that continue to support us and recommend our products to their clients.

Finally, on behalf of the Board, I would like to thank all of our members and policyholders for their continued loyalty that we work hard to earn through the service and products we provide. The awards already mentioned suggest that we continue to achieve the high standards and deliver the service that our members depend on.

W W Dobbin BA, Barrister
Chairman
30 March 2016

Board of Directors

as at 31 December 2015

Wallace Dobbin BA, Barrister
Chairman (Non-Executive)

Wallace Dobbin was appointed to the Board in March 2008 and became its Chairman in June 2013. He is also a member of the Nomination and Remuneration Committee.

Wallace has extensive experience in corporate strategy, marketing and communications and is a trained lawyer. Previous roles include being a member of the UK Board of Zurich Financial Services, Strategic Development Director for BAT UK Financial Services and Business Development Director for Allied Dunbar Assurance.

Wallace is a Director of Intrinsic Financial Services Ltd, one of the UK's largest financial services distribution companies and was formerly Vice Chairman and Senior Independent Director of the Gloucestershire Hospitals NHS Foundation Trust. He is a member of the Council of the Association of Professional Financial Advisers, a former member of the CBI London Council and a former Trustee of the Sir Steve Redgrave Charitable Trust.

David Brand BA, FIA
Senior Independent Director

David was appointed to the Board as Senior Independent Director with effect from 31 January 2014. He is also Chairman of the Investment Committee and a member of the Audit, Risk and Compliance Committee and the Nomination and Remuneration Committee.

David is a qualified actuary who, prior to his retirement in June 2012, had worked for the Hannover Re Group in the UK, acting as the Managing Director of its UK life reinsurance subsidiary from 2003. David had been with the company since 1988, and a Director since 1990. During his career David also held various roles with the Institute of Actuaries, including being a member of Council and he also served on the Health Committee of the Association of British Insurers from 2006 to 2012.

David is an independent Non-Executive Director of Chesnara Plc, the life and pensions management company, where he also serves on the Audit and Risk and Nomination Committees. He is an independent Non-Executive Director of Chesnara's life insurance subsidiaries, Countrywide Assured in the UK and Movestic Liv in Sweden.

Peter Le Beau MBE, JP, FCII
Independent Non-Executive Director

Peter Le Beau was appointed to the Board in March 2008. He is Chairman of the Nomination and Remuneration Committee and is also a member of the Audit, Risk and Compliance Committee and the Investment Committee.

Peter is one of the best known independent consultants in the UK Protection Market and has over 30 years' experience in reinsurance, the last 20 of which were spent at Swiss Re where he was Head of UK Marketing, having originally joined as Head of Underwriting. He left Swiss Re in 2001 to start his own consultancy, Le Beau Visage, which focuses on helping companies to differentiate their value proposition. Peter's contribution to the insurance industry and his charity work were recognised with the award of an MBE in 2009.

Peter is Non-Executive Chairman of Fineos, a technology company, and a Non-Executive Director of Red Arc, an independent care provider working in the protection sector. He is the co-author of the Protection Review and chairs the UK Income Protection Task Force. He also contributes occasional articles to the Financial Adviser, Mortgage Introducer and HI Daily publications on issues pertinent to the Protection market.

Kevin Richardson FCA
Independent Non-Executive Director

Kevin Richardson was appointed to the Board in March 2008. He is Chairman of the Society's Audit, Risk and Compliance Committee and is also a member of the Nomination and Remuneration Committee.

Kevin qualified as a Chartered Accountant in 1977 and then joined Zurich Insurance as an accountant in their UK branch. He joined Schroder Financial Management in 1981, and became a Director of the Life Assurance, Pensions, Unit Trust and Home Loan Companies where he had responsibility at various times for Finance, Operations, IT, Strategy and Compliance. In 1997 he joined Liverpool Victoria Friendly Society where he held the position of Group Director Life and Retail Investments, responsible for the business performance of Liverpool Victoria's life assurance and retail investments businesses until 2002.

Kevin served as a Non-Executive Director on the Board of Teachers Building Society for 10 years, including a latter spell as its Chairman, a position from which he retired in April 2014.

Andrew Chapman ACII, APFS
Chief Executive

Andy Chapman was appointed Chief Executive in March 2008, following the transfer of engagements from Pioneer Friendly Society, having been the Chief Executive at Pioneer since September 2005. He is also a member of the Society's Investment Committee. He joined Pioneer having previously been Group Director at Liverpool Victoria Friendly Society and Managing Director at Permanent Insurance.

Andy, who is a Chartered Insurer, has been a platform speaker at many industry conferences. In November 2011, he was appointed to the Board of the Association of Financial Mutuals (AFM), the trade body which represents mutual insurers, friendly societies and other financial mutuals in the UK. He also sits on the Health Committee of the Association of British Insurers (ABI). The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry.

Andy is a Trustee of the Northbrook Trust; a charity set up to fund the provision of education and training (including support and accommodation) for any child or young person who is, or has been, in the care of or under the supervision of Devon County Council.

Paul Austin BSc, FCA
Finance Director

Paul Austin was appointed Finance Director in February 2009. Paul has spent his entire career within the financial services sector in both professional accountancy practice and industry.

After qualifying with PricewaterhouseCoopers in 1989, Paul gained experience of corporate lending, fund management and for 12 years worked with a fully-listed group running a provider of financial services outsourcing services.

In addition to these technical roles, Paul's past duties have included Group Operations, Human Resources and Information Technology, as well as Board involvement in the assessment and implementation of strategy, mergers and acquisitions.

Professor William Hamilton MD, BSc, FRCP, FRCGP
Medical Director

Willie Hamilton has been an insurance medical officer since 1990 and joined the Exeter Board in 2005. He is also a regular attendee at meetings of the Society's Audit, Risk and Compliance Committee.

Willie qualified in medicine in 1982 from Bristol, and now has a research career based on improving diagnosis. He is the professor of primary care diagnostics at the University of Exeter Medical School. There, he heads the Discovery research group, with over £15 million total research funding from Cancer Research UK, the National Institute of Health Research, the Medical Research Council, the Department of Health and others. His main research topic is improving the diagnosis of cancer, though his recent studies include a diverse range of diagnostic topics leading to nearly 200 publications.

Willie has written two textbooks, one on orthopaedics and the second on cancer, the latter winning a British Medical Association prize. He was the clinical lead for a NICE (National Institute for Health and Care Excellence) guideline, on investigation of suspected cancer. He also practises a day a week of clinical general practice at a local Exeter surgery.

Simon Philp MBA, BA
Director of Distribution and Marketing

Simon was appointed to the Board in September 2014.

Simon has a wealth of experience across the financial services industry, most recently as a Managing Director at AXA Wealth, where during his tenure he introduced a number of key distribution partnerships significantly increasing overall business volumes and developing new distribution channels. As part of his role Simon held responsibility for large scale sales and marketing functions as well as business development, project implementation and overall partner relationships.

Simon also held a number of other senior roles whilst at AXA, including Head of Sales and Director of Strategic Partnerships. Prior to this, Simon worked for Aviva for a number of years in both Independent Financial Adviser and Partnership distribution models with a strong track record of success.

Stephen Payne BSc, FIA
Independent Non-Executive Director

Steve was appointed to the Board as Non-Executive Director with effect from 8 September 2015. He was also appointed to the three main Board Committees: Audit, Risk and Compliance; Nomination and Remuneration; and Investment.

Steve is a qualified Actuary who has held a variety of senior management roles in the Life Assurance industry. These include Managing Director for Protection at Friends Life (2011-2014), a FTSE100 company, where he led the integration of the protection businesses of Axa, Friends Provident and Bupa. Steve was a member of Friends Life's Group Executive. Prior to this, he led the Bupa Protection business where he became Chief Executive (2004-2010).

Steve has also worked for two Reassurance businesses which are now known as Scor and Hannover Re, and was Deputy Chief Executive at Revios (UK), the company that became Scor (UK) (2004).

Steve is a past Chair of ILAG (The Investment and Life Assurance Group), a former member of the ABI Protection Committee, and was twice chair of the Institute and Faculty of Actuaries Healthcare Conference.

Strategic Report

for the year ended 31 December 2015

Principal activities and business model

The principal activities of the Exeter Friendly Society Group are the provision of Private Medical Insurance (PMI) and Income Protection (IP) insurance policies to its members. The Group acquired a subsidiary company at the end of October 2015 whose business consists of a range of Health Cash Plan (HCP) policies. The Directors consider that all the activities undertaken by the Group during the year were within its Rules and any relevant regulatory permissions.

The Group's insurance businesses consist of both general and long term elements, the former represented by its books of PMI and HCP business and the latter through its IP policies. All insurance policies are underwritten and administered by the Group and sales of new policies are distributed primarily through Independent Financial Advisers and broker networks.

There are no proposals for any significant changes in these existing activities but the Board is exploring new products and distribution channels.

Economic and market environment

Although the UK economy continued to grow during 2015, difficulties remained in the Society's core markets with subdued demand for individually-purchased PMI and IP exacerbated by a highly competitive environment. This has resulted in total sales of new business falling for the second year in succession.

Interest rates remained at historically low levels and this has a significant impact on the Society as its long term insurance liabilities are estimated using a discount rate which is linked to the yield on government and corporate bonds. In order to reduce risks the Society endeavours to match these long term liabilities with assets which behave in similar ways to the liabilities. Such matching is never perfect but this policy has been successful during 2015 and financial strength has been maintained during a year of mixed fortunes for investment markets. Therefore, the Society is well-placed to resume its strategy for growth, as described in more detail below.

Strategic progress

The Board agreed five key strategic objectives for 2015, in order to deliver on its vision for the Society to become the Protection Provider of Choice for its customers and distribution partners through the development of quality products, simple processes and efficient services:

1. To continue organic growth of the PMI business;

2. To continue organic growth of the IP business;

3. To develop further products to enhance the Society's offering in the market;

4. To maintain and continue to develop a robust, scalable and cost effective infrastructure; and

5. To seek to grow the business through merger and acquisition opportunities.

By seeking to expand the business through the sale of innovative and viable policies, the Board aims to generate and preserve value for our members over the long term, thereby providing a firm capital base on which to support future growth.

Subsidiary Acquisition

In accordance with the fifth strand of the strategy referred to above, the Board continues to assess the opportunities that arise for growing the business through merger or acquisition. During the year, just such an opportunity arose, which resulted in the Society acquiring the subsidiary Health Cash Plan business from Family Assurance Friendly Society. The subsidiary's products complement the Society's existing insurances and provide a firm foundation from which to build a new distribution capability.

Key Performance Indicators

The Board monitors a number of key performance indicators to measure its success in delivering its strategy for the business, including growth in sales, premium income, membership, claims, operating expenses and reserves. The purpose of the remainder of this strategic report is to explain to members the progress made in implementing the strategy during 2015, in the context of the financial statements and its key performance indicators, and to consider the key factors, strengths and principal risks that might influence the Group's future prospects.

Membership
Sales of new PMI policies fell slightly during 2015, which coupled with an increase in policy lapses, caused the membership of the General Business Fund to fall by 8.8% from 34,409 to 31,387 during the year. This compares to the 7.3% fall experienced during 2014.

IP membership also fell during 2015, following several years of sustained growth, recording a 2.6% decrease from 37,364 to 36,392 members at the year end. This compares to the 1.2% increase seen during 2014.

Our overall membership for these two product streams has therefore decreased by 5.6% from 71,773 to 67,779 at the year end. It is vital that the Society achieves long term growth, as this benefits all of our members through economies of scale. Steps have therefore already been taken to reverse this trend in 2016, more details of which are provided later in this section.

The Group's customer base was swelled considerably by the subsidiary company acquisition, bringing the total persons covered to approximately 100,000. The acquisition has also added approximately £3.3 million of annualised premium income and net assets totalling £2.5 million to the Group's overall financial position.

Written premium income
New PMI sales totalled £2.6 million which was the same level as was recorded in 2014. Despite the overall reduction in the number of PMI policyholders, gross written premiums held up reasonably well, decreasing by 3.8% to £43.9 million during the year.

Sales of new IP policies were 14% lower than in 2014 ending the year at £2.3 million. However, the position on policy lapses continued its recent improvement and so overall gross written IP premiums recorded an increase of 2.2% to £19.3 million for the year.

The HCP business contributed an amount of £0.5 million to the Group's written premium income in the final two months of the year, following that subsidiary's acquisition.

Claims and expenses

PMI benefits and claims decreased by 4.4% to £39.5 million, which was to be expected given the reduction in size of the book of business. Gross IP benefits and claims totalled £6.1 million, a 6.0% increase on 2014; on a net basis, after allowing for reinsurance recoveries, there was an increase of 4.6% to £5.0 million. Benefits paid on the HCP business amounted to £0.1 million, bringing the total for the Group to £44.6 million (2014: £46.1 million).

The commission payable to intermediaries decreased by 2.3% during the year at Group level on account of the lower sales volumes. Net operating expenses increased by 10% from £10.2 million to £11.2 million, partly as a result of costs related to the HCP business, but also because of additional costs related to new business acquisition and product and system development projects within the Society.

Asset and liability movements

The Society continues to invest the majority of its assets in government securities and cash deposits as this is the most appropriate way of matching liabilities and minimising risk. The Society has also aligned its investment of assets with its capital adequacy requirements under both the Pillar 1 (Capital Resources Requirement) and Pillar 2 (Individual Capital Assessment) frameworks.
The Society has determined that this investment policy is also appropriate for the start of the new Solvency II regime in 2016 and will continue to refine its investments in accordance with the new solvency framework.

Matching of assets to liabilities is achieved by investing in assets of similar maturity duration to the underlying cash flow requirements of the insurance liabilities. The Society has a policy of not using equities to match any insurance liabilities and therefore such investments are made out of reserves. An analysis of the Society's financial assets can be seen in Note 20 to the financial statements.

Movements on reserves and solvency

There were mixed fortunes for investment markets during the year, following several years of positive returns. As a result, overall net investment returns and gains were negligible compared to the positive contribution of £14.0 million that these made to income in 2014.

Group reserves fell by £0.4 million (2014: increase £12.3 million) resulting in a combined unallocated surplus of £103.9 million (2014 restated: £104.3 million), which comfortably exceeds the minimum amounts required under Pillar 1 (Capital Resources Requirement) and Pillar 2 (Individual Capital Assessment). Solvency margins are a key performance indicator for the Society and are reviewed regularly by the Board to ensure continued compliance. As can be seen in Note 2 to the financial statements, both funds exceed their Capital Resources Requirements. The Society is also well-placed to meet the rigorous requirements of the Solvency II capital adequacy regime.

Product development

The reduction in new business experienced during the year serves as a reminder of the need to continue to innovate in an increasingly competitive and responsive marketplace. Regular reviews take place to ensure that current and future products meet the needs of our members. During the year, the Society made a number of enhancements to its IP product range, as well as offering a number of new member benefits.

Plans for 2016 include the development of new products and channels to market, the aim being to deliver the Society's business proposition to a much wider audience. Further investments are being made in new system developments to ensure that these meet the needs of the business as it moves forward along its strategic path.

Principal risks and uncertainties

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. In meeting its obligations, the Board has carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity. The significant risks that the Society is exposed to are as follows:

- Insurance risk arising from the inherent uncertainties as to the occurrence, amount and timing of insurance policy liabilities;
- Market risks relating to the value of assets held by the Society;
- Interest rate risk as the movement in interest rates has a significant impact on the value of insurance reserves;
- Exchange rate risks resulting from overseas premiums and claims;
- Credit risk due to default by debtors or investment counterparties;
- Liquidity risk arising from cash management;
- Operational risk relating to processes and procedures; and
- Legal and regulatory risks.

Further details of the principal risks facing the business, and the Board's policies and processes for managing or mitigating those risks, can be found in Note 3 to the financial statements. Having monitored and reviewed the Society's risk management and internal control systems during the year, the Board is satisfied that these are operating effectively.

Future outlook

As a mutual, the Society strives to put the interests of its members at the heart of how it does business and, to support this philosophy, the Board will endeavour to ensure that products and services are designed and delivered in accordance with the needs of those members.

Whilst challenging market conditions are expected to continue into 2016, the Board believes that the Society is well-placed to achieve growth in a controlled and cost effective manner. Distribution is key to this growth and, in order to achieve success, the Society must continue to work closely with its business partners to provide competitive products and services that appeal to prospective members. The Retail Distribution Review has had a major influence on the intermediated market and consolidation of networks is a trend which is expected to continue. Building relationships with the enlarged and strengthened leaders within the industry will be important to the Society's future success, as will be the development of new products and distribution methods as its core markets evolve.

The move to an intermediary-focused distribution model 5 years ago has proved to be a very successful strategy, which has delivered growth over the period and stabilised the Society's cost base. The Board believes that this is a good platform from which to now grow the business.

Approved on behalf of the
Board of Directors:

W W Dobbin BA, Barrister
Chairman

A D S Chapman ACII, APFS
Chief Executive

30 March 2016

Directors' Report

for the year ended 31 December 2015

Members of the Board of Directors

The names of the members of the Board of Directors who served during the year are listed on the inside front cover. Biographical details of the Board of Directors as at the date of approval of the financial statements are provided on pages 8 to 12.

Going concern

The Directors' Strategic Report on pages 13 to 16 sets out details of the Group's key performance indicators, capital management, business environment and future outlook. In addition, further discussion of the principal risks and material uncertainties affecting the Group can be found within the Strategic Report and in Note 3 to the financial statements.

After making enquiries, the Directors have a reasonable expectation that the Society and the Group have adequate resources to continue its operational existence for the foreseeable future and for a period of at least twelve months from the date of this report. Accordingly, the Directors consider that it is appropriate to adopt the going concern basis of accounting in the preparation of the financial statements and there are no material uncertainties to this position.

Viability statement

The Directors have assessed the Group's viability over a three-year period to December 2018. This is based on the three-year strategic plan for the business, which is progressively implemented, and which gives greater certainty over the forecasting assumptions used. The three-year strategic plan was last approved by the Board in December 2015. The Board receives quarterly reports from the Risk Officer and sets and approves risk tolerances for the business.

During 2015, the Directors carried out a robust assessment of the principal risks facing the Group. This assessment includes consideration of the Group's resilience in severe but plausible scenarios supported by the use of stress testing and sensitivity analysis around the central assumptions of the Group's three-year strategic plan. The scenarios considered included significant variations in the levels of new business, policy lapses, and claims compared to those expected in the central projections, and changes to the underlying economic assumptions such as interest rates.

The Directors believe that the Group is well placed to manage its risks successfully, having taken into account its business activities and overall financial position, including liquid cash balances, cash flow forecasts and capital adequacy levels.

Based on this assessment, the Directors are confident that the Society and the Group will be able to continue in operation and meet all their liabilities as they fall due over the period considered.

Statement of solvency

Throughout the year the Society maintained capital reserves in excess of those required by Section 2 of the Prudential Regulation Authority's General Prudential Sourcebook.

Bonuses to Holloway plan policyholders (Long Term Business Fund)

In deciding bonus and interest declarations this year, the Board of Directors has taken into account both fairness to members and the financial climate during the year.

The Board is therefore recommending bonuses and interest rates as set out below:

Bonus Declaration

Ordinary Shares: £0.75 (2014: £0.75)

Commuted Shares: £1.81 (2014: £1.81)

Juveniles: £1.80 (2014: £1.80)

Interest Rates

Ordinary Accounts: 1.0% (2014: 1.0%)

Commuting Members and Juveniles: 1.0% (2014: 1.0%)

Over 65s: 1.0% (2014: 1.0%)

The Terminal Bonus to be paid to all ordinary members whose policies mature in 2016 is 60% (55% in 2015) of the member's dividend account. The level of Terminal Bonus is subject to continuous review by the Board and can be altered at any time.

Creditor payment policy

The Society's policy is, where possible, to agree the terms of payment with suppliers at the start of trading, to ensure that suppliers are aware of the terms of payment and pay in accordance with its contractual and other legal obligations. The Society's policy is to settle the supplier's invoice for the complete provision of goods and services (unless there is an express provision for stage payments), when in full conformity with the terms and conditions of the purchase, within the agreed payment terms. The Society's creditor days were 7 days at 31 December 2015 (2014: 11 days).

Charitable donations and political contributions

A Community, Charity & Environment Committee was established amongst staff in 2010, to support the delivery of the Society's corporate and social responsibility objectives. Part of the Committee's remit is to provide charitable support to the wider community in which the Society operates. As a result, donations totalling £14,626 (2014: £15,044) were made to charitable organisations during 2015. In addition to this figure, an amount of £1,250 (2014: £1,500) was paid in respect of medical insurance policies that include a hospice donation as a benefit.

No political contributions were made during the year (2014: Nil).

Complaints and disputes

Whilst we constantly endeavour to improve our service, we do receive complaints from time to time. We consider these to be opportunities to improve our relationship with our members by rectifying errors without undue delay, or taking time to investigate and explain in detail the Society's position when we conclude that a complaint is not justified. The Board ensures that all complaints are thoroughly investigated and the procedures for the handling and recording of complaints are fully documented.

The Society is a member of the Financial Ombudsman Service to which any unresolved complaints are referred if all other avenues fail to bring about a satisfactory conclusion. 21 members referred cases to the Ombudsman during 2015 (2014: 14).

Directors' and officers' liability insurance

Throughout 2015, the Society has maintained liability insurance cover for its Directors and officers as permitted under Section 106 of the Friendly Societies Act 1992.

Statement of the Actuarial Function Holder and With Profits Actuary

The Actuarial Function Holder and the With Profits Actuary during the financial year was Mr C J Northover. The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992.

Mr Northover has confirmed that neither he nor his family have any pecuniary interests in the Long Term Business Fund, with the exception of the remuneration paid to him in respect of his role as the Fund's Actuary, which amounted in total to £170,060 in 2015 (2014: £171,632).

Independent Auditors

PricewaterhouseCoopers LLP were re-appointed as the Society's Independent Auditors at the Annual General Meeting on 21 May 2015. PricewaterhouseCoopers LLP are willing to continue in office and a resolution will be proposed at the forthcoming Annual General Meeting for their re-appointment.

Approved on behalf of the Board of Directors:

W W Dobbin BA, Barrister
Chairman

A D S Chapman ACII, APFS
Chief Executive

30 March 2016

Directors’ Responsibilities Statement

The following statement should be read in conjunction with the statement of independent auditors’ responsibilities on page 55 and is made by the Directors to explain their responsibilities for the preparation of the financial statements.

The Directors are responsible for preparing the Strategic Report, the Directors’ Report, the Directors’ Remuneration Report and the financial statements in accordance with applicable law and regulations.

Friendly Society law requires the Directors to prepare Society financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under Friendly Society law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Society and the Group and of the profit or loss of the Society and the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society and the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Society’s and the Group’s transactions and disclose with reasonable accuracy at any time the financial position of the Society and the Group and enable them to ensure that the financial statements comply with the Friendly Societies Act 1992. They are also responsible for safeguarding the assets of the Society and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Each of the Directors, whose names and functions are listed in the Board of Directors section confirm that, to the best of their knowledge:

- the Society's financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Society and the Group; and
- the Strategic Report and the Directors' Report includes a fair review of the development and performance of the business, together with a description of the principal risks and uncertainties that it faces.

Each Director in office at the date the Directors' Report is approved confirms that:

(a) so far as the Director is aware, there is no relevant audit information of which the Society's independent auditors are unaware; and

(b) he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Society's independent auditors are aware of that information.

The Directors are responsible for the maintenance and integrity of the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Corporate Governance Report

for the year ended 31 December 2015

Good corporate governance is essential to the Board of Directors' commitment to running the Society's business in the best interests of its members. Following publication of the updated UK Corporate Governance Code in September 2014, the Association of Financial Mutuals (AFM) published an Annotated version of the Code for Mutual Insurers (the Code). The Board considers that it complies with all of the principles and relevant provisions of the revised Code.

The Board and its Committees

The Board's role is to provide entrepreneurial leadership of the Society within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Society's strategic aims and ensures that the necessary financial and human resources are in place in order for the Society to meet its objectives and review management performance. In addition, the Board sets the Society's values and standards and ensures that its obligations to members and others are understood and met.

The Board has a general duty to ensure that relevant legislation and regulations are adhered to, and that proper accounting records and effective systems and controls are established, maintained, documented and audited to safeguard members' interests. The Non-Executive Directors are responsible for bringing independent judgement to discussions held by the Board, using their breadth of experience and understanding of the business to constructively challenge and help develop proposals on strategy. The Non-Executive Directors' Terms and Conditions of Appointment are available upon request.

There is a formal schedule of matters specifically reserved for the Board's decision and a Corporate Governance Handbook sets out its responsibilities and the structure of delegation of authority by the Board to management.

The Board has established three principal Committees, under its overall authority, to deal with certain functions in detail. Further details of the responsibilities and activities of these Committees are provided on pages 25 to 46.

The Board held seven formal Board meetings in 2015, including a whole day devoted to the development of strategy. Each Board meeting includes a consideration of the Society's performance against its strategic objectives, with corrective action proposed as required to ensure that the business remains on target to achieve them. In addition, the Non-Executive Directors met on one occasion without the Executive Directors and on a further occasion without the Chairman present. The attendance record during the year of Directors at formal meetings of the Board and its Committees is shown on page 33.

Board appointments and re-election

The Nomination and Remuneration Committee considers the balance of skills and experience on the Board and the requirements of the business. Appointments are made on merit and against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The recruitment process for Directors involves appropriate sources of objective external opinion. Directors must be authorised by the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) for the Senior Insurance Manager Functions they are performing within the Society, and comply with the rules, principles and standards of conduct laid down by those respective authorities. Further information about the responsibilities of the Nomination and Remuneration Committee in relation to Board appointments is provided on page 26.

As recommended by the Code, all Directors are subject to election at the first Annual General Meeting following their appointment to the Board and are required to seek re-election annually thereafter. Any term of office beyond six years for a Non-Executive Director is subject to particularly rigorous review and the Board's general policy is that Non-Executive Directors cannot serve more than nine years. Currently, no Non-Executive Director has served more than eight years. Members of the Society have the right under the Society's Rules to nominate candidates for election to the Board.

Information and professional development

The Board believes strongly in the development of all employees and Directors. On appointment, a tailored induction programme is arranged for each new Director which includes a series of meetings with other Directors and senior management as well as provision of key information about the Society. Any training or development needs are identified during this process and in the course of subsequent annual evaluations of the Board's and individual Director's performance and effectiveness.

The Society provides whatever resources are required for developing its Directors' knowledge and capabilities through continued personal development and membership of professional bodies. During the year, Directors attended a number of internal and external training sessions and insurance industry events. Briefings were also provided on a number of subjects including risk management and Solvency II.

The offices of Chairman, Chief Executive and Company Secretary are distinct and held by different persons. The Chairman ensures that the Board receives accurate, timely and clear information sufficient to enable it to fulfil its responsibilities. Under the direction of the Chairman, the Company Secretary ensures that good information flows within the Board and its Committees and between senior management and Non-Executive Directors, as well as facilitating induction and assisting with professional development as required. The Company Secretary, to whom all Directors have access, also has responsibility for advising the Board through the Chairman on all governance matters and for ensuring that Board procedures are complied with.

All Board members have access to independent, professional advice and the benefit of appropriate liability insurance, both at the Society's expense.

Board membership and independence

At the end of the year, the Board comprised four Executive Directors and five Non-Executive Directors. In recommending the appointment to the Board made during the year, the Nomination and Remuneration Committee considered the mix of relevant skills and experience of both Executive and Non-Executive Directors. The names of the Directors together with brief biographical details are set out on pages 8 to 12.

The Board considers the Non-Executive Directors, other than the Chairman, to be independent in character and judgement and free of any relationship or circumstances that could affect the exercise of their judgement. The Board therefore complies with the provision of the Code, which states that at least half the Board (excluding the Chairman) should comprise independent Non-Executive Directors. Also, the Non-Executive Chairman of the Society, Wallace Dobbin, was considered by the Board to be independent on his appointment in 2013.

The Board has appointed a Senior Independent Director, David Brand, who provides a sounding board for the Chairman and serves as an intermediary for the other Directors when necessary. He also has special responsibility for member relations.

Chairman and Chief Executive

The Chairman is responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman is responsible for setting the Board's agenda and ensuring that adequate time is available for discussion, particularly on strategic issues. The Chairman has no involvement in the day to day business of the Society. The Chairman facilitates the effective contribution of Non-Executive Directors and constructive relations between Executive and Non-Executive Directors and ensures effective communication with the Society's members. There have been no significant changes to the other commitments of the Chairman during the year.

The Chief Executive is responsible for implementing the strategy once agreed by the Board and managing the Society's business within the parameters set by the Board and is accountable to the Board for the financial and operational performance of the Society. He creates a framework of values, organisation and objectives to ensure the successful delivery of key targets, and allocates decision-making and responsibilities accordingly. The division of responsibility between the Chairman and Chief Executive is clearly established, in writing, and agreed by the Board.

Performance evaluation

The Board has adopted a methodology to evaluate the performance and effectiveness of individual Directors and of the Board as a whole and its Committees. Each Non-Executive Director has an annual performance appraisal conducted by the Chairman. The Non-Executive Directors hold at least one meeting a year, facilitated by the Senior Independent Director and without the Chairman present, to appraise the Chairman's performance. Executive Directors are evaluated within the performance evaluation framework for employees generally and by the Nomination and Remuneration Committee in the context of their remuneration.

In accordance with the Code, the Board has adopted the principle of externally facilitated evaluation on a three-yearly cycle. In the intermediate years the Board undertakes a self-evaluation exercise of its performance and that of its Committees. An external evaluation took place in 2015 and concluded that the Board operates very effectively using good governance principles and in the interests of members. The small number of recommendations arising from the evaluation are being acted upon. The external evaluation was conducted by Praesta Partners LLP, consultants specialising in board and director development and coaching. The consultancy has been engaged in the past to facilitate Board strategy meetings, but has no other connection with the Society.

Board Committees

The Board has established three principal committees: the Nomination and Remuneration, Audit, Risk and Compliance and Investment Committees deal with matters within clearly defined Terms of Reference which are reviewed and, if appropriate, updated each year. The Committees' Terms of Reference are available on request and are published on the Society's website.

The composition and responsibilities of the Committees are detailed on the following pages. The Board reviews the minutes of Committee meetings and it also receives reports from the Committees, which make recommendations on matters within their Terms of Reference. The composition and performance of the Committees are reviewed annually by the Board.

Nomination and Remuneration Committee

Members

Peter Le Beau
Committee Chairman

David Brand
Senior Independent Director

Stephen Payne
Non-Executive Director (appointed to the Committee 24 September 2015)

Kevin Richardson
Non-Executive Director

Wallace Dobbin
Board Chairman

Regular attendees

Andy Chapman
Chief Executive

Sally Hodge
Head of Human Resources

John Edwards
Company Secretary and Risk Officer

In accordance with the Annotated Code, the majority of the combined Committee's members are independent Non-Executive Directors. The Board Chairman was considered independent upon his appointment in 2013 and, therefore, meets the criteria for membership of Remuneration Committees recommended by the Annotated Code.

The Committee regularly reviews the structure, size and composition of the Board, in particular the range and balance of skills, knowledge and background on the Board, and considers succession planning for Directors. The Committee is responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise. An external search consultancy, The Willis Partnership Limited, was used to identify potential candidates for the new Director appointment that was made in 2015. This company has no other connection with the Society.

The Society places great emphasis on the principle of diversity throughout its organisation and the Board has adopted a Diversity Policy to underpin that commitment. Diversity in the Society embraces differences in the background of its people including gender, race, disability, sexual orientation, religion, belief and age. In reviewing Board composition, the Committee considers all aspects of diversity in order to maintain an appropriate range and balance of skills, knowledge and background on the Board.

In identifying suitable candidates for appointment to the Board, the Committee considers candidates on merit against objective criteria and for that reason no target has been set for female Directors as recommended by the Davies Report published in February 2011 for FTSE 350 companies. The majority of employees at the Society are female, including many at managerial level. Staff development and advancement are actively encouraged through a variety of initiatives, affording the same opportunity for male and female employees alike.

Prior to the Board recommending a Non-Executive Director for re-election at the Annual General Meeting, the Committee considers their appointment giving due regard to their performance, continuing commitment to the role and ability to contribute effectively to the Board and to ensure the continuing balance of the Board.

On the basis of the above criteria the Committee considers that the current Board is appropriate for the needs of the business. As a result, all the existing Directors will be standing for election or re-election at the Annual General Meeting in May 2016, with the exception of Kevin Richardson who has decided to retire from the Board with effect from that date. Information about the work of the Committee in relation to its remuneration policy related duties is provided within the Directors' Remuneration Report, which can be found on pages 34 to 46.

Audit, Risk and Compliance Committee

Members

Kevin Richardson
Committee Chairman

David Brand
Senior Independent Director

Peter Le Beau
Non-Executive Director

Stephen Payne
Non-Executive Director (appointed to the Committee 24 September 2015)

Regular attendees

Andrew Chapman
Chief Executive

Paul Austin
Finance Director

Professor William Hamilton
Medical Director

Simon Philp
Director of Distribution and Marketing

Jackie Chalmers
Head of Finance and Projects

Michael Dunford
General Business Fund Actuary

Adrian Hodgkinson
Head of Information Technology

Alice Hutchins
Chief Internal Auditor

Carl Northover
Long Term Business Fund Actuary

Alan Ord
Head of Operations

Clive Warburton
Head of Compliance and Legal

John Edwards
Company Secretary and Risk Officer

PricewaterhouseCoopers LLP
Independent Auditors

The Audit, Risk and Compliance Committee is appointed by the Board on the recommendation of the Nomination and Remuneration Committee in consultation with the Committee Chairman. As recommended by the Code, all four members of the Committee are independent Non-Executive Directors and at least one member (the Chairman) has recent and relevant financial experience and holds a professional qualification from one of the professional accountancy bodies.

The purpose of the Committee is to assist the Board in discharging its responsibilities for the integrity of the Society's financial reporting, the quality of the external and internal audit processes, risk management, the appropriateness of the Society's system of internal controls and governance of a range of compliance related matters.

The Committee meets at least three times a year, at appropriate times in the reporting and auditing cycle. The independent auditors, the Chief Internal Auditor, the Head of Compliance and the Risk Officer all have direct access to this Committee and its Chairman and they meet at least once a year with the Committee, without the Society's management present.

Financial reporting

The primary role of the Committee in relation to financial reporting is to review with both management and the external independent auditors the appropriateness of the annual financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external independent auditors;
- whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for members to assess the Society's position and performance, business model and strategy; and
- any correspondence from regulators in relation to the Society's financial reporting.

To aid its review, the Committee considers reports from the Finance Director, the Actuaries and also reports from the external independent auditors on the outcomes of their annual audit.

The primary areas of judgement considered by the Committee in relation to the 2015 accounts and how these were addressed were as follows:

- Insurance contract liabilities (Long Term Business Fund) – the calculation of the long term insurance business provision is an issue where management and professional judgements are important. These are addressed by the Committee challenging the Fund Actuary and management on the key assumptions made and considering any relevant professional advice that may have been received. The external independent auditors also report on the reasonableness of significant accounting estimates;
- Insurance contract liabilities (General Business Fund) – whilst these are more straightforward to calculate than for long term business, because the contracts are renewable annually and claims have a shorter tail, the Committee is required to satisfy itself that the assumptions used in the estimation of the claims incurred but not reported, unearned premium and unexpired risks provisions are reasonable. This it does by challenging the Fund Actuary and management on the key assumptions and considering any relevant professional advice that may have been received. The external independent auditors also report on the reasonableness of significant accounting estimates;
- Age at Entry Management Account for the PMI business – whilst the amount set aside to cover the value of potential future losses on Age at Entry business is not required to be recognised in the financial statements as a liability, the Committee is required to satisfy itself of the appropriateness of the method used in its calculation for the purposes of its disclosure in the notes to the financial statements. The value attached to the Account is also integral to the calculation of the Society's capital requirements for the General Business Fund. The Committee satisfies its obligations by challenging the Fund Actuary and management on the key elements of the calculation and considering any relevant professional advice that may have been received. The external independent auditors also report on the reasonableness of significant accounting estimates.

The Committee also devoted a significant amount of its time to preparation for the implementation of the Solvency II capital regime in January 2016. During the year, the focus was on the assumptions for the Solvency Capital Requirement calculations, the development of the Society's Own Risk and Solvency Assessment Report and future quantitative reporting requirements.

External audit

The Committee oversees the Society's relationship with and monitors the performance of the external independent auditors and makes recommendations to the Board in relation to their appointment, reappointment or removal. These recommendations are then put to the members for approval at the Annual General Meeting. PricewaterhouseCoopers LLP have held the position of the Society's independent auditors since 2008. In accordance with the Code, it is a policy of the Committee to conduct a tender exercise at least every 10 years.

The Society has policies in place which aim to safeguard and support the independence and objectivity of the external independent auditors. One such policy requires the prior approval of the Board for the engagement of the independent auditors for non-audit work. In reality, the independent auditors have been engaged on non-audit work rarely in the past, limited to the provision of taxation advice and regulatory guidance.

The effectiveness of the external audit process is assessed as part of the Committee's annual effectiveness review, which takes the form of a survey issued to the Committee members and regular attendees. The Chairman collates the findings of the effectiveness review and ensures that any issues relevant to the audit process are acted upon.

Internal audit

The internal audit function advises management on the effectiveness of the Society's internal control systems, the adequacy of those systems to manage business risk and to safeguard its assets and resources. The internal audit function provides objective assurance on risks and controls to the Committee. The Committee directs the internal audit plan to cover areas of risk and concern and this is kept under regular review. It also conducts a regular review of the effectiveness of the internal audit function and ensures that it has sufficient resources to carry out its duties effectively.

Compliance

The Committee has the additional responsibility of providing oversight of the Society's governance and regulatory compliance arrangements and monitoring their on-going effectiveness. In this regard, the Committee regularly reviews reports from the Compliance function including the outcomes and recommendations arising from its monitoring programme. The Committee also reviews the Society's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters.

Risk Management

The Board is responsible for determining strategies for risk management and control. Senior management are responsible for designing, operating and monitoring risk management and internal control processes and the Audit, Risk and Compliance Committee, on behalf of the Board, is responsible for reviewing the adequacy of these processes. The Committee is also responsible for ensuring that appropriate risk management systems are in place across the business and that there is an on-going process for identifying, evaluating and managing significant risks faced by the Society. This process is regularly reviewed at Board level, any risk related issues that are identified are investigated and, if necessary, additional compliance or internal audit resources are utilised. The Board has approved a Risk Appetite and Risk Register, which are regularly reviewed and form the basis of discussion and decision-making. Further details are provided within the Strategic Report on pages 13 to 16 and in Note 3 to the financial statements. The internal audit function provides independent and objective assurance that the Society's risk management processes are appropriate and are applied effectively.

Investment Committee

Members

David Brand
Committee Chairman

Peter Le Beau
Non-Executive Director

Andrew Chapman
Chief Executive

Stephen Payne
Non-Executive Director (appointed to the Committee 24 September 2015)

Regular attendees

Paul Austin
Finance Director

Michael Dunford
General Business Fund Actuary

Carl Northover
Long Term Business Fund Actuary

John Edwards
Company Secretary and Risk Officer

Royal London Asset Management Limited
Investment Managers

The Investment Committee is appointed by the Board and meets at least three times a year.

The Committee draws up and regularly reviews Investment Guidelines and recommends investment policy to the Board, including the review and approval of established limits for investments and the review and approval of credit policies including investment and counterparty liability, taking advice from the Actuaries and other appropriate financial advisers.

The Committee monitors the performance of the Investment Managers against the agreed benchmarks including its policy for compliance with the principles of the Stewardship Code. Royal London Asset Management was appointed as the Society's Investment Managers in 2011, following a selection process that was overseen by the Committee. A separate contract is in place with HSBC Bank Plc for the provision of custodial services for the Society's investments.

Executive Board Committee

Members

Andrew Chapman
Chief Executive

Paul Austin
Finance Director

Simon Philp
Director of Distribution and Marketing

John Edwards
Company Secretary and Risk Officer

Adrian Hodgkinson
Head of Information Technology

Alan Ord
Head of Operations

Occasional attendees

Jackie Chalmers
Head of Finance and Projects

Michael Dunford
General Business Fund Actuary

Sally Hodge
Head of Human Resources

Carl Northover
Long Term Business Fund Actuary

Clive Warburton
Head of Compliance and Legal

In addition to the Board Committees referred to above, there is an Executive Board Committee the purpose of which is to assist the Chief Executive in the performance of his duties. Its Terms of Reference are approved by the Board and include:

- The development and implementation of strategy, operational plans, policies, procedures and budgets;
- The monitoring of operational and financial performance;
- The identification, assessment and control of risk;
- Monitoring compliance with legal and regulatory obligations;
- The prioritisation and allocation of resources; and
- Monitoring and reacting appropriately to competitive forces in each area of operation.

The Committee meets twice a month and at other times as special business circumstances may dictate. Its work is supported by a number of sub-committees which focus their attention on key issues such as operational improvements, the fair treatment of customers, information security and counter-fraud measures.

The Board receives regular reports from the Chief Executive on the proceedings of the Committee meetings and the key operational decisions emanating from them.

Relations with members

The Board is fully committed to the fair and reasonable treatment of all members who are both owners and customers of the Society. The Board reviews a wide range of key performance and risk indicators at each of its meetings including several that assess how well the Society is meeting its commitments to treating customers fairly.

The Society actively encourages feedback from its members through a variety of methods including member surveys, correspondence and telephone contact; and through the issue of annual statements and renewal notices and the information pack for the Annual General Meeting (AGM).

The Board has appointed a Senior Independent Director, David Brand, whose responsibilities include being available to handle issues and concerns raised by members. Any member wishing to contact Mr Brand may do so, in the first instance, by writing to him at the Society's Registered Office.

Constructive use of the Annual General Meeting

Each year the Society sends a copy of the abbreviated version of its Annual Report and Accounts to every member, together with an invitation to attend the AGM and a Proxy Voting Form for members who are unable to attend the meeting in person. A full copy of the Annual Report and Accounts is available online or by request to the Society. At the AGM the Chairman gives a presentation on the main developments in the business and members present have the opportunity to raise questions and put forward their views. All members of the Board are present at the AGM each year (unless exceptionally their absence is unavoidable) and the Senior Independent Director and the Chairmen of the Audit, Risk and Compliance, Nomination and Remuneration and Investment Committees are therefore available to answer questions.

Board and Committee membership attendance record

Against each Director's name is shown the number of meetings of the Board and its Committees at which the Directors were present as a member and in brackets the number of such meetings that the Director was eligible as a member of the Board or Committee to attend during the year.

Director	Board	Audit, Risk and Compliance Committee	Nomination and Remuneration Committee	Investment Committee
W W Dobbin (Board Chairman)	7 (7)	-	2 (2)	-
D Brand (Senior Independent Director and Chairman of Investment Committee)	6 (7)	5 (5)	2 (2)	4 (4)
P E J Le Beau (Chairman of Nomination and Remuneration Committee)	7 (7)	5 (5)	2 (2)	4 (4)
S J Payne (Non-Executive Director)	3 (3)	1 (1)	1 (1)	1 (1)
K F Richardson (Chairman of Audit, Risk and Compliance Committee)	7 (7)	5 (5)	2 (2)	-
A D S Chapman (Chief Executive)	7 (7)	-	-	4 (4)
P Austin (Finance Director)	7 (7)	-	-	-
Professor W T Hamilton (Medical Director)	6 (7)	-	-	-
S J Philp (Director of Distribution and Marketing)	7 (7)	-	-	-

Directors' Remuneration Report

for the year ended 31 December 2015

I am very pleased to present the Directors' Remuneration Report for the year to 31 December 2015. The report has been structured broadly in accordance with the remuneration disclosure regime that applies to Stock Exchange listed companies, to ensure that the Society's remuneration policies and practices are presented in a clear and informative way.

Nomination and Remuneration Committee

Members

Peter Le Beau
Committee Chairman

David Brand
Senior Independent Director

Stephen Payne
Non-Executive Director (appointed to the Committee 24 September 2015)

Kevin Richardson
Non-Executive Director

Wallace Dobbin
Board Chairman

Regular attendees

Andy Chapman
Chief Executive

Sally Hodge
Head of Human Resources

John Edwards
Company Secretary and Risk Officer

The Nomination and Remuneration Committee is appointed by the Board. The Committee includes four independent Non-Executive Directors and the Board Chairman is also a member of the Committee, as he was considered independent on appointment as Chairman. Therefore, the composition of the Committee meets the requirements of the UK Corporate Governance Code.

The Committee, within the terms of the policy agreed by the Board, sets the level of remuneration for the Executive Directors and other members of the Society's Executive team. The Committee also sets the proposed level of fees for the Chairman, having taken advice from the Executive Directors. The Chairman takes no part in the setting of his own remuneration.

The Committee may appoint remuneration consultants in developing its remuneration policy. During the year, the Board enlisted the services of Facing Changes Limited, an independent consultancy that provides specialist HR expertise in the areas of incentive design and implementation, to make recommendations regarding the Society's executive pay and bonus scheme structures. The consultants have no other connection with the Society. Data from the Towers Watson Financial Services Survey (excluding London) was also used to benchmark salary levels within the Society during the year.

Remuneration policy

The Board recognises the need to engage staff at all levels who are capable of delivering its strategy and thereby ensuring the long term prosperity of the Society. To this end it has developed remuneration principles clearly aligned with that strategy, which promote the appropriate behaviours and deliver rewards linked to the success of the Society and the personal performance of the individual.

The remuneration of the Executive Directors is based on the following principles:

- Executives are rewarded for creating long term value for the Society and hence its members;
- Performance related rewards form part of the total remuneration package;
- The remuneration package is competitive in the market in which the Society operates;
- Failure is not rewarded; and
- Contractual terms are agreed which ensure that, on termination, payments are fair to the individual and the Society.

Reward at Exeter Friendly Society is a combination of base salary, variable pay and a market competitive benefits package. The Remuneration Policy is designed to support the Society's values and business culture by balancing the need to recognise and reward high performance with the requirements to manage risk and ensure that it promotes employee behaviours which act in the best interests of its members. The Nomination and Remuneration Committee considers the reward package of other Group employees when determining the Executive Directors' remuneration for the year. This includes annual base salary reviews, benefits and bonus schemes.

Remuneration policy table

Type of Remuneration	Purpose and link to the strategy	How it operates
Executive Directors		
Base salary	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	Base salaries take account of: • Skills and experience; • Salaries across the Society; and • By reference to the published information from comparable organisations in the financial services sector including data from the Towers Watson Financial Services Survey (excluding London). Salaries are usually reviewed annually with changes implemented from 1 April each year.
Benefits	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	The main benefit provided is the provision of Private Medical Insurance cover for Executive Directors and their immediate families.
Annual Bonus (Executive Director Bonus Scheme)	Variable pay is designed to enable managers and staff to share in the success of the Society and is payable upon achievement of a set of defined business and individual performance targets.	Corporate and individual performance targets are set by the Nomination and Remuneration Committee at the start of each year and achievements reviewed after the year end. The Committee can use its discretion to award or adjust bonuses and awards can be subject to claw-back if performance is misstated, in the event of misconduct or if there has been a major failure of management resulting in substantial damage to the business or reputation of the Exeter Friendly Society Group.
Pension	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society.	The Executive Directors are members of the Society's defined contribution Group Personal Pension Plan, which is available to all employees. Pension entitlements are not included as salary for the purpose of bonus calculations.
Non-Executive Directors		
Fees	To recruit and retain individuals with skills and experience relevant to the role and appropriate to contribute to the success of the Society without compromising their independence.	Annual fee for Chairman. Annual fee for Non-Executive Directors. Additional fees paid to the Chairmen of the Board Committees. Fees are reviewed periodically, with the Chairman's fee reviewed by the Committee and the Non-Executive Directors' fees reviewed by the Executive Directors to avoid any conflict.

Maximum value potential	Performance metrics	Changes to policy in 2015
No specific cap on salaries. In determining any increases, the rate of increase for other employees is considered.	Personal and corporate performance and the levels of increase throughout the Society are considered when deciding whether a salary increase should be awarded.	No changes. Details of how the Society's policy on base salaries has been implemented in 2015 are provided on page 42.
No pre-determined maximum.	None.	No changes.
Reviewed and determined by the Committee annually. The maximum bonus opportunity for Executive Directors is 100% of base salary. 40% of the annual bonus award for Executive Directors is deferred for two years post-award.	Performance is measured against key corporate performance indicators and individual performance.	New Sales Bonus Scheme introduced for the Director of Distribution and Marketing. No other changes in policy. Details of how the Society's variable pay policies have been implemented during 2015 are provided on pages 42 to 45.
A maximum Society contribution of 15% of base salary for Executive Directors.	None.	No changes. Details of the pension contributions made by the Society in 2015 are provided in the table on page 41.
No specific cap on fees. However, fee levels are benchmarked against market levels.	None.	Details of the fees paid in 2015 are provided on page 41.

Comparability of policy across the Group

The following notes outline any differences in the Society's policy on the remuneration of its Executive Directors from other employees within the Group by reference to each element of remuneration:

Base salary

There are no differences in the application of remuneration policy across the Group in relation to base salaries. The Committee takes into account the Group's overall salary budget and percentage increases made to other employees with similar levels of performance when setting Executive Directors' salaries.

Benefits

There are no differences in policy although the benefits available may vary according to the level of the employee within the business. Every employee is entitled to free Private Medical Insurance (PMI) cover with the Society and a 50% discount on normal premium rates for their spouse or partner and dependent children. Executive Directors and employees above a certain level are entitled to free PMI cover for themselves and their spouse or partner and dependent children.

Pensions

There are no differences in policy although the rates of pension contributions made by the Society vary according to the level of the employee within the business.

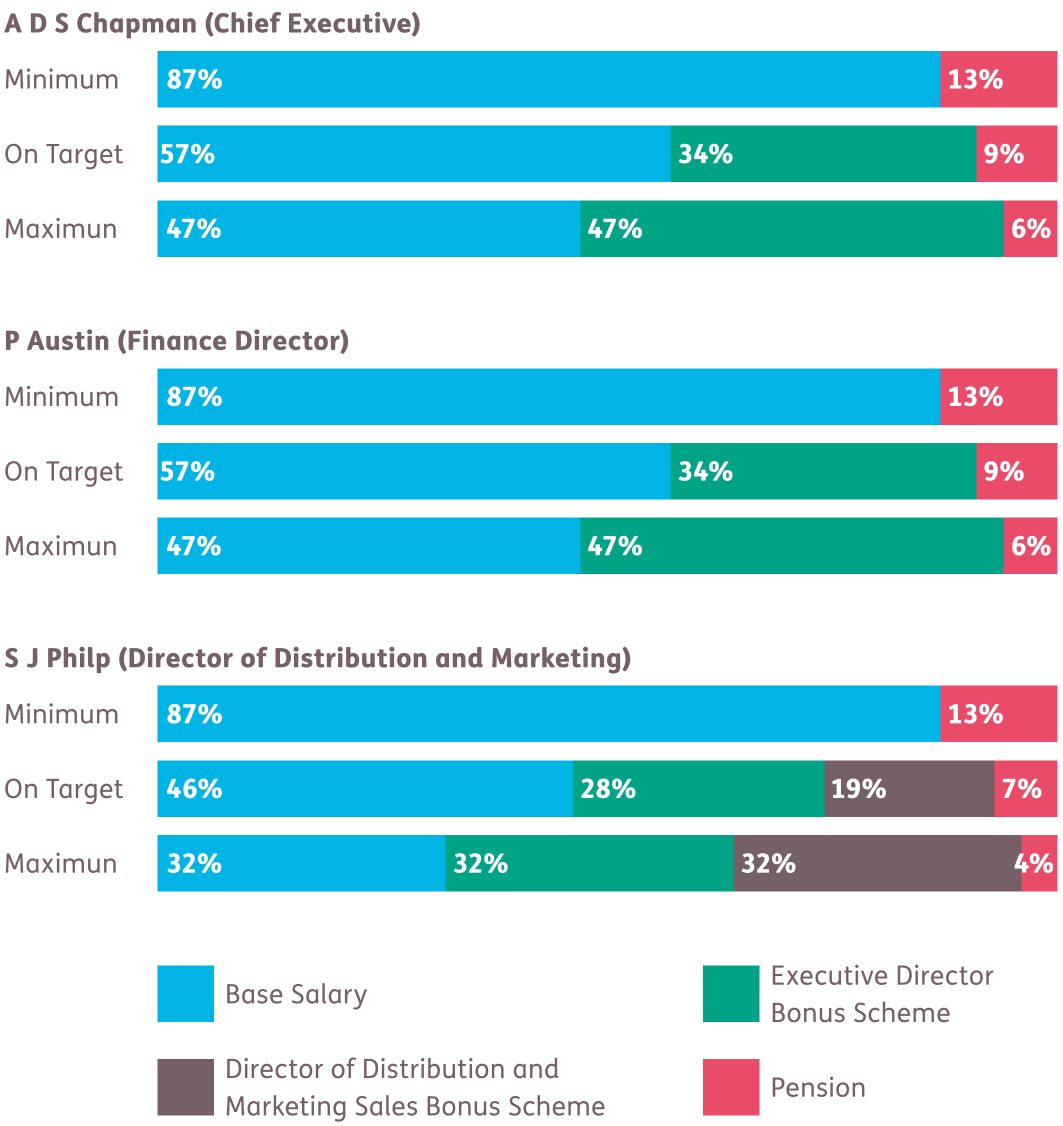
Annual bonus

The Group Annual Bonus Scheme applies to all staff with the exception of the Executive Directors and other members of the Executive team. The maximum bonus opportunity within this Scheme varies by the level of the employee within the business.

The Executive Directors and other members of the Executive team are eligible to participate in the Executive Director Bonus Scheme and Executive Team Bonus Scheme respectively. 40% of the annual bonus awards made under these Schemes are deferred for two years post-award. The Medical Director does not participate in the bonus schemes, as his executive role is largely an advisory one

Relative importance of remuneration elements
The Committee's view is that performance-related elements of the remuneration package for Executive Directors should be a significant proportion of the total. This serves to align the actions of these Directors with the interests of members.

The charts below illustrate the mix, as at the date of this report, between the fixed and performance-related pay of Executive Directors at on target performance levels compared to the minimum and maximum thresholds. The charts exclude the impact of the deferred elements of the now-closed Long Term Incentive Plan:



Executive Directors' recruitment and service contracts
When recruiting Directors, the Society's policy is to pay appropriately to attract individuals with the skills and experience appropriate to the role to be filled, taking into account remuneration across the Group, including other senior managers, and that offered by comparable businesses. Base salaries are set against market data and internal comparisons. All elements of reward are aligned to the Remuneration Policy.

Executive Directors are employed on contracts subject to no more than nine months' notice and specify that any Director appointed by the Board during the year holds office until the next Annual General Meeting and must then stand for election to continue in office. The Committee endorses the principle of mitigation of damages in the event of the early termination of service agreements.

Non-Executive Directors' letters of appointment
The Non-Executive Directors do not have contracts of service, but are provided with letters of appointment. Such appointments are initially for a three-year term although, in accordance with the Annotated UK Corporate Governance Code, all Directors stand for re-election by members each year at the Society's Annual General Meeting.

The letters of appointment set out the time commitment expected of the Non-Executive Directors in the performance of their duties. They also provide for a notice period of six months although this may be reduced in circumstances where they are no longer able to meet the obligations and conditions of their appointment.

Considerations elsewhere in the Group
In setting the remuneration policy for Executive Directors, the Committee has taken account of the pay arrangements for other employees in the Group. The same principles apply to remuneration policy for all employees, that pay should be benchmarked against relevant markets to ensure competitiveness whilst controlling costs, and that performance-related pay should be aligned with and help drive the achievement of the Group's business strategy. In determining any increase in the level of base salaries for Executive Directors, the policy requires that the rate of increases for other employees is considered.

Consultation with members
The Committee is committed to open dialogue with members on Executive Director remuneration. The Directors' Remuneration Report is subject to a vote at the Annual General Meeting.

Annual Report on remuneration

(Audited by PricewaterhouseCoopers LLP)

The following table shows the breakdown of total remuneration for Directors in 2015 together with the prior year comparatives (all figures quoted are in £000s):

	2015 £000s						**2014** £000s					
	Salary/ Fees	Benefits[1]/ Expenses[2]	Bonus	Long Term Incentive Plan[3]	Society Pension Payment	Total	Salary/ Fees	Benefits[1]/ Expenses[2]	Bonus	Long Term Incentive Plan[4]	Society Pension Payment	Total
Executive Directors												
A D S Chapman	253	2	74	25	38	392	248	2	93	59	37	439
P Austin	170	-	51	17	25	263	168	-	63	39	25	295
W T Hamilton	57	-	-	-	-	57	54	-	-	-	-	54
S J Philp[5]	160	-	76	-	24	260	54	-	31	-	2	87
Sub-Totals	**640**	**2**	**201**	**42**	**87**	**972**	**524**	**2**	**187**	**98**	**64**	**875**
Non-Executive Directors												
W W Dobbin	65	-	-	-	-	65	65	-	-	-	-	65
D S Brand	43	1	-	-	-	44	43	1	-	-	-	44
P E J Le Beau	43	1	-	-	-	44	43	1	-	-	-	44
S J Payne[6]	15	2	-	-	-	17	-	-	-	-	-	-
K F Richardson	45	1	-	-	-	46	45	2	-	-	-	47
Sub-Totals	**211**	**5**	**-**	**-**	**-**	**216**	**196**	**4**	**-**	**-**	**-**	**200**
TOTALS	**851**	**7**	**201**	**42**	**87**	**1,188**	**720**	**6**	**187**	**98**	**64**	**1,075**

[1] The benefit for A D S Chapman relates to the premium paid for an Income Protection policy.

[2] The expenses quoted are those which the Non-Executive Directors (NEDs) have incurred for travel or accommodation whilst on NED duties at Head Office. HMRC consider these to be taxable so the figure disclosed is the grossed up value of these expenses (other expenses incurred on NED duty which are not in respect of Head Office are not taxable and have therefore not been disclosed).

[3] Deferred payment from 2013.

[4] Deferred payments from 2012 and 2013.

[5] Appointed 5 September 2014 – figures for 2014 represent part of a year only.

[6] Appointed 9 September 2015 – figures for 2015 represent part of a year only.

Executive Directors

Base salary

The average base salary increase across the Group in April 2015 was 2%, with increases ranging from 0% to 10%. The annual base salary levels of the Executive Directors with effect from that date are as follows:

Name	April 2015	April 2014	Increase
A D S Chapman (Chief Executive)	£252,500	£252,500	0%
P Austin (Finance Director)	£170,000	£170,000	0%
S J Philp (Director of Distribution and Marketing)	£160,000	£160,000[1]	0%
W T Hamilton (Medical Director)	£40,000[2]	£40,000[2]	0%

[1] Appointed September 2014 – salary at time of appointment shown.

[2] Professor Hamilton also earns fees for providing medical advice to the business. In 2015 these amounted to £17,322 (2014: £13,743).

Variable pay – Executive Director Bonus Scheme

Variable pay at Exeter Friendly Society is designed to enable managers and staff to share in the success of the Group and is payable upon achievement of a set of defined business and individual performance targets. Performance incentive plans for senior managers and Executive Directors are structured to ensure a strong focus on both short and longer term business performance. The amounts paid depend on the Committee's measurement of Group performance against the business targets for the relevant period.

The Executive Director Bonus Scheme is for the Executive Directors (excluding the Medical Director) and is designed to deliver awards that reflect the performance of the individual executive and the Society over the short and long term. It is designed to be motivational and rewarding for executives, whilst protecting the assets of members and complying with best practice. The Medical Director does not participate in the Scheme, as his executive role is largely an advisory one.

Each year the participating Executive Directors can earn a bonus of up to an agreed percentage of salary for the achievement of individual and corporate objectives. The bonus award is based on three performance elements:

- Corporate measured performance;
- Individual performance; and
- A risk and governance modifier (which may reduce or withdraw an award, if there have been significant compliance or governance breaches, or excessive customer complaints).

The corporate performance measures may vary from year to year but for 2015 and 2014 they were Net Earned Premium (after reinsurance impact) and Operating Expenses (excluding commission to brokers). The planned targets for both measures were agreed by the Board following approval of the updated three-year Business Plan at the beginning of the respective years.

Net Earned Premium – achieving within 1% of the target for Net Earned Premium generates a bonus of 20% of base salary. For every 0.5% by which performance exceeds the target range, the bonus increases by 2% up to a maximum 40% of base salary. Conversely, for every 0.5% by which performance falls below target, the bonus reduces by 3% of base salary. Therefore, this element of bonus falls to zero when Net Earned Premium is 4.3% below target and reaches the maximum level of 40% of base salary at 6% above target.

Operating Expenses – achieving within 2% of the target for Operating Expenses generates a bonus of 20% of base salary. For every 1% outside the target range, the bonus increases or reduces by 3% of base salary. Therefore, this element of bonus falls to zero when Operating Expenses are 8.7% above target and reaches the maximum level of 40% of base salary at 8.7% below target.

The following table shows against the targets that were set for the corporate performance measures in both 2015 and 2014 and the awards made in respect of those measures:

Corporate Performance Measure	2015				2014			
	Target £000s	Actual £000s	Percentage of Target Achieved	Entitlement as a Percentage of Base Salary	Target £000s	Actual £000s	Percentage of Target Achieved	Entitlement as a Percentage of Base Salary
Net Earned Premium	59,969	58,135	96.9%	10.4%[1]	60,406	59,062	97.9%	13.4%
Operating Expenses[2]	10,215	10,127	99.1%	20.0%	9,736	9,371	96.0%	26.0%
TOTALS				**30.4%**				**39.4%**

[1] The Committee used its discretion to adjust the bonus rate following the Cash Plan business acquisition.

[2] Operating expenses in this context excludes deferred acquisition costs, pension costs and sundry year end write-offs.

The individual performance of Executive Directors is assessed on a scale of 0 to 100 against the personal performance objectives that are set for the year. On target performance of 50 results in an uplift of 50% in the bonus generated by the corporate performance measures, and reduces or increases in percentage terms around this central point.

The risk and governance modifier is used to reduce the level of earned bonus where in the opinion of the Committee there have been significant compliance or governance breaches or where customer complaints are well above the expected level.

The total awards made under the Scheme cannot exceed 100% of base salary, with an award of 60% of base salary being made if all performance conditions are achieved on target. 60% of any award is paid immediately with the balance of 40% deferred for a further two years.

During the deferment period the deferred element may increase or decrease in accordance with overall performance achieved in the following years.

The Nomination and Remuneration Committee retains absolute discretion in the final determination of awards under the Society's incentive schemes. The amount paid to the Executive Directors depends on the Committee's interpretation of performance against the measures for the relevant period.

The table below shows the total awards made to the Executive Directors under the Scheme in both 2015 and 2014, following the Committee's assessment of individual performance and the risk and governance modifier in each of these years. Bonuses vesting in any particular year are payable with salary in the March of the following year to which they relate:

Director	2015			2014		
	Percentage of Base Salary Awarded	Amount Awarded for 2015 and Vesting in 2015	Amount Awarded for 2015 and Vesting in 2017(1)	Percentage of Base Salary Awarded	Amount Awarded for 2014 and Vesting in 2014	Amount Awarded for 2014 and Vesting in 2016(1)
A D S Chapman	48.6%	£73,690	£49,126	61.6%	£93,324	£60,524(2)
P Austin	50.2%	£51,163	£34,109	61.6%	£62,832	£42,022(2)
S J Philp(3)	48.6%	£46,694	£31,130	–	–	–

(1) Amounts subject to fluctuation depending on performance in the intervening period.

(2) The Executive Directors shown had the option to take 50% of the bonus vesting for 2016 in 2015 under special terms agreed when the Executive Director Bonus Scheme was first implemented in 2014. Neither Director decided to take up this particular option.

(3) Appointed during 2014 and, therefore, not entitled to a bonus from the Scheme in relation to that year. However, refer to the section entitled 'Director of Distribution and Marketing Bonus Scheme' below.

Long Term Incentive Plan

The Executive Director Bonus Scheme was introduced in 2014 replacing the Annual Bonus Scheme and the three-year rolling Long Term Incentive Plan in which the Executive Directors had previously been participating. Deferred elements of awards made under the Long Term Incentive Plan in 2012 and 2013, and which vested in 2014 and 2015 are as follows:

Director	Percentage of Base Salary Deferred in each Year	Amount Awarded for 2013 and Vesting in 2015	Amount Awarded for 2013 and Vesting in 2014	Amount Awarded for 2012 and Vesting in 2014
A D S Chapman	10.00%	£25,250	£25,250	£33,663
P Austin	10.00%	£17,000	£17,000	£22,664

Director of Distribution and Marketing Sales Bonus Scheme

Under terms agreed at the time of his appointment in 2014, the Committee awarded the Director of Distribution and Marketing (S J Philp) a bonus of £31,400 in recognition of the achievement of his initial personal objectives and the sales of new business in the period up to the 2014 year end. All of this bonus vested in 2014 and was payable in March 2015.

The Director of Distribution and Marketing Bonus Scheme was implemented for 2015 onwards, which pays a bonus to Mr Philp upon the achievement of sales targets set at the beginning of the year. The bonus payable under this Scheme in 2015 amounted to £28,800, all of which vested and became payable during that year.

Pension arrangements

The Executive Directors are members of the Society's defined contribution Group Personal Pension Plan, which is available to all employees. They may also make their own contributions in addition to those made on their behalf by the Society. The contribution made by the Society on behalf of the Executive Directors in both 2015 and 2014 was 15% of base salary. The Medical Director is not entitled to pension contributions from the Society.

Other benefits

The Executive Directors are entitled to free Private Medical Insurance cover with the Society for themselves, their spouse or partner and dependent children. The Society also pays the insurance premium for an Income Protection policy held in the Chief Executive's name.

Non-Executive Directors

Non-Executive Directors, including the Chairman, are remunerated solely by fees. They do not receive any incentive payments nor do they have pension scheme or other benefit entitlements from the Society.

The review of remuneration for the Non-Executive Directors (other than the Chairman) is delegated to the Chief Executive and Executive Directors of the Board, who may take advice from external remuneration consultants, as appropriate. Their remuneration is intended to reflect the time commitment and responsibilities of the role and is validated by reference to the published information from comparable organisations in the financial services sector.

P E J Le Beau MBE, JP, FCII
Nomination and Remuneration
Committee Chairman
30 March 2016

Independent Auditors' Report to the Members of Exeter Friendly Society Limited

Report on the Group financial statements

Our opinion

In our opinion, Exeter Friendly Society Limited's Group financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2015 and of the Group's and the Society's income and expenditure and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

What we have audited

The Group's financial statements included within the Annual Report and Accounts (the "Annual Report") comprise:

- the Group and Society statements of financial position as at 31 December 2015;
- the Group and Society statements of comprehensive income for the year then ended;
- the Group and Society statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Context

On 30 October 2015, Exeter Friendly Society Limited ("the Society") purchased a private medical insurer, The Exeter Cash Plan (formerly Engage Mutual Health). The Society now has non-dormant subsidiaries and is required to prepare consolidated financial statements for the first time. There have not been any other significant changes in the Group in the year that have impacted the scope of our audit or our areas of focus.

Overview

Materiality

- Overall Group materiality: £1,821,000 which represents 1.75% of the Unallocated Divisible Surplus.

Audit scope

- The Group has two trading entities, Exeter Friendly Society Limited and The Exeter Cash Plan. Both entities were subject to an audit of their complete financial information.
- We performed audit procedures on all material balances and line items in the financial statements, all of which were undertaken by the same engagement team.

Areas of focus

- The morbidity assumptions used in the valuation of liabilities for income protection contracts.
- The methodology used to calculate incurred but not reported liabilities for private medical insurance products.
- The methodology used to calculate the amount disclosed for the private medical insurance business age at entry products.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Morbidity assumptions used in the valuation of liabilities for income protection ("IP") contracts Refer to page 28 (Audit, Risk and Compliance Committee Report), page 60 (accounting policies) and page 107 (notes). The valuation of liabilities for IP contracts (£38.5 million, disclosed in note 24) depends on a range of assumptions, but the one to which it is most sensitive is morbidity. Small changes in this assumption could have a material impact on the valuation. The Directors' morbidity assumption is derived using standard industry tables, adjusted to reflect the Group's historical experience in line with standard actuarial practice. The Directors have included a margin for prudence in this adjustment to mitigate the uncertainty of using historical experience to forecast future claims projections. We focused our audit work in this area on the key judgements adopted by the Directors in setting their morbidity assumption, including: • The Directors' assessment of the historical claims experience in calculating the adjustment to the standard industry tables; and • The claims experience analyses undertaken by the Society to determine the level of the prudence margin to be applied to the adjustment.	We inspected the standard industry tables used to derive the morbidity assumption and determined that they were appropriate for this purpose. We evaluated the adjustment to the standard industry tables by comparing the actual level of sickness claims incurred by the Society in the current year to the adjusted industry table rates. This comparison included consideration of different claims characteristics, namely product type, gender, occupational class and policy duration. We found the adjustment to be appropriate. We considered the appropriateness of the level of prudence margin: • by comparing it to that applied on similar books of business in other insurers; • by comparing the prudence margin applied in prior year to current year actual claims experience, and considering whether this had been taken into account when establishing the prudence margin adopted in the current year; and • by using our own actuarial specialists. On the basis of the above procedures, we found the margin to be appropriate. Through the procedures performed we determined that the morbidity assumptions used in the valuation of liabilities for IP contracts were reasonable.

Area of focus	How our audit addressed the area of focus
Methodology used to calculate Incurred But Not Reported ("IBNR") liabilities for private medical insurance ("PMI") products Refer to page 28 (Audit, Risk and Compliance Committee Report), page 62 (accounting policies) and pages 104 and 106 (notes). The Directors have recognised a liability for IBNR claims of £2.6 million, disclosed in note 24, in relation to potential claims on the Society's PMI business. For the Society, the Directors have estimated the liability using a variation of the Bornhuetter-Ferguson reserving valuation method. The Bornhuetter-Ferguson is one of a range of possible reserving methodologies and has been chosen as, in the case of the Society, historically it has provided a reliable estimate of the IBNR in the context of the profile of the Society's PMI business. In addition, the valuation of the liability depends on a range of assumptions, the most significant of which are the claims loss ratio and the speed at which claims will develop (in particular compared to past claims experience). Small changes in these assumptions could have a material impact on the financial statements, so this is where we focused our audit work.	We used actuarial specialists to test the valuation of the IBNR liabilities in relation to PMI business for the Society. This was performed by carrying out an independent re-projection of the IBNR using an alternative methodology, namely a mixture of the Chain Ladder and Bornhuetter-Ferguson methods. These methods are commonly used elsewhere in the industry. This re-projection used the Society's actual historic claims data to calculate our view of future claims development. We then compared the results of our re-projection to the IBNR liability recognised in the financial statements and found that they were not materially different.
Methodology used to calculate the amount disclosed for the PMI business age at entry products Refer to page 28 (Audit, Risk and Compliance Committee Report) and page 69 (notes). The Group has disclosed in note 2 (iv) the amount of £37.3 million set aside in relation to the Age at Entry Management Account ("AEMA"), which was previously the Long Term Exposure Reserve ("LTER") for age at entry policies. Such policies are	We used actuarial specialists to assess the methodology for the calculation of the AEMA. We considered the appropriateness of the calculation and the key areas of judgement underlying the methodology as set out below: • We compared the reserve releases under the AEMA to those previously applied under the LTER methodology and found them to be consistent. We considered the Society's sensitivity

Area of focus Continued	**How our audit addressed the area of focus** Continued
annually renewable and have premiums based on the age at which the member joined the Society, rather than the member's age at each renewal of the contract. The AEMA is a fund which is set aside to finance the expected future outgo in relation to Age at Entry PMI business, and has a defined run off pattern over the remaining lifetime of the policies. The AEMA is used by the Society as part of its capital management processes to recognise the potential for losses to be incurred in later policy years if the policies are renewed by the policyholder; however, it is not required to be recognised in the financial statements as a liability as there is no obligation on the Society until the policy has been renewed. The starting point of the calculation is consistent with the approach adopted in calculating the LTER in prior years. The valuation of the AEMA is based on a tailored methodology and we have focused our work on the following key areas: • The magnitude of the reserve releases and additions to the AEMA fund in light of the policyholders' risk profile in future years; • The projected reduction of the reserve value in line with the above approach; • The claims loss ratio (CLR) adjustment ratios, which play a key part in the above calculation as they reflect the relative maturity of the plans; and • The allowance for investment return achieved on the underlying assets in the calculation of the AEMA fund year on year.	analysis to key risk factors to determine if they were within our expected ranges and found that they were. • We compared the projected reduction in reserve release to the reserve releases methodology and found them to be consistent. • We determined that the Society's use and calculation of claims loss ratios was consistent with common actuarial methods and used data consistent with the Society's experience; and • We determined that the allowance for investment return in the AEMA methodology was consistent with the allowances made under the prior LTER methodology and aligned with management's intention to remain invested in index linked gilts for this provision. Based on our testing, we are comfortable with the Society's proposed AEMA reserve methodology and calculation.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group has two trading entities, Exeter Friendly Society Limited and The Exeter Cash Plan, which was acquired in the year. These are both financially significant to the financial statements of the Group, and were therefore subject to an audit of their complete financial information. There is a centralised finance function that oversees both entities. The scope of our audit was based on our assessment of the material balances and line items in the financial statements, together with our consideration of the risks of material misstatement.

In addition, the Group includes a holding company and three dormant entities. These are all immaterial to the audit of the Group financial statements and were not therefore subject to audit procedures.

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£1,821,000 (2014: £1,600,000).
How we determined it	1.75% (2014: 1.75%) of Unallocated Divisible Surplus.
Rationale for benchmark applied	We consider the Unallocated Divisible Surplus to be the most relevant measure to apply as this represents the value of the members' interests in the Society.
Component materiality	For each component in our audit scope, we allocate a materiality that is less than our overall Group materiality.

We agreed with the Audit, Risk and Compliance Committee that we would report to them misstatements identified during our audit above £90,000 (2014: £80,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group and Society have adequate resources to remain in operation, and that the Directors intend them to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's and Society's ability to continue as a going concern.

Other required reporting

Consistency of other information

Friendly Societies Act 1992 opinion

In our opinion, the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

ISAs (UK & Ireland) reporting

The Directors comply with the UK Corporate Governance Code – An Annotated Version for Mutual Insurers ("the Code"). Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
- information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Society acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report arising from this responsibility.
- the statement given by the Directors on page 21, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's and Society's performance, business model and strategy is materially inconsistent with our knowledge of the Group and Society acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
- The section of the Annual Report on pages 27 to 30, as required by provision C.3.8 of the Code, describing the work of the Audit, Risk and Compliance Committee does not appropriately address matters communicated by us to the Audit, Risk and Compliance Committee.	We have no exceptions to report arising from this responsibility.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As the Directors comply with the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation in the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation in the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to

Propriety of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Matter on which we have agreed to report by exception

Corporate governance statement

In accordance with our instructions from the Society we review the parts of the Directors' Corporate Governance Report relating to the Society's compliance with ten further provisions of the Code specified for auditor review by the Association of Financial Mutuals. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group and Society's 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 Group and Society financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group and Society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Joanne Leeson (Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
Bristol
30 March 2016

(a) The maintenance and integrity of the Exeter Friendly Society Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

	Note	Group		Society	
		2015	**2014**	**2015**	**2014**
		£000	**£000**	**£000**	**£000**
Gross earned premiums	5	64,390	64,616	63,959	64,616
Reinsurers' share of gross earned premium	5	(5,783)	(5,554)	(5,783)	(5,554)
Net earned premium		**58,607**	**59,062**	**58,176**	**59,062**
Investment income	6	2,467	1,981	2,463	1,981
Net (losses)/gains on investments	7	(2,472)	12,004	(2,469)	12,004
Other Income					
Reinsurance commission	8	2,279	2,192	2,279	2,192
Other income		–	76	–	76
Total Income		**60,881**	**75,315**	**60,449**	**75,315**
Gross benefits and claims	9	(45,778)	(47,126)	(45,657)	(47,126)
Reinsurers' share of gross benefits and claims	9	1,158	1,026	1,158	1,026
Net benefits and claims		**(44,620)**	**(46,100)**	**(44,499)**	**(46,100)**
Gross change in insurance contract liabilities	10	(7,123)	21,115	(6,812)	21,115
Reinsurers' share of gross change in insurance contract liabilities	10	3,435	(18,353)	3,435	(18,353)
Net change in insurance contract liabilities		**(3,688)**	**2,762**	**(3,377)**	**2,762**
Investment expenses and charges		(316)	(365)	(316)	(365)
Net operating expenses (excluding commission to brokers)	11	(11,193)	(10,172)	(10,951)	(10,172)
Commission and introductory fees to brokers	11	(5,008)	(5,125)	(5,004)	(5,125)
Bonus and rebates		(559)	(596)	(559)	(596)
Total benefit, claims and expenses		**(65,384)**	**(59,596)**	**(64,706)**	**(59,596)**
(Loss)/profit before tax		**(4,503)**	**15,719**	**(4,257)**	**15,719**
Income tax expense	14	–	–	–	–
(Loss)/profit for the year		**(4,503)**	**15,719**	**(4,257)**	**15,719**
Pensions scheme actuarial gain/(loss)	23	325	(522)	325	(522)
Fair value gain of property, plant and equipment	19	135	105	135	105
Movement in post retirement medical benefit reserve	23	3,637	29	3,637	29
Transfer from/(to) the unallocated divisible surplus	22	406	(15,331)	160	(15,331)
Total Comprehensive Income for the Year		**–**	**–**	**–**	**–**

All income and expenditure relates to continuing operations. The Society is not presenting a separate Statement of Changes in Equity as the information is presented in Notes 2 and 22.

The notes on pages 60 to 111 form part of these financial statements

Consolidated Statement of Financial Position

as at 31 December 2015

		Group		Society	
	Note	2015	2014 (restated)	2015	2014 (restated)
Assets		£000	£000	£000	£000
Intangible assets and goodwill	18	400	–	–	–
Deferred acquisition costs					
General business	15	1,290	1,234	1,274	1,234
Long term business	15	5,500	4,727	5,500	4,727
Investments in group undertakings	16	–	24	24	24
Property, plant and equipment	19	4,068	3,771	4,068	3,771
Post-employment benefits assets					
Pension benefit asset (General Business Fund)	23	141	–	141	–
Loans and other receivables:					
Insurance receivables	21	14,539	14,264	13,944	14,264
Amounts due from subsidiary undertaking		–	–	3,026	–
Other debtors		–	30	–	30
Prepayments and accrued income		747	744	747	744
Financial assets, fair value through profit and loss	20	122,574	122,540	120,577	122,540
Cash and cash equivalents		24,852	26,103	23,774	26,103
Total Assets		**174,111**	**173,437**	**173,075**	**173,437**
Liabilities					
Unallocated divisible surplus	22	103,852	104,258	104,098	104,258
Insurance contract liabilities	24	64,362	60,806	63,922	60,806
Post-employment benefits obligations					
Pension benefit obligation (General Business Fund)	23	–	328	–	328
Pension benefit obligation (Long Term Business Fund)	23	150	160	150	160
Post retirement medical benefits reserve	23	–	3,637	–	3,637
Trade and other payables					
Insurance payables	26	1,594	839	1,032	839
Amounts due to subsidiary undertaking		–	28	28	28
Other payables including tax and social security	27	2,387	1,786	2,118	1,786
Accruals and deferred income		1,766	1,595	1,727	1,595
Total Liabilities		**174,111**	**173,437**	**173,075**	**173,437**

The financial statements on pages 57 to 111 were approved by the Board of Directors on 30 March 2016 and were signed on its behalf by:

W W Dobbin BA, Barrister
Chairman

A D S Chapman ACII, APFS
Chief Executive

J P Edwards BSc, ACIS
Secretary

Consolidated Statement of Cash Flows

for the year ended 31 December 2015

		Group		Society	
	Note	2015	2014	2015	2014
		£000	£000	£000	£000
Cash and cash equivalents at the beginning of the year		**26,103**	**25,642**	**26,103**	**25,642**
Cash flows from operating activities					
Cash used in operating activities	28	(2,072)	(435)	(809)	(435)
Dividend income received		814	341	814	341
Interest income received		1,653	1,640	1,649	1,640
Net cash generated from/(used in) operating activities		**395**	**1,546**	**1,654**	**1,546**
Cash flows from investing activities					
Investments in group undertakings		–	–	(2,737)	–
Purchase of subsidiary, net of cash acquired		(400)	–	–	–
Purchases of property, plant and equipment	19	(1,126)	(971)	(1,126)	(971)
Proceeds from sale of property, plant and equipment		–	–	–	–
Net cash used in investing activities		**(1,526)**	**(971)**	**(3,863)**	**(971)**
Exchange (loss)/gain on cash and cash equivalents		**(120)**	**(114)**	**(120)**	**(114)**
Net increase/(decrease) in cash and cash equivalents		**(1,251)**	**461**	**(2,329)**	**461**
Cash and cash equivalents at the end of the year		**24,852**	**26,103**	**23,774**	**26,103**

The notes on pages 60 to 111 form part of these financial statements.

Notes to the Consolidated Financial Statements

for the year ended 31 December 2015

1 Accounting policies

1.1 Basis of preparation and consolidation

The Group's and Society's financial statements conform to International Financial Reporting Standards (IFRS) as adopted by the European Union. The IFRS transition date was 31 December 2009. In addition the Society's accounts comply with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the Regulations).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets and financial liabilities at fair value through income.

The accounting policies have been applied consistently and the consolidated financial statements have been prepared on a going concern basis.

i. Business Combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on the bargain purchase is recognised in profit or loss immediately. Transaction costs are expenses as incurred.

ii. Subsidiaries

Subsidiaries are entities controlled by the Group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

iii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

1.2 Significant accounting judgements, estimates and assumptions

The key accounting estimates and judgements relate to the following areas:

i. Valuation of long term insurance contract liabilities

The liability relating to long term insurance contracts is based on assumptions reflecting the current best estimate and margins for adverse deviations.

The assumptions used for mortality, morbidity and longevity are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience. The assumptions used for investment returns, expenses and persistency are based on current market yields, product characteristics and relevant experience. The assumptions used for discount rates are based on current market yields adjusted for the Society's own risk exposure. Due to the long term nature of these obligations, the estimates are subject to significant uncertainty.

Policy reserves make allowance, on a prudent basis, for policies where there is an expected net cash inflow to the Society (negative reserves). Allowance is made however for negative reinsurance reserves where there is an expected cash outflow due to the reinsurer. The terms of the treaty with the reinsurers provide for initial reinsurance commission to be paid to the Society and as a result of this up-front commission they receive a higher proportion of the future premiums leading, in many cases, to a negative reinsurance reserve, based on the 50% treaty share of future claims and premiums.

ii. Valuation of general insurance contract liabilities

For Private Medical Insurance and Cash Plan policies within the general fund estimates are made for the expected ultimate cost of claims reported as at the year end date and the cost of claims incurred but not yet reported (IBNR) to the Society. It can take many months before the ultimate cost of claims can be established with certainty, and the final outcome may be better or worse than provided. Standard actuarial claims projection techniques are used to estimate outstanding claims. These techniques use past patterns of delay between claims being incurred and settled, and combine them with estimates of ultimate loss ratios and seasonality of claims. Case estimates are used for some reported claims where the ultimate amount is not known.

To the extent that the ultimate cost is different from the estimate, where experience is better or worse than expected, the surplus or deficit will be credited or charged to gross claims within the Statement of Comprehensive Income in future years.

iii. Valuation of pension liabilities and other post-employment benefit obligations

The value of pension obligations is determined using an actuarial valuation. This involves making assumptions about interest rates, expected returns, longevity and future benefit indexation. Due to the long term nature of these obligations the estimates are subject to significant uncertainty. Details of the key pension assumptions are contained in Note 23. Note 23 also describes the key assumptions used in past years for valuing the post retirement medical benefits reserve. The Board is withdrawing these post retirement medical benefits during 2016, which eliminates the need for such a reserve at the end of 2015.

iv. Valuation of intangibles and goodwill

The Group's policy is to measure goodwill and intangibles assets at the point of acquisition calculated as the cost of acquisition less the fair value of the assets acquired. At each reporting date, the Group reviews the carrying amounts of its intangible assets and goodwill to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

1.3 Principal accounting policies

i. Basis of consolidation

The Group financial statements consolidate the results of the Society and its subsidiary companies. The notes and disclosures within these financial statements apply to the Group and Society unless otherwise stated.

ii. Contract classification

All policies issued by the Society are insurance contracts under IFRS 4. Holloway policies have an investment component, although in comparison to the insurance element this is de minimis. As such these policies are considered insurance contracts.

iii. Premiums

(a) General Business Fund
Written premiums are accounted for in the period in which contracts are entered into. Premiums are recognised as earned over the period of the policy, premiums applicable to periods after the year end date being carried forward to the following year.

(b) Long Term Business Fund
Premiums are accounted for when due for payment. New business premiums are recognised when the policy liability is set up and the premium is due for payment. Holloway Income Protection products are all reviewable. Pure Protection and Bills & Things products are reviewable after the initial 3 years. The Locum product is reviewable after the initial 5 years. The Professional Income Protection and Income One products have guaranteed premiums.

iv. Reinsurance

(a) General Business Fund
The general business is not reinsured.

(b) Long Term Business Fund
Long-term Pure Protection, Professional Income Protection, Income One and Locum Protection contracts are ceded to reinsurers under contracts to transfer 50% of the insurance risk of new business (75% for Income One Level). These contracts are accounted for as insurance contracts.

The reinsurer's share of gross earned premiums in the Statement of Comprehensive Income reflects the amounts payable to reinsurers in respect of those premiums reinsured during the period.

Commissions due from the reinsurer are recognised in the period in which the policy commences and deferred in accordance with the Society's policy of deferred acquisition costs as disclosed in note 1.3 v (b).

The reinsurer's share of gross benefits and claims incurred in the Statement of Comprehensive Income reflects the amounts receivable from reinsurers in respect of those claims incurred during the period.

Any balance due from the reinsurer in respect of commission and claims are disclosed within Insurance Receivables in the Statement of Financial Position. Any balance to the reinsurer in respect of premiums is disclosed within Insurance Payables in the Statement of Financial Position.

The impact of reinsurance on the long term insurance reserve is calculated to reflect all future premium payments to the reinsurers, Pacific Life Re, and subsequent claims receipts. The terms of the treaty with the reinsurers for most contracts provide for initial reinsurance commission to be paid to the Society and subsequently the reinsurer receives 50% of premiums and pays 50% of claims. As such in many cases this results in negative reinsurance reserves.

v. Claims

(a) General Business Fund
Claims are approved benefit claims and related claims handling expenses incurred in the year, together with changes in the provision for outstanding claims at the year end. Claims incurred but not reported (IBNR) are projected using a triangulation method together with estimated loss ratios. The date at which a claim is deemed to be incurred is the date at which the corresponding medical treatment begins. The IBNR provision is then calculated as the

ultimate projected cost of claims less cumulative claims incurred already reported. Provision is also made for claims notified but not settled and are estimated on an individual case by case basis.

Claims costs include a charge of 3.5% (2014: 3.0%) of claims incurred reallocated from administration expenses.

(b) Long Term Business Fund
Sickness claims are accounted for on acceptance of the claims notification, and claims payable on maturity, death and surrender are recognised when the payment becomes due. Gross benefits and claims relate to pay-outs in 2014. Any other changes are accounted for in the Gross change in contract liabilities in the Statement of Comprehensive Income.

vi. Acquisition costs

(a) General Business Fund
Acquisition costs represent commission payable and other related expenses of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent period are deferred and charged to the accounting periods in which the related premiums are earned.

(b) Long Term Business Fund
Acquisition costs represent commission payable (net of reinsurance commission receivable) and other related expenses of acquiring insurance policies written during the financial year. Acquisition costs which relate to a subsequent period are deferred and charged to the accounting periods in which the related premiums are earned. Acquisition costs are spread over the period that the new policies are expected to remain profitably on the books.

vii. Investment income

Dividends on equity investments are included in the Statement of Comprehensive Income account on an accruals (ex-dividend) basis. Other investment income is recognised on an accruals basis. Realised and unrealised gains and losses on investments are taken to the Statement of Comprehensive Income. Unrealised gains and losses on investments represent the difference between the valuation of investments at the year end date and their original cost, or if they have been previously re-valued, at that valuation. The movement in unrealised gains and losses recognised in the period includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period. Realised gains and losses on investments are calculated as the difference between the net sale proceeds and original cost.

viii. Foreign currencies

Foreign currency transactions have been converted into sterling, the Society's reporting currency, at average rates of exchange. Monetary assets and liabilities in foreign currencies have been translated at the rates of exchange ruling at the year end. Exchange differences are taken to the Statement of Comprehensive Income.

ix. Taxation

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax repayable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- Temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;

- Temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and

- Taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that its is no longer probable that the related tax benefit will be realised.

Premiums where applicable are recorded net of insurance premium taxes.

x. Property and equipment

All property is occupied by the Society at the balance sheet date. Land and buildings are formally re-valued annually and included in the accounts at valuation with any surplus or deficit being transferred to a revaluation reserve.

Depreciation is provided to write off the cost, less estimated residual value, of tangible assets by equal instalments over their estimated useful economic lives as follows:

Building fit-out costs	3 - 10 years
Equipment, fixtures and fittings	3 - 10 years
Computer equipment and software	2 - 5 years

The Society's policy is to revisit the estimated useful economic lives and estimated residual values at the end of each financial year.

xi. Intangible assets and goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses. Goodwill is not amortised.

xii. Investments in group undertakings

Subsidiaries are held in the Society's Statement of Financial Position at deemed cost at date of transition to IFRS reporting or date of acquisition, where applicable.

xiii. Financial assets

The Society classifies all of its financial assets as financial assets at fair value through income.

Financial assets at fair value through income
The Society classifies all of its investments upon initial recognition as financial assets at fair value through income and subsequent valuation movements are recognised in the Statement of Comprehensive Income. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Society has transferred substantially all risks and rewards of ownership. Financial assets at fair value through income include listed and unlisted investments, and units in collective investment vehicles. Fair value is based on the bid value at the year end.

xiv. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, and short term deposits with a maturity of less than 12 months.

xv. Insurance contract liabilities

The long-term business provision is calculated by the Society's Actuarial Function Holder, having due regard to the actuarial principles laid down in the Life Framework Directive (Council Directive 92/96/EC).

xvi. Employee benefits

The Society operates three pension schemes – two defined benefit schemes and one defined contribution scheme. Contributions to the defined contribution scheme are charged to the Statement of Comprehensive Income as incurred.

(a) Defined benefit pension costs – General Business Fund
The assets of the defined benefit scheme are measured at fair value. The scheme's liabilities are measured on an actuarial basis using the projected unit method and are discounted to reflect the time value of money and the characteristics of the liabilities. The resulting surplus or deficit in the defined benefit scheme is recognised as an asset or liability respectively. Current service charges are recognised in the Statement of Comprehensive Income. Interest on the net benefit liability (asset) is charged on the Statement of Comprehensive Income. Actuarial gains and losses are disclosed in other comprehensive income. This fund is closed to new members and closed to future accrual.

(b) Defined benefit pension costs – Long Term Business Fund
The defined benefit scheme is an unfunded scheme for two former employees/spouses. This scheme is closed to existing employees of the Society. The total cost of the pensions payable each year is charged to the provision, to which is credited appropriate interest earned and transfers from or to retained reserves sufficient to meet the expected liability, as recalculated on an annual basis.

(c) Post retirement medical benefits reserve
A reserve has previously been established to reflect the expected long term cost of discounted Private Medical Insurance policies held by some retired staff and Board members.

xvii. Provisions

Provisions are recognised when the Society has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. A provision is made for onerous contracts in which the unavoidable costs of meeting the present legal or constructive obligation exceed the expected future economic benefits.

xviii. Insurance receivables and payables

Insurance receivables and payables are recognised when due and include amounts due to and from agents, brokers and insurance contract holders. Where there is objective evidence that the carrying value is impaired then the impairment loss will be recognised in the Statement of Comprehensive Income.

xix. Unexpired risks

A provision is made for unexpired risks in respect of certain Private Medical Insurance products to the extent that the expected claims, related expenses and deferred acquisition costs are expected to exceed unearned premiums for those products, after taking account of future investment income on the unearned premium provision.

xx. Unallocated divisible surplus

The unallocated divisible surplus represents the excess of assets over and above the insurance contract liabilities and other liabilities. Any profit or loss in the year arising through the Statement of Comprehensive Income is transferred to the unallocated divisible surplus.

xxi. Operating segments

The Group has two strategic divisions, the General Business Fund and the Long Term Business Fund, which are its reportable segments.

The principal activity of the General Business Fund is to underwrite general insurance business through both direct and broker distribution channels. The primary sources of premium income are from the sale of Private Medical Insurance and Cash Plans. The principal activities of the General Business Fund are in the United Kingdom, although there is a small proportion of business which is written in the United Kingdom but for which the location of risk is outside of the United Kingdom. The geographical segmentation is disclosed in note 5 to the accounts.

The principal activity of the Long Term Business Fund is to provide Income Protection products through broker distribution channels. All activities of the Long Term Business Fund are based in the United Kingdom.

2 Capital management

2.1 Long term insurance business

		Group		Society	
	Note	2015	2014 (restated)	2015	2014 (restated)
Available capital resources		**£000**	**£000**	**£000**	**£000**
Opening unallocated divisible surplus	22	25,143	15,798	25,143	15,798
Transfer to unallocated divisible surplus from Statement of Comprehensive Income		(56)	9,360	(56)	9,360
Actuarial gain/(loss) on defined benefit pension scheme taken to Statement of Comprehensive Income		3	(15)	3	(15)
Closing unallocated divisible surplus	**22**	**25,090**	**25,143**	**25,090**	**25,143**
Adjustments onto regulatory basis:					
Adjustment to assets		(5,563)	(4,787)	(5,563)	(4,787)
Total available capital resources		**19,527**	**20,356**	**19,527**	**20,356**
Long term insurance liabilities on a statutory basis:					
Policyholder Obligations		38,521	36,528	38,521	36,528
Insurance Contract Liabilities in the Statement of Financial Position (restated)		**38,521**	**36,528**	**38,521**	**36,528**

i. Summary

The capital statement has been prepared on an aggregate basis, for the total Long Term Insurance Fund.

The total available capital resources of the Society's long term insurance business amount to £19.5 million (2014: £20.4 million). Its Capital Resources Requirement amounts to £4.3 million (2014: £3.3 million) resulting in a surplus of available capital resources over regulatory capital of £15.2 million (2014: £17.1 million).

Set out below are the details of how the available capital resources have been calculated, the restrictions in place over the available capital resources, the basis of calculating the regulatory capital requirements and an explanation of the change in available capital.

ii. Basis of calculation of available capital resources

The available capital of the Long Term Insurance Fund has been determined in accordance with the Prudential Regulation Authority's (PRA) regulations and includes the unallocated divisible surplus. The unallocated divisible surplus represents surplus funds of the Society which have not been allocated to members and is available to meet regulatory and solvency requirements of the Society. Adjustments have been made to restate the assets and liabilities in line with PRA regulations.

The significant assumptions used to determine the long term sickness provision can be found in Note 1 Accounting Policies. These assumptions have been derived based on recent operating experience with appropriate allowances for prudence as well as any PRA requirements within INSPRU and GENPRU Regulations.

iii. Basis of calculation of capital requirements

The Capital Resources Requirement amounts to £4.3 million and is determined in accordance with capital requirement as defined by PRA regulations, namely the Resilience Capital Requirement and the Long Term Insurance Capital Requirement.

2.2 General insurance business

		Group		Society	
	Note	2015	2014	2015	2014
Available capital resources		£000	£000	£000	£000
Opening unallocated divisible surplus	22	79,115	73,129	79,115	73,129
Transfer to unallocated divisible surplus from Statement of Comprehensive Income		(3,363)	6,359	(3,117)	6,359
Actuarial loss on defined benefit pension scheme taken to Statement of Comprehensive Income		322	(507)	322	(507)
Fair value gain on property, plant and equipment taken to Statement of Comprehensive Income		135	105	135	105
Actuarial gain on post retirement medical benefits reserve taken to Statement of Comprehensive Income		3,637	29	3,637	29
Actuarial loss on unexpired risk reserve taken to Statement of Comprehensive Income		(1,084)		(1,084)	-
Closing unallocated divisible surplus	**22**	**78,762**	**79,115**	**79,008**	**79,115**
Adjustments onto regulatory basis:					
Adjustment to assets		(2,076)	(107)	(2,076)	(107)
Total available capital resources		**76,686**	**79,008**	**76,932**	**79,008**

i. Summary

The total available capital resources relating to the Society's general insurance business amount to £76.9 million (2014: £79.0 million). Its Capital Resources Requirement amounts to £10.1 million (2014: £9.9 million) resulting in a surplus of £66.8 million (2014: £69.1 million).

ii. Basis of calculation of available capital resources

The available capital of the General Insurance Fund has been determined in accordance with the Prudential Regulation Authority's (PRA) regulations and applicable accounting standards. Adjustments have been made to restate the assets and liabilities in line with PRA regulations. Accounting policies are set out in Note 1 to these financial statements.

iii. Basis of calculation of capital requirements

The Capital Resources Requirement amounts to £10.1 million (2014: £9.9 million) and is determined in accordance with capital requirement as defined by PRA regulations, namely the General Insurance Capital Requirement.

iv. Other reserve allocations

Certain Private Medical Insurance products sold by the Society include an age-at-entry policy whereby the Society calculates the policyholder's premium by reference to the age of the policyholder on joining the Society rather than their age at each annual policy renewal, provided that their cover remains unchanged. The age-at-entry policies are annual, general insurance contracts and under the policy terms both the policyholder and the Society have the right not to renew the policy after the end of the 12 month term. Furthermore, management has discretion to alter premium rates and the level of cover under age-at-entry plans, subject to compliance with the overall age-at-entry principle. No specific accounting provision in relation to potential future losses on contracts not yet entered into has been made in these financial statements.

It is management's current intention to uphold the age-at-entry policy, acknowledging that this may result in future underwriting losses. For internal management purposes £37.3 million (2014: £38.8 million) of the General Reserve has been allocated to cover future underwriting losses arising from these age-at-entry polices. The Society does not guarantee this level of capital allocation and will be guided by the need to ensure its continued financial well-being and to meet statutory levels of solvency.

3 Risk management

This section summarises the principal risks that the Society is exposed to and the way the Society manages them.

Risks are assessed on a fund by fund basis and then aggregated for the Society as a whole. The Board reviews the risk register composition on a regular basis and then monitors key risk indicators as part of its monthly performance management.

The Board has set a risk appetite measured as a proportion of available capital for each of the funds. The utilisation of capital against this appetite is measured and considered regularly and appropriate action taken to address any issues.

3.1 Insurance risk

Insurance risk is the risk that arises from the inherent uncertainties as to the occurrence, amount and timing of insurance liabilities. Long term insurance risk arises from morbidity, persistency and expenses variances. General insurance risk arises from risks in general insurance contracts which lead to significant claims in terms of quantity or value. Systems are in place to measure, monitor and control exposure to all these risks. These are documented in policies for underwriting, pricing, claims and reinsurance. To mitigate risk in the long term business the Society places reinsurance.

i. Long term insurance

On income protection business, the Society uses underwriting procedures, backed up with medical screening if appropriate. Reinsurance is in place to limit the quantum of risk retained on most policies incepted since November 2006.

Note 24 sets out the long-term insurance contract liabilities and details the impact of movements during 2015. The table below sets them out by type of contract.

	2015			2014 (restated)		
	Gross	Reinsurance	Net	2015	Reinsurance	Net
Group	£000	£000	£000	£000	£000	£000
Holloway income protection	15,050	-	15,050	15,481	-	15,481
Other income protection	10,132	13,339	23,471	4,273	16,774	21,047
Total	**25,182**	**13,339**	**38,521**	**19,754**	**16,774**	**36,528**
Society						
Holloway income protection	15,050	-	15,050	15,481	-	15,481
Other income protection	10,132	13,339	23,471	4,273	16,774	21,047
Total	**25,182**	**13,339**	**38,521**	**19,754**	**16,774**	**36,528**

The valuation assumptions have been recommended by the Actuarial Function Holder and approved by the Board.

See Note 25 for details of assumptions used in the calculation of the long-term business reserve.

ii. General insurance

The table below sets out the concentration of general insurance claims liabilities by type of contract:

		Group		Society	
	Note	2015	2014	2015	2014
		£000	£000	£000	£000
UK		4,548	3,249	4,287	3,249
International		403	582	403	582
Total		**4,951**	**3,831**	**4,690**	**3,831**

The development of insurance liabilities provides a measure of the Society's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Society's estimate of total claims outstanding for each accident year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the Statement of Financial Position. An accident year-basis is considered to be most appropriate for the business written by the Society.

Reporting year	2013 £000	2014 £000	2015 £000	Total £000
Initial estimate of net provision	4,415	3,831	4,690	12,936
One year later	4,478	3,852	-	-
Two years later	4,478	-	-	-
Current estimate of cumulative claims	39,419	40,710	40,354	120,483
Cumulative payments to date	(39,419)	(40,710)	(35,664)	(115,793)
Liability recognised in the balance sheet	-	-	4,690	4,690
Reserve in respect of prior years	-	-	-	-
Total reserve included in the balance sheet	**-**	**-**	**4,690**	**4,690**

3.2 Financial risk

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular, the key financial risk is that in the long-term its investment proceeds are not sufficient to fund the obligations arising from its insurance contracts. The most important components of this financial risk are market risk, credit risk and liquidity risk. However, the Society also faces financial risks in respect of property valuations, concentration of investments and counter-party exposures.

Each of the exposures to risk are analysed regularly to assess their likely impact and probability. The overall level of risk is then compiled into a detailed report taking into account the correlation of individual risks to arrive at a required level of capital. The Board is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

i. Market risk

Market Risk is the risk of losses arising from changes in the value of assets or in the income from the assets. The key risks faced in this area are equity risk; interest rate risk; and exchange rate risk. The Society manages market risk so that the returns generated are in line with members' expectations and support the Society's future strategic and operational objectives.

For assets backing member liabilities, market risk is managed by matching, within broad parameters, the duration and profile of the assets with the underlying liabilities. The Society has also mitigated market risk by maintaining a policy of investing assets required to back insurance liabilities in term deposits and fixed interest and index-linked securities.

The Society's Investment Committee oversees the investment policy and strategy, which the Society implements through the use of investment mandates. Each mandate aims to manage the market risk using some or all of the following mechanisms:

1. Defined performance benchmarks;
2. Limits on asset allocation by asset type, market capitalisation and geographical spread;
3. Limits on duration of the fixed interest portfolio.

The Society is exposed to interest rate risk where changes in interest rates result in changes to market values or cash flows. Most members of the Society within the Long Term Business Fund bear the interest rate risk through reviewable premiums. Some members (Holloway) bear the interest rate risk through the allocation of bonuses which is influenced by changes in market values and cash flows.

ii. Equity price risk

Holdings in equities are by their nature subject to market movement. In order to mitigate this risk the Society employs an external investment portfolio manager and has a policy of only investing in equities out of assets not matching insurance liabilities. Assets required to back insurance liabilities are therefore held in term deposits; index-linked securities; and fixed interest securities.

The sensitivity of the Society's asset value to a movement in the equity market differs between the two funds. At the year end the impact on the General and Long Term funds of a 1% market movement is £162,000 and £101,000 respectively.

iii. Interest rate risk

Due to the nature of its products the Long Term Business Fund is impacted to a greater extent by interest rate movements. Risk mitigation is achieved by matching the duration of investments to the expected cash flow requirements of the long term fund. This asset and liability matching cannot be exact due to the uncertainties involved but is reviewed regularly and adjustments made to the portfolio allocation if required.

iv. Exchange rate risk

The Society has a number of Private Medical Insurance policies overseas which present an exchange rate risk. This is mitigated by holding deposits in Euros as a natural hedge against the exchange rate risk. Exchange rate risk also arises from the Society's overseas equity holdings and this risk is managed by limiting the extent of overseas exposure, holding diversified investments and not using such investments to back insurance liabilities.

v. Credit risk

Credit Risk is the risk of loss due to default by debtors, reinsurers and counterparties to the Society in meeting its financial obligations. The Society takes on investment credit risk when it is considered beneficial to do so in support of the Society's strategic objectives and in matching Policyholder liabilities. The Society seeks to minimise other forms of credit risk, in particular those related to deposit takers and bond issuers.

Assets backing insurance liabilities are invested primarily in gilts and deposits. In addition, the Society has taken the following steps to mitigate credit risk:

1. Diversified the portfolio of investments to reduce the potential impact of a credit event;

2. Counterparty limits are in place for each cash deposit;

3. Only reinsurers who match the Society's credit rating requirements are used.

Maximum exposure to credit risk:

Debt securities at fair value through income:	Note	Group 2015 £000	Group 2014 £000	Society 2015 £000	Society 2014 £000
Listed securities		88,346	98,659	86,349	98,659
Unlisted securities		-	-	-	-
Insurance Receivables		14,539	14,264	13,944	14,264
Cash and cash equivalents		24,852	26,103	23,774	26,103
Total assets bearing credit risk		**127,737**	**139,026**	**124,067**	**139,026**

vi. Liquidity risk

Liquidity risk is the risk that the Society, although solvent, is unable to meet its obligations as they fall due. The Society's objective on liquidity risk management is to ensure that sufficient funds are available over the short and medium term to meet the needs of the Society. This includes new business costs, planned strategic activities, member withdrawals, claims payments and day to day cash flow requirements.

Liquidity risk is managed as follows:

1. Budgets are prepared to forecast the short term and medium term liquidity requirements;

2. Assets of suitable marketability and maturity are held to meet the member liabilities as they fall due;

3. Credit risk of deposit takers is managed by having appropriate counterparty and credit limits in place.

Group

The table below summarises the maturity profile of the financial liabilities of the Group based on the term to maturity of the underlying policies or benefits.

Maturity profile of financial liabilities 2015	Within 1 year £000	1-5 years £000	Over 5 years £000	No term £000	Total £000
Unallocated divisible surplus					
- Unallocated divisible surplus (General Business Fund)	-	-	-	78,762	78,762
- Unallocated divisible surplus (Long Term Business Fund)	-	-	-	25,090	25,090
Insurance contract liabilities					
- Insurance contract liabilities (General Business Fund)	25,841	-	-	-	25,841
- Insurance contract liabilities (Long Term Business Fund)	812	1,216	36,493	-	38,521
Post-employment benefits obligations					
- Pension benefit obligation (General Business Fund)	-	-	-	-	-
- Pension benefit obligation (Long Term Business Fund)	-	-	150	-	150
- Post retirement medical benefits reserve	-	-	-	-	-
Trade and other payables					
- Insurance payables	1,594	-	-	-	1,594
- Amounts due from subsidiary undertaking	-	-	-	-	-
- Other payables including tax and social security	2,387	-	-	-	2,387
- Accruals and deferred income	1,766	-	-	-	1,766
Total financial liabilities	**32,400**	**1,216**	**36,643**	**103,852**	**174,111**

Group
Continued

Maturity profile of financial liabilities 2014 (restated)	Within 1 year £000	1-5 years £000	Over 5 years £000	No term £000	Total £000
Unallocated divisible surplus					
- Unallocated divisible surplus (General Business Fund)	-	-	-	79,115	79,115
- Unallocated divisible surplus (Long Term Business Fund)	-	-	-	25,143	25,143
Insurance contract liabilities					
- Insurance contract liabilities (General Business Fund)	24,278	-	-	-	24,278
- Insurance contract liabilities (Long Term Business Fund)	1,219	1,314	33,995	-	36,528
Post-employment benefits obligations					
- Pension benefit obligation (General Business Fund)	-	-	328	-	328
- Pension benefit obligation (Long Term Business Fund)	-	-	160	-	160
- Post retirement medical benefits reserve	-	-	3,637	-	3,637
Trade and other payables					
- Insurance payables	839	-	-	-	839
- Amounts due from subsidiary undertaking	28	-	-	-	28
- Other payables including tax and social security	1,786	-	-	-	1,786
- Accruals and deferred income	1,595	-	-	-	1,595
Total financial liabilities	**29,745**	**1,314**	**38,120**	**104,258**	**173,437**

Society

The table below summarises the maturity profile of the financial liabilities of the Society based on the term to maturity of the underlying policies or benefits.

Maturity profile of financial liabilities 2015	**Within 1 year £000**	**1-5 years £000**	**Over 5 years £000**	**No term £000**	**Total £000**
Unallocated divisible surplus					
- Unallocated divisible surplus (General Business Fund)	-	-	-	79,008	79,008
- Unallocated divisible surplus (Long Term Business Fund)	-	-	-	25,090	25,090
Insurance contract liabilities					
- Insurance contract liabilities (General Business Fund)	25,401	-	-	-	25,401
- Insurance contract liabilities (Long Term Business Fund)	812	1,216	36,493	-	38,521
Post-employment benefits obligations					
- Pension benefit obligation (General Business Fund)	-	-	-	-	-
- Pension benefit obligation (Long Term Business Fund)	-	-	150	-	150
- Post retirement medical benefits reserve	-	-	-	-	-
Trade and other payables					
- Insurance payables	1,032	-	-	-	1,032
- Amounts due from subsidiary undertaking	28	-	-	-	28
- Other payables including tax and social security	2,118	-	-	-	2,118
- Accruals and deferred income	1,727	-	-	-	1,727
Total financial liabilities	**31,118**	**1,216**	**36,643**	**104,098**	**173,075**

Maturity profile of financial liabilities 2014 (restated)	Within 1 year £000	1-5 years £000	Over 5 years £000	No term £000	Total £000
Unallocated divisible surplus					
- Unallocated divisible surplus (General Business Fund)	-	-	-	79,115	79,115
- Unallocated divisible surplus (Long Term Business Fund)	-	-	-	25,143	25,143
Insurance contract liabilities					
- Insurance contract liabilities (General Business Fund)	24,278	-	-	-	24,278
- Insurance contract liabilities (Long Term Business Fund)	1,219	1,314	33,995	-	36,528
Post-employment benefits obligations					
- Pension benefit obligation (General Business Fund)	-	-	328	-	328
- Pension benefit obligation (Long Term Business Fund)	-	-	160	-	160
- Post retirement medical benefits reserve	-	-	3,637	-	3,637
Trade and other payables					
- Insurance payables	839	-	-	-	839
- Amounts due from subsidiary undertaking	28	-	-	-	28
- Other payables including tax and social security	1,786	-	-	-	1,786
- Accruals and deferred income	1,595	-	-	-	1,595
Total financial liabilities	**29,745**	**1,314**	**38,120**	**104,258**	**173,437**

vii. Fair value estimation – Group

The principal financial assets held as at the reporting date for the Group, analysed by their fair value hierarchies were

2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through income:				
- Equity securities	-	34,228	-	**34,228**
- Debt securities	88,346	-	-	**88,346**
Total assets as at 31 December 2015	**88,346**	**34,228**	**-**	**122,574**

2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:	**£000**	**£000**	**£000**	**£000**
Financial assets at fair value through income:				
- Equity securities	9,420	14,461	-	**23,881**
- Debt securities	98,659	-	-	**98,659**
Total assets as at 31 December 2014	**108,079**	**14,461**	**-**	**122,540**

Level 1 – Valued using unadjusted quoted price in active markets for identical financial instruments.

Level 2 – Valued using techniques based significantly on observed market data, including net asset values.

Level 3 – Valued using techniques incorporating information other than observable market data.

Fair value estimation - Society

The principal financial assets held as at the reporting date for the Group , analysed by their fair value hierarchies were:

2015 **Assets:**	**Level 1** **£000**	**Level 2** **£000**	**Level 3** **£000**	**Total** **£000**
Financial assets at fair value through income:				
- Equity securities	-	34,228	-	**34,228**
- Debt securities	86,349	-	-	**86,349**
Total assets as at 31 December 2015	**86,349**	**34,228**	**-**	**120,577**

2014 **Assets:**	**Level 1** **£000**	**Level 2** **£000**	**Level 3** **£000**	**Total** **£000**
Financial assets at fair value through income:				
- Equity securities	9,420	14,461	-	**23,881**
- Debt securities	98,659	-	-	**98,659**
Total assets as at 31 December 2014	**108,079**	**14,461**	**-**	**122,540**

Level 1 – Valued using unadjusted quoted price in active markets for identical financial instruments.

Level 2 – Valued using techniques based significantly on observed market data, including net asset values.

Level 3 – Valued using techniques incorporating information other than observable market data.

4 Prior period adjustment

Following a detailed review of the Society's actuarial valuation models, prior to the implementation of Solvency II, an error was found in the allowance for claim terminations resulting from death within the experience analysis process for Income Protection policies. In modelling claim terminations the Society uses rates that include claims terminating due to deaths; however, the claim termination base tables used in the experience analyses excluded deaths. The financial statements for 2014 have been restated to correct this error. The effect of the restatement on those financial statements is summarised below:

	Unallocated divisible surplus	Insurance contract liabilities
	£000	£000
1 January 2014 (reported)	91,913	60,146
Restatement	(2,986)	2,986
1 January 2014 (restated)	88,927	63,132
2014 movement (reported)	15,331	(2,326)
31 December 2014 (restated)	**104,258**	**60,806**

5 Net earned premium

	Group		Society	
	2015	2014	2015	2014
Gross written premiums	£000	£000	£000	£000
Long term insurance contracts:				
Holloway income protection	3,754	3,992	3,754	3,992
Other income protection	15,516	14,872	15,516	14,872
General insurance contracts:				
UK	40,221	41,072	39,733	41,072
International	4,136	4,519	4,136	4,519
Change in gross provision for unearned premiums	763	161	820	161
Gross earned premiums	**64,390**	**64,616**	**63,959**	**64,616**
Reinsurers' share of gross premiums				
Long term insurance premiums	(5,783)	(5,554)	(5,783)	(5,554)
Net earned premiums	**58,607**	**59,062**	**58,176**	**59,062**

6 Investment income

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Income from investments at fair value through income:				
Interest income	1,653	1,640	1,649	1,640
Dividend income	814	341	814	341
Total investment income	**2,467**	**1,981**	**2,463**	**1,981**

7 Net (losses)/gains on investments

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Investments at fair value through income - realised gains:				
- Debt securities	5,671	1,264	5,671	1,264
- Equity securities	2,426	662	2,426	662
Investments at fair value through income - unrealised (losses):				
- Debt securities	(9,834)	9,748	(9,831)	9,748
- Equity securities	(735)	330	(735)	330
Net (losses)/gains on investments	**(2,472)**	**12,004**	**(2,469)**	**12,004**

8 Reinsurance commission

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Gross reinsurance commission receivable	2,047	2,408	2,047	2,408
Increase in deferred reinsurance commission	232	(216)	232	(216)
Net reinsurance commission	**2,279**	**2,192**	**2,279**	**2,192**

9 Net benefits and claims

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Long term insurance contracts benefits and claims paid	6,141	5,790	6,141	5,790
General insurance contracts benefits and claims paid	39,637	41,336	39,516	41,336
Gross benefits and claims	**45,778**	**47,126**	**45,657**	**47,126**
Reinsurance	(1,158)	(1,026)	(1,158)	(1,026)
Net benefits and claims	**44,620**	**46,100**	**44,499**	**46,100**

10 Net change in insurance contract liabilities

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Increase/(decrease) in gross insurance contract liabilities	6,990	(20,679)	6,551	(20,679)
Less change in provision for unearned premium	692	161	820	161
Less provision for bonuses and rebates	(559)	(597)	(559)	(597)
Gross change in insurance contract liabilities	**7,123**	**(21,115)**	**6,812**	**(21,115)**
Reinsurers' share of gross change in insurance contract liabilities	(3,435)	18,353	(3,435)	18,353
Net change in insurance contract liabilities	**3,688**	**(2,762)**	**3,377**	**(2,762)**

Further analysis regarding the movement in insurance contract liabilities can be found in Note 24.

11 Net operating expenses

	Group		Society	
	2015	**2014**	**2015**	**2014**
	£000	**£000**	**£000**	**£000**
Acquisition costs (excluding commissions)	5,250	4,925	5,243	4,925
Increase in deferred acquisition costs (excluding commissions)	(340)	(246)	(333)	(246)
Administrative expenses	6,283	5,493	6,041	5,493
Net operating expenses (excluding commission to brokers)	**11,193**	**10,172**	**10,951**	**10,172**
Commission and introductory fees	5,265	5,325	5,252	5,325
Increase in deferred acquisition costs (commission)	(257)	(200)	(248)	(200)
Commission to brokers	**5,008**	**5,125**	**5,004**	**5,125**
Net operating expenses (including commission to brokers)	**16,201**	**15,297**	**15,955**	**15,297**
Net operating expenses include:				
Independent Auditors remuneration:				
- Fees payable to the Society's independent auditors for the audit of current year financial statements	104	100	104	100
- Fees payable to the Subsidiaries independent auditors for the audit of current year financial statements	21	-	-	-
- Fees payable to the Society's independent auditors for other services pursuant to legislation	5	-	-	-
Fees payable to the Society's independent auditors for other services	19	-	-	-
Depreciation	868	885	868	885
Loss on disposal of Property, Plant and Equipment	(96)	(5)	(96)	(5)
Aggregate amount of Directors' Emoluments	1,188	1,075	1,188	1,075

12 Employee information

	Group		Society	
	2015	2014	2015	2014
	Number	Number	Number	Number
The average number of persons (full-time equivalents) including Executive Directors employed in the year was:				
Administration	116	110	116	110
Business Development	17	19	16	19
Average full-time equivalents in the year	**133**	**129**	**132**	**129**
The closing full-time equivalent at 31 December was:	136	128	135	128

Staff costs for the above persons were:	**£000**	**£000**	**£000**	**£000**
Wages and salaries	5,955	5,655	5,950	5,655
Social security costs	626	588	623	588
Other pension costs	586	477	586	477
Total staff costs	**7,167**	**6,720**	**7,159**	**6,720**

13 Directors' emoluments

Directors' emoluments, including pension contributions, fell within the following ranges:

	Group		Society	
	2015	2014	2015	2014
Executive	Number	Number	Number	Number
£0 - £99,999	1	2	1	2
£200,000 - £299,999	2	1	2	1
£300,000 - £399,999	1	-	1	-
£400,000 - £499,999	-	1	-	1
Total	**4**	**4**	**4**	**4**
Non-Executive				
£10,000 - £19,999	1	-	1	-
£40,000 - £49,999	3	3	3	3
£60,000 - £69,999	1	1	1	1
Total	**5**	**4**	**5**	**4**

	£000	£000	£000	£000
Highest paid Director	392	439	392	439
Chairman	65	65	65	65

Pension benefits were accruing to three Executive Directors as at 31 December 2015 (2014: three). The aggregate amount of pension contributions made by the Society to the Executive Directors was £87,375 (2014: £64,345). Pension contributions in respect of the highest paid Director for the year amounted to £37,875.

14 Taxation

All tax activities relate to the activities of Exeter Cash Plan Holdings Limited and The Exeter Cash Plan. As a Friendly Society, Exeter Friendly Society is exempt from corporation tax.

14.1 Amounts recognised in profit or loss

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Current tax expense:	-	-	-	-
Current year	-	-	-	-
Adjustment for prior years	-	-	-	-

The current rate of corporation tax in the UK is 20% (2014: 21.5%).

14.2 Reconciliation of current tax expense

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Loss before tax from continuing operations	(83)	-	-	-
Current tax at standard corporation tax rate – 20% (2014: 21.5%)	(17)	-	-	-
Increase in tax losses carried forwards	17	-	-	-
Adjustment to prior year tax charge	-	-	-	-
Current tax on income for period	-	-	-	-

Total accumulated tax losses as at the reporting date is £12,582,024 (2014: £0). £12,565,466 relate to the pre-acquisition activities of The Exeter Cash Plan.

A deferred tax asset or liability should be provided for timing differences between the recognition of gains and losses in the accounts and for tax purposes. There are no timing differences in the recognition of the losses incurred between the accounts and for tax purposes. Therefore, a deferred tax asset has not been recognised in the Group accounts.

15 Deferred acquisition costs

	Group			Society		
	General Business Fund	Long Term Business Fund	Total	General Business Fund	Long Term Business Fund	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2015	**1,234**	**4,727**	**5,961**	**1,234**	**4,727**	**5,961**
Total acquisition costs deferred:						
Reinsurance commission	-	(1,359)	(1,359)	-	(1,359)	(1,359)
Commission and introductory fees	991	2,212	3,202	982	2,212	3,193
Other acquisition costs	299	737	1,037	292	737	1,030
Total acquisition costs amortised:						
Reinsurance commission	-	1,591	1,591	-	1,591	1,591
Commission and introductory fees	(1,021)	(1,924)	(2,945)	(1,021)	(1,924)	(2,945)
Other acquisition costs	(213)	(484)	(697)	(213)	(484)	(697)
At December 2015	**1,290**	**5,500**	**6,790**	**1,274**	**5,500**	**6,774**
At 1 January 2014	**1,687**	**4,043**	**5,730**	**1,687**	**4,043**	**5,730**
Total acquisition costs deferred:						
Reinsurance commission	-	(1,733)	(1,733)	-	(1,733)	(1,733)
Commission and introductory fees	1,021	2,380	3,401	1,021	2,380	3,401
Other acquisition costs	213	700	913	213	700	913
Total acquisition costs amortised:						
Reinsurance commission	-	1,518	1,518	-	1,518	1,518
Commission and introductory fees	(1,435)	(1,766)	(3,201)	(1,435)	(1,766)	(3,201)
Other acquisition costs	(252)	(415)	(667)	(252)	(415)	(667)
At December 2014	**1,234**	**4,727**	**5,961**	**1,234**	**4,727**	**5,961**

16 Investments in group undertakings

The Society investment in subsidiaries can be analysed as follows:

	2015			2014		
	General Business Fund	Long Term Business Fund	Total	General Business Fund	Long Term Business Fund	Total
	£000	£000	£000	£000	£000	£000
Cost at 1 January	**2,350,002**	**1**	**2,350,003**	**2,350,002**	**1**	**2,350,003**
Additions	100	-	100	-	-	
Disposals	-	-	-	-	-	-
Cost at 31 December	**2,350,102**	**1**	**2,350,103**	**2,350,002**	**1**	**2,350,003**
Provision at 1 January	**(2,325,571)**	**-**	**(2,325,571)**	**(2,325,571)**	**-**	**(2,325,571)**
Provided in the year	133	-	133	-	-	-
Released in the year	-	-	-	-	-	-
Provision at 31 December	**(2,325,704)**	**-**	**(2,325,704)**	**(2,325,571)**	-	**(2,325,571)**
Carrying value at 31 December	**24,398**	**1**	**24,399**	**24,431**	**1**	**24,432**

The subsidiary undertakings shown below are wholly owned, incorporated in the United Kingdom, registered in England and owned directly by the Society.

Name of Subsidiary Undertaking	Nature of Business
Go Private Limited	Medical and insurance services intermediary – ceased trading with effect from 21 September 2007
Exeter Friendly Members Club Limited	General insurance intermediary – ceased trading with effect from 31 December 2001; dormant with effect from 31 December 2002
Pioneer Advantage Limited	Dormant since incorporation
Exeter Cash Plan Holdings Limited	Holding company for The Exeter Cash Plan
The Exeter Cash Plan	Cash Plan provider – acquired 30 October 2015 see note 17

17 Acquisition of subsidiary

On 30 October 2015, Exeter Cash Plan Holdings Limited acquired the entire issued share capital of Engage Mutual Health from Engage Health Holdings Limited. The issued share capital consists of 5,000,001 ordinary shares of £1 each. Upon acquisition, Engage Mutual Health was changed to The Exeter Cash Plan.

In the two months to 31 December 2015, The Exeter Cash Plan contributed £432,301 of income and a loss of £82,790 to the Group's results. If the acquisition had taken place on the 1 January 2015, management estimates that consolidated income would have been £65.8 million and consolidated loss for the year would have been £6.8 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the acquisition date would have been the same if the acquisition had occurred on 1 January 2015.

17.1 Consideration transferred

The following table summarises the acquisition-date fair value of each major class of consideration transferred.

	£000
Cash	**2,737**
Deferred payment	**200**
Total consideration	**2,937**

17.2 Deferred payment

The Group has agreed to pay a further £200,000 on the 31 October 2016 for the acquisition of Engage Mutual Health. This deferred payment is included in 'Trade payables' in Note 27.

17.3 Acquisition-related costs

The Group incurred acquisition-related costs of £166,329 on legal fees and due diligence costs. These costs have been included in 'administrative expenses'.

17.4 Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

	£000
Insurance receivables	66
Other debtors	-
Prepayments and accrued income	3
Cash and cash equivalents	3,074
Insurance contract liabilities	(405)
Trade and other payables	(201)
Total identifiable net assets acquired	**2,537**

Measurement of fair values
The net assets acquired are measured at fair value. In accordance with IFRS 13 fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

17.5 Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	£000
Consideration transferred	2,937
Fair value of identifiable net assets	(2,537)
Goodwill	**400**

The goodwill is attributable to the cost of the acquisition less the fair value of the identifiable assets.

18 Intangible assets and goodwill

18.1 Reconciliation of carrying amount

	2015			2014		
	Goodwill	Other	Total	Goodwill	Other	Total
	£000	£000	£000	£000	£000	£000
Cost at 1 January	-	-	-	-	-	-
Acquisitions through business combinations	400	-	400	-	-	-
Disposals	-	-	-	-	-	-
Cost at 31 December	**400**	-	**400**	-	-	-
Provision at 1 January	-	-	-	-	-	-
Amortisation	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	-
Reversal of impairment loss	-	-	-	-	-	-
Provision at 31 December	-	-	-	-	-	-
Carrying value at 31 December	**400**	-	**400**	-	-	-

Goodwill is tested annually for impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount.

At the reporting date, the Directors have assessed that there has been no impairment to the carrying value of the goodwill calculated at acquisition.

19 Property, plant and equipment

19.1 Property, plant and equipment – Group

	Land and buildings	Building fit-out costs	Equipment fixtures and fittings	Computer equipment and software	Total
	£000	£000	£000	£000	£000
Cost/valuation:					
At 1 January 2015	1,755	908	718	8,949	12,330
Additions	-	-	22	1,104	1,126
Disposals	-	-	(275)	(126)	(401)
Revaluation	135	-	-	-	135
At 31 December 2015	**1,890**	**908**	**465**	**9,927**	**13,190**
Depreciation:					
At 1 January 2015	-	902	630	7,027	8,559
Provision for the year	-	5	20	843	868
Disposals	-	-	(275)	(30)	(305)
At 31 December 2015	**-**	**907**	**375**	**7,840**	**9,122**
Net book value at 31 December 2015	**1,890**	**1**	**90**	**2,087**	**4,068**
Cost/valuation:					
At 1 January 2014	1,650	908	632	9,435	12,625
Additions	-	-	86	885	971
Disposals	-	-	-	(1,371)	(1,371)
Revaluation	105	-	-	-	105
At 31 December 2014	**1,755**	**908**	**718**	**8,949**	**12,330**
Depreciation:					
At 1 January 2014	-	890	611	7,539	9,040
Provision for the year	-	12	19	854	885
Disposals	-	-	-	(1,366)	(1,366)
At 31 December 2014	**-**	**902**	**630**	**7,027**	**8,559**
Net book value at 31 December 2014	**1,755**	**6**	**88**	**1,922**	**3,771**

The Society's premises at Emperor Way were valued as at 31 December 2015 by Stratton Creber, Chartered Surveyors, External Valuers, on the basis of open market vacant possession value in accordance with the Practice Statement in the Royal Institute of Chartered Surveyors' Appraisal and Valuation manual. If land and buildings had been recognised under the cost model it would be disclosed under a value of £1,589,000.

19.2 Property, plant and equipment – Society

	Land and buildings	Building fit-out costs	Equipment fixtures and fittings	Computer equipment and software	Total
	£000	£000	£000	£000	£000
Cost/valuation:					
At 1 January 2015	1,755	908	718	8,949	12,330
Additions	-	-	22	1,104	1,126
Disposals	-	-	(275)	(126)	(401)
Revaluation	135	-	-	-	135
At 31 December 2015	**1,890**	**908**	**465**	**9,927**	**13,190**
Depreciation:					
At 1 January 2015	-	902	630	7,027	8,559
Provision for the year	-	5	20	843	868
Disposals	-	-	(275)	(30)	(305)
At 31 December 2015	**-**	**907**	**375**	**7,840**	**9,122**
Net book value at 31 December 2015	**1,890**	**1**	**89**	**2,088**	**4,068**
Cost/valuation:					
At 1 January 2014	1,650	908	632	9,435	12,625
Additions	-	-	86	885	971
Disposals	-	-	-	(1,371)	(1,371)
Revaluation	105	-	-	-	105
At 31 December 2014	**1,755**	**908**	**718**	**8,949**	**12,330**
Depreciation:					
At 1 January 2014	-	890	611	7,539	9,040
Provision for the year	-	12	19	854	885
Disposals	-	-	-	(1,366)	(1,366)
At 31 December 2014	**-**	**902**	**630**	**7,027**	**8,559**
Net book value at 31 December 2014	**1,755**	**6**	**88**	**1,922**	**3,771**

20 Financial assets

In accordance with IFRS recognition and measurement principles, all the Society's investments are classified as investments designated at fair value through income and are described in these financial statements as investments held at fair value. All investments are designated as held at fair value upon initial recognition and are measured at subsequent reporting dates at fair value, which is the bid price of the exchange on which the investment is quoted. The composition and nature of the assets held are set out below.

20.1 Reconciliation of movements per classification in the year

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
At 1 January 2015	122,540	110,121	122,540	110,121
Additions	93,398	52,043	91,398	52,043
Disposals at cost	(82,794)	(49,703)	(82,794)	(49,703)
Changes in market value	(10,570)	10,079	(10,567)	10,079
At 31 December 2015	**122,574**	**122,540**	**120,577**	**122,540**

20.2 Fair value through income – Group

	General Business Fund		Long Term Business Fund		Total	
	Market value	Cost	Market value	Cost	Market value	Cost
2015	£000	£000	£000	£000	£000	£000
Equity securities:						
UK Listed	-	-	-	-	-	-
UK Collectives	16,175	15,617	18,053	18,472	34,228	34,089
	16,175	**15,617**	**18,053**	**18,472**	**34,228**	**34,089**
Debt securities:						
UK Listed	57,982	55,542	30,364	29,358	88,346	84,900
	57,982	**55,542**	**30,364**	**29,358**	**88,346**	**84,900**
Total	**74,157**	**71,159**	**48,417**	**47,830**	**122,574**	**118,989**

20.2 Fair value through income – Group Continued

2014						
Equity securities:						
UK Listed	9,420	8,460	-	-	9,420	8,460
UK Collectives	5,298	3,945	9,163	8,032	14,461	11,977
	14,718	**12,405**	**9,163**	**8,032**	**23,881**	**20,437**
Debt securities:						
UK Listed	62,812	56,660	35,847	31,288	98,659	87,948
	62,812	**56,660**	**35,847**	**31,288**	**98,659**	**87,948**
Total	**77,530**	**69,065**	**45,010**	**39,320**	**122,540**	**108,385**

20.3 Fair value through income – Society

	General Business Fund		**Long Term Business Fund**		**Total**	
	Market value	**Cost**	**Market value**	**Cost**	**Market value**	**Cost**
2015	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Equity securities:						
UK Listed	-	-	-	-	-	-
UK Collectives	16,175	15,617	18,053	18,472	34,228	34,089
	16,175	**15,617**	**18,053**	**18,472**	**34,228**	**34,089**
Debt securities:						
UK Listed	55,985	53,542	30,364	29,358	86,349	82,900
	55,985	**53,542**	**30,364**	**29,358**	**86,349**	**82,900**
Total	**72,160**	**69,159**	**48,417**	**47,830**	**120,577**	**116,989**
2014						
Equity securities:						
UK Listed	9,420	8,460	-	-	9,420	8,460
UK Collectives	5,298	3,945	9,163	8,032	14,461	11,977
	14,718	**12,405**	**9,163**	**8,032**	**23,881**	**20,437**
Debt securities:						
UK Listed	62,812	56,660	35,847	31,288	98,659	87,948
	62,812	**56,660**	**35,847**	**31,288**	**98,659**	**87,948**
Total	**77,530**	**69,065**	**45,010**	**39,320**	**122,540**	**108,385**

21 Insurance receivables

21.1 Group

	Contract Holders	Agents / Brokers / Intermediaries	Reinsurers	Total
2015	**£000**	**£000**	**£000**	**£000**
Due as at 31 December 2015 – less than 30 days in arrears	2,135	617	286	3,038
Due as at 31 December 2015 – more than 30 days in arrears	295	100	-	395
Not yet due as at 31 December 2015	11,489	-	-	11,489
Provision for impairment as at 31 December 2015	(266)	(117)	-	(383)
Total insurance receivables	**13,653**	**600**	**286**	**14,539**
2014				
Due as at 31 December 2014– less than 30 days in arrears	2,043	73	234	2,350
Due as at 31 December 2014 – more than 30 days in arrears	196	154	-	350
Not yet due as at 31 December 2014	11,967	-	-	11,967
Provision for impairment as at 31 December 2014	(204)	(199)	-	(403)
Total insurance receivables	**14,002**	**28**	**234**	**14,264**

Debtors greater than 30 days are considered to be impaired. Provision is made on impaired debt to the extent to which recovery is expected based on experience of similar debtors.

21.2 Society

	Contract Holders	Agents / Brokers / Intermediaries	Reinsurers	Total
2015	**£000**	**£000**	**£000**	**£000**
Due as at 31 December 2015 – less than 30 days in arrears	2,110	46	286	2,442
Due as at 31 December 2015 – more than 30 days in arrears	247	100	-	347
Not yet due as at 31 December 2015	11,489	-	-	11,489
Provision for impairment as at 31 December 2015	(217)	(117)	-	(334)
Total insurance receivables	**13,629**	**29**	**286**	**13,944**
2014				
Due as at 31 December 2014– less than 30 days in arrears	2,043	73	234	2,350
Due as at 31 December 2014 – more than 30 days in arrears	196	154	-	350
Not yet due as at 31 December 2014	11,967	-	-	11,967
Provision for impairment as at 31 December 2014	(204)	(199)	-	(403)
Total insurance receivables	**14,002**	**28**	**234**	**14,264**

Debtors greater than 30 days are considered to be impaired. Provision is made on impaired debt to the extent to which recovery is expected based on experience of similar debtors.

22 Unallocated divisible surplus

22.1 Group

	Long term business reserves	General business reserves	Total
	£000	£000	£000
At 1 January 2015	25,143	79,115	104,258
Transfer from the unallocated divisible surplus	(53)	(353)	(406)
At 31 December 2015	**25,090**	**78,762**	**103,852**
At 1 January 2014 (restated)	15,798	73,129	88,927
Transfer to the unallocated divisible surplus	9,345	5,986	15,331
At 31 December 2014 (restated)	**25,143**	**79,115**	**104,258**

22.2 Society

	Long term business reserves	General business reserves	Total
	£000	£000	£000
At 1 January 2015	25,143	79,115	104,258
Transfer from the unallocated divisible surplus	(53)	(107)	(160)
At 31 December 2015	**25,090**	**79,008**	**104,098**
At 1 January 2014 (restated)	15,798	73,129	88,927
Transfer to the unallocated divisible surplus	9,345	5,986	15,331
At 31 December 2014 (restated)	**25,143**	**79,115**	**104,258**

The unallocated divisible surplus for both of the funds represents amounts which have yet to be allocated to members. Any surplus or deficit arising during the year on the Long Term Business Fund is transferred to or from the Long Term Business Fund at each year end. Any surplus or deficit arising during the year on the General Business Fund is transferred to or from the General Business Fund at each year end.

The Transfer of Engagements dated 31 March 2008 states that each of the Long Term Business Fund and the General Business Fund shall be responsible for maintaining its own Capital Resource Requirement. Save as may be required by regulations made by the PRA or other competent regulatory body or in circumstances where the Fund is unable to meet its Capital Resource Requirement, neither the Long Term Business Fund nor the General Business Fund shall provide capital support to the other.

22.3 The general business reserve can be further analysed as follows:

	Cash Plan	General Reserve	Revaluation Reserve	Pension Reserve	PRMB Reserve	Total
	£000	£000	£000	£000	£000	£000
At 1 January 2015	-	83,249	(169)	(328)	(3,637)	79,115
Property revaluation	-	-	135	-	-	135
Actuarial gain/(loss) on defined benefit pension scheme	-	-	-	322	-	322
Movement in post retirement medical benefits reserve	-	-	-	-	3,759	3,759
Surplus/(deficit) for the financial year	(246)	(4,348)	-	147	(122)	(4,569)
At 31 December 2015	**(246)**	**78,901**	**(34)**	**141**	**-**	**78,762**

22.4 The long term business reserve can be further analysed as follows:

	General Reserve	Pension Reserve	Total
	£000	£000	£000
At 1 January 2015	24,983	160	25,143
Actuarial gain/(loss) on defined benefit pension scheme	-	3	3
Surplus/(deficit) for the financial year	(43)	(13)	(56)
At 31 December 2015	**24,940**	**150**	**25,090**

23 Post-employment benefits

All staff are employed and remunerated by Exeter Friendly Society. As such no staff are employed directly by any of the Group's subsidiaries.

The Society operates four separate arrangements to provide benefits to employees in retirement, as described below.

23.1 Defined benefit scheme – General Business Fund

For some employees, the Society operates a funded pension scheme, the Exeter Friendly Society Retirement Benefits Scheme, which provided benefits for its employees based on a final pensionable pay until 30 June 2009 when the scheme closed to future benefit accrual.

The weighted average duration of the expected benefit payments from the scheme is around 20 years. The defined benefit scheme is operated from a trust, which has assets which are held separately from the Society, and by trustees who ensure the scheme's rules are strictly followed.

The results of the formal valuation as at 1 January 2015 were updated to the accounting date by an independent qualified actuary in accordance with IAS 19.

The funding target is for the scheme to hold assets equal in value to the accrued benefits allowing for future pension revaluation and future pension increases. If there is a shortfall against this target, then the Society and trustees will agree on the deficit contributions to meet this deficit over a period. There is a risk to the Society that adverse experience could lead to a requirement for the Society to make additional contributions to recover any deficit that arises.

Contributions are set based upon funding valuations carried out every three years; the last valuation was carried out as at 1 January 2015. The estimated amount of total employer contributions expected to be paid to the scheme during 2016 is £175,000 including administrative expenses and PPF levies (2015 actual: £238,000).

Actuarial gains and losses are recognised immediately through other comprehensive income.

At the 2014 year end, the scheme owed an amount of £29,863 to the Society in respect of pensions paid via its payroll services provider. Following a change to its pension scheme administrative arrangements during the year, all pension payments are now paid direct through the scheme administrator and, therefore, no such liability arises at the 2015 year end.

i. The plan assets and defined benefit obligations are as follows:

	31-Dec-15	31-Dec-14	31-Dec-13
	£000	£000	£000
Present value of defined benefit obligation	(6,931)	(7,255)	(6,328)
Fair value of plan assets	7,072	6,927	6,349
Surplus/(deficit)	**141**	**(328)**	**21**
Impact of asset ceiling	-	-	-
Net asset/(liability) in statement of financial position	**141**	**(328)**	**21**

ii. Expense recognised in the profit or loss

	2015	2014
	£000	£000
Employers part of current service cost	-	-
Administrative Expenses	(82)	(25)
Interest Expense	(9)	4
Past service (cost)	-	-
(Losses)/gains on settlements	-	-
Total expense recognised in profit or loss	**(91)**	**(21)**

iii. Amounts recognised outside profit or loss

	2015	2014
	£000	£000
Actuarial gain / (loss)	322	(507)
Impact of asset ceiling	-	-
Amount recognised outside profit or loss	**322**	**(507)**

iv. Plan assets

	2015		2014		2013	
	Allocation	£000	Allocation	£000	Allocation	£000
Equities	50%	3,547	39%	2,703	39%	2,452
Bonds	43%	3,015	40%	2,786	41%	2,615
Property	0%	-	8%	552	7%	473
Other	7%	510	13%	886	13%	809
Total	**100%**	**7,072**	**100%**	**6,927**	**100%**	**6,349**

The scheme does not invest directly in property occupied by the Society or in financial securities issued by the Society.

The investment strategy is set by the Trustees of the scheme. The investment manager for scheme was changed from Friends Life Services to Legal and General Investment Management during the year. The investment policy is to invest in a range of collective investment schemes consistent with the funding objectives, giving the scheme diversified exposure to a variety of investment markets.

v. Movement in the net defined benefit obligation

	2015	2014
	£000	£000
Opening net (liability)/asset	(328)	21
Expense charged to profit and loss	(91)	(21)
Profit/(loss) recognised outside profit and loss	322	(507)
Employer contributions	38	179
Closing net asset/(liability)	**41**	**(328)**

vi. The movement in the defined benefit obligation during 2015 is as follows:

	Present value of obligation	Fair value of plan assets	Total	Movement in the asset limit	Total
	£000	£000	£000	£000	£000
As at 1 January 2015	(7,255)	6,927	(328)	-	(328)
Employer's part of current service cost	-	-	-	-	-
Interest expense	(258)	249	(9)	-	(9)
Actual return on plan assets	-	(95)	(95)	-	(95)
Actuarial gain – experience on benefit obligation	46	-	46	-	46
Actuarial gain – changes in financial assumptions	262	-	262	-	262
Actuarial gain – changes in demographic assumptions	109	-	109	-	109
Administrative expenses	(82)	-	(82)	-	(82)
Employer contributions	-	238	238	-	238
Benefit payments	247	(247)	-	-	-
As at 31 December 2015	**(6,931)**	**7,072**	**141**	**-**	**141**

The movement in the defined benefit obligation during 2014 is as follows:

	Present value of obligation	Fair value of plan assets	Total	Movement in the asset limit	Total
	£000	£000	£000	£000	£000
As at 1 January 2014	(6,328)	6,349	21	-	21
Employer's part of current service cost	-	-	-	-	-
Interest expense	(287)	291	4	-	4
Actual return on plan assets	-	310	310	-	310
Actuarial gain - experience on benefit obligation	92	-	92	-	92
Actuarial loss - changes in financial assumptions	(876)	-	(876)	-	(876)
Actuarial loss - changes in demographic assumptions	(33)	-	(33)	-	(33)
Administrative expenses	(25)		(25)	-	(25)
Employer contributions	-	179	179	-	179
Benefit payments	202	(202)	-	-	-
As at 31 December 2014	**(7,255)**	**6,927**	**(328)**	**-**	**(328)**

vii. The significant actuarial assumptions were as follows:

Assumptions	2015	2014	2013
Price inflation (RPI)	3.2% pa	3.1% pa	3.4% pa
Discount rate	3.9% pa	3.6% pa	4.6% pa
Pension increases (in deferment and in payment)	3.2% pa	3.1% pa	3.4% pa
Salary growth	n/a	n/a	n/a
Life expectancy of male aged 65 at balance sheet date	22.1 years	22.4 years	22 years
Life expectancy of female aged 65 at balance sheet date	24.2 years	24.6 years	24 years
Life expectancy of male aged 65 in 20 years from balance sheet date	23.8 years	24.1 years	23 years
Life expectancy of female aged 65 in 20 years from balance sheet date	25.8 years	26.5 years	26 years

viii. The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1.00%	Decrease by £1,080k	Increase by £1,430k
RPI Inflation	0.50%	Increase by £692k	Decrease by £607k
Asset value	5.00%	Decrease by £328k	Increase by £328k
Mortality	25.00%	N/a	Increase by £450k

These sensitivity figures have been calculated to show the movement in the Defined Benefit Obligation in isolation, assuming no other changes in market conditions at the accounting date. In practice, a change in the discount rate, for example, is unlikely to occur without any impact in the value of the assets held by the scheme.

23.2 Defined benefit scheme – Long Term Business Fund

Following the merger with Pioneer Friendly Society, the Society has taken over the operation of the unfunded defined benefit pension scheme for two (2014: two) former employees/spouses. This scheme is closed to existing employees of the Society.

The total cost of the pensions payable each year is charged to the provision, to which is credited appropriate interest earned and transfers from or to retained reserves sufficient to meet the expected liability, as recalculated on an annual basis.

Superannuation Reserve Fund	**2015**	**2014**
	£000	**£000**
Balance as at 1 January	160	150
Interest on scheme liabilities	3	5
Actuarial (gain)/loss for the period recognised in the Statement of Comprehensive Income	(3)	15
Benefit paid	(10)	(10)
Balance as at 31 December	**150**	**160**

The Society's Actuarial Function Holder has determined the amount of the provision required as at 31 December 2015 to meet the expected future liabilities, based on mortality tables of 90% PMA92/PFA92 calendar year 2020, a discount rate of 2.3% and pension increases of 3.0%.

23.3 Defined contribution scheme

The Society also operates one (2014: one) defined contribution pension scheme. The cost of Society contributions for the year ending 31 December 2015 was £495,314 (2014: £451,177) and there were outstanding contributions of £63,852 (2014: Nil) at the year end date.

23.4 Post retirement medical benefits reserve (PRMBR)

The Society has underwritten Private Medical Insurance policies at discounted rates in respect of certain retired staff and Directors. Having given five years' notice of its intention to do so, the Society is completely withdrawing these discounts during 2016, with the majority being removed on 1 January 2016. This action will bring these policies into line with the Society's other insurance policies and eliminate any specific post retirement benefit costs.

In past years the Society has calculated a provision in respect of the expected long term cost of these policies using actuarial principles and based on assumptions about interest rates, longevity, claim rates, expenses and inflation.

In accordance with the requirements of IAS 19, the discount rate has been set with reference to the yields available on high quality bonds, which the Society has taken to be AA-rated UK corporate bonds. For 2014 the resulting discount rate was 3.6%. Discounting at this rate and assuming a long term rate of future claims inflation of 7.1%, the post retirement medical benefits reserve was £3.6 million as at 31 December 2014. The action taken from 1 January 2016 to remove post retirement discounts eliminates the need for any specific post retirement provision as at 31 December 2015.

Post Retirement Medical Benefits Reserve	**2015**	**2014**
	£000	**£000**
Balance as at 1 January	3,637	3,666
Interest on scheme liabilities	131	168
Actuarial (gain)/loss for the period recognised in the Statement of Comprehensive Income	(3,759)	(148)
Benefit paid	(9)	(49)
Balance as at 31 December	**-**	**3,637**

24 Insurance contract liabilities

i. Analysis of insurance contract liabilities and reinsurance liabilities – Group

	2015			2014 (restated)		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£000	£000	£000	£000	£000	£000
Long term insurance business provision	16,636	13,339	29,975	10,500	16,774	27,274
Long term insurance members dividend account	8,145	-	8,145	8,379	-	8,379
Long term insurance business claims liabilities	151	-	151	255	-	255
Long term insurance provision for bonuses and rebates	250	-	250	250	-	250
Long term insurance provision for closure reserve	-	-	-	370	-	370
Total long term	**25,182**	**13,339**	**38,521**	**19,774**	**16,774**	**36,528**
General insurance unearned premiums	19,756	-	19,756	20,447	-	20,447
General insurance claims incurred but not reported (IBNR)	2,843	-	2,843	2,643	-	2,643
General insurance claims liabilities	2,108	-	2,108	1,188	-	1,188
General insurance unexpired risk provision	1,134		1,134	-	-	-
Total general	**25,841**	**-**	**25,841**	**24,278**	**-**	**24,278**
Total	**51,023**	**13,339**	**64,362**	**44,032**	**16,774**	**60,806**

ii. Analysis of insurance contract liabilities and reinsurance liabilities – Society

	2015			2014 (restated)		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£000	£000	£000	£000	£000	£000
Long term insurance business provision	16,636	13,339	29,975	10,500	16,774	27,274
Long term insurance members dividend account	8,145	-	8,145	8,379	-	8,379
Long term insurance business claims liabilities	151	-	151	255	-	255
Long term insurance provision for bonuses and rebates	250	-	250	250	-	250
Long term insurance provision for closure reserve	-	-	-	370	-	370
Total long term	**25,182**	**13,339**	**38,521**	**19,754**	**16,774**	**36,528**
General insurance unearned premiums	19,627	-	19,627	20,447	-	20,447
General insurance claims incurred but not reported (IBNR)	2,607	-	2,607	2,643	-	2,643
General insurance claims liabilities	2,083	-	2,083	1,188	-	1,188
General insurance unexpired risk provision	1,084		1,084			
Total general	**25,401**	**-**	**25,401**	**24,278**	**-**	**24,278**
Total	**50,583**	**13,339**	**63,922**	**44,032**	**16,774**	**60,806**

iii. Movement in long term insurance business provision – Group and Society

	2015			2014 (restated)		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£000	£000	£000	£000	£000	£000
Balance at 1 January	10,500	16,774	27,274	30,774	(1,579)	19,165
Net change of in-force business	3,804	(3,442)	362	54	(365)	(311)
Impact of change in assumptions	2,332	7	2,339	(20,298)	18,718	(1,580)
Balance at 31 December	**16,636**	**13,339**	**29,975**	**10,500**	**16,774**	**27,274**
Impact of change in assumptions is made up of:						
Change in valuation methodology to allow negative reserves	-	-	-	(28,851)	18,293	(10,558)
Bills & Things premium review	4,402	-	4,402	-	-	-
Changes in morbidity (other)	(1,663)	(190)	(1,853)	3,758	-	3,758
Interest rate changes	-	-	-	4,156	208	4,364
Changes in lapse rates	164	169	333	(278)	159	(119)
Changes in inflation	-	-	-	-	-	-
Revised expenses assumptions	(514)	28	(486)	-	-	-
Model changes	-	-	-	729	58	787
Other changes	(57)	-	(57)	188	-	188
Total	**2,332**	**7**	**2,339**	**(20,298)**	**18,718**	**(1,580)**
Balance at 31 December is made up of:						
Holloway income protection	6,655	-	6,655	6,871	-	6,871
Other income protection	9,981	13,339	23,320	3,629	16,774	20,403
Total	**16,636**	**13,339**	**29,975**	**10,500**	**16,774**	**27,274**

The long term business provision is stated net of reinsurance. Without reinsurance the long term business provision would reduce by £13.3 million to £16.6 million (2014: £10.5 million).

iv. Movement in long term insurance members' dividend account – Group and Society

	2015	2014
	£000	£000
Balance at 1 January	8,379	8,546
Bonus credited during the period	74	75
Dividend credited during the period	534	577
Forfeiture and lapses during the period	(49)	(55)
Death, retirements and surrenders during the period	(793)	(764)
Balance at 31 December	**8,145**	**8,379**

v. Movement in long term insurance business claims liabilities – Group and Society

	2015			2014		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
	£000	£000	£000	£000	£000	£000
Balance at 1 January	255	-	255	238	-	238
Claims incurred	5,090	(1,158)	3,932	4,902	(1,026)	3,876
Claims paid during the year	(5,194)	1,158	(4,036)	(4,885)	1,026	(3,859)
Balance at 31 December	**151**	**-**	**151**	**255**	**-**	**255**

Disclosures vi to ix relate to the general insurance business which is not reinsured.

vi. Movement in general insurance unearned premiums

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Balance at 1 January	20,447	20,608	20,447	20,608
Premiums written in the year	44,429	45,591	43,869	45,591
Premiums earned during the year	(45,120)	(45,752)	(44,689)	(45,752)
Balance at 31 December	**19,756**	**20,447**	**19,627**	**20,447**

vii. Movement in general insurance claims incurred but not reported (IBNR)

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Balance at 1 January	2,643	2,522	2,643	2,522
Run-off deficit	21	63	21	63
Movement in claims incurred but not reported in current year	179	58	(57)	58
Balance at 31 December	**2,843**	**2,643**	**2,607**	**2,643**

viii. Movement in general insurance other claims liabilities

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Balance at 1 January	1,188	1,893	1,188	1,893
Movement in claims received but not yet paid	920	(705)	895	(705)
Balance at 31 December	**2,108**	**1,188**	**2,083**	**1,188**

ix. Movement in unexpired risk reserve

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Balance at 1 January	-	-	-	-
Movement in reserve	1,134	-	1,084	-
Balance at 31 December	**1,134**	**-**	**1,084**	**-**

25 Long term insurance contract liabilities valuation assumptions

The following table summarises the main elements of the method and basis used when calculating the Long Term Business Provision. These are the same as used to calculate the mathematical reserves required by IPRU(INS), GENPRU and INSPRU. The method and basis are prepared by the Actuarial Function Holder and is approved by the Board.

Summary of Valuation Basis	
Sickness Provision	
Method	Gross Premium
Interest Rate	1.55% / 2.50% (2014: 1.55% / 2.50%) for positive / negative reserve bases
Allowance for Expenses	£68 (2014: £65) per policy, inflating at 4.2% (2014: 4.2%) per annum and 8.5% (2014: 9.25%) of future claims
Allowance for Future Bonus	Explicit allowance of £0.75 (2014: £0.75) per basic share
Mortality	30% / 50% (2014: 30% / 50%) of TM92(ult)/TF92(ult) for Professional Income Protection, Income One and Locum Income Protection contracts 40% / 60% (2014: 40% / 60%) of TM92(ult)/TF92(ult) for other Income Protection contracts
Morbidity	Prudent assessment based on Society's recent experience
Persistency and Lapses	Holloway and Pure Protection 65% (2014: 65%) of expected lapses Bills & Things and Locum 60% (2014: 60%) of expected lapses Professional Income Protection and Income One 50% (2014: 50%) of expected lapses

These assumptions have been approved by the Actuarial Function Holder and signed off by the Board. The impact on policy reserves of sensitivities to key valuation assumptions are as follows:

Assumption:	Increase on policy reserves
Increase in morbidity by 5%	£9.7 million (2014: £10.0 million)
Increase in expenses by 5%	£2.7 million (2014: £2.8 million)
Reduction in lapses by 5%	£0.9 million (2014: £0.7 million)
Reduction in yields by 20%	£1.6 million (2014: £1.4 million)

A Holloway Income Protection Policy is designed to meet the demands and needs of a person who wishes to ensure that their income is protected up until an agreed age, as a result of illness or accidental injury. It is also intended to provide a tax-free lump sum payable at the policyholder's selected retirement age by participating in surpluses, which are dependent upon experience.

The long term business provision allows for future bonuses. Total allowance within the long term business provision is £758,000 (2014: £737,000).

Holloway Income Protection products are all reviewable. Pure Protection and Bills & Things products are reviewable after initial 3 years. The Locum product is reviewable after initial 5 years. The Professional Income Protection and Income One products have guaranteed premiums.

26 Insurance payables

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Due to contract holders	235	122	235	122
Due to agents/brokers/intermediaries	867	245	305	245
Due to reinsurers	492	472	492	472
Total insurance payables	**1,594**	**839**	**1,032**	**839**

27 Other payables including tax and social security

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Trade payables	882	602	682	602
Tax and social security	1,390	1,127	1,321	1,127
Corporation tax payables	-	-	-	-
Pension payables	64	-	64	-
Other payables	51	57	51	57
Total other payables including tax and social security	**2,387**	**1,786**	**2,118**	**1,786**

28 Cash generated from operating activities

	Group		Society	
	2015	**2014**	**2015**	**2014**
	£000	**£000**	**£000**	**£000**
Profit for the year	**(4,503)**	**15,720**	**(4,257)**	**15,720**
- Interest receivable	(1,653)	(1,640)	(1,649)	(1,640)
- Dividends receivable	(814)	(341)	(814)	(341)
- Net gains on investments	2,472	(12,004)	2,469	(12,004)
- Purchase of investments	(93,398)	(52,043)	(91,398)	(52,043)
- Sales of investments	90,891	51,629	90,891	51,629
- Foreign Exchange Differences	120	113	**120**	113
Non-cash items				
- Expenses deferred during the year	(830)	(231)	(814)	(231)
- Depreciation	868	885	868	885
- Pension costs	-	-	-	-
- Loss on disposal of Plant, Property and Equipment	96	5	96	5
Changes in working capital				
Net (increase)/decrease in insurance receivables	(245)	1	349	1
Net (increase)/decrease in other prepayments and accrued income	(3)	(55)	(3)	(55)
Net increase/(decrease) in insurance liabilities	3,556	(2,326)	3,116	(2,326)
Net decrease in provisions and pension obligations	(154)	(163)	(154)	(163)
Net increase/(decrease) in insurance payables	755	(266)	193	(266)
Net increase/(decrease) in amounts due from subsidiary undertakings	0	-	(266)	-
Net increase/(decrease) in trade and other payables	601	(114)	332	(114)
Net increase in accruals and deferred income	169	395	112	395
Cash used in operations	**(2,072)**	**(435)**	**(809)**	**(435)**

The Society classifies the cash flows for the purchase and disposal of financial assets in its operating cash flows as the purchases are funded from cash flows associated with the origination of insurance, net of cash flows for payments of insurance benefits and claims and investment contract benefits.

29 Related party transactions

29.1 Transactions in the year

	2015	2014
	£000	£000
Transactions between the Society and other Group Companies		
- Payment of the purchase of The Exeter Cash Plan on behalf of Exeter Cash Plan Holdings Limited	2,727	-
- Payment of expenses associated with the purchase of The Exeter Cash Plan on behalf of Exeter Cash Plan Holdings Limited	166	-
- Direct costs incurred by the Society recharged to The Exeter Cash Plan	123	-
Balance outstanding between the Society and other Group Companies		
- Exeter Cash Plan Holdings Limited	2,903	-
- The Exeter Cash Plan	123	-
- Go Private Limited	(23)	(23)
- Exeter Friendly Members Club Limited	(5)	(5)
Total balances due from/(to) other group companies	**2,998**	**(28)**

29.2 Key management compensation

Key management personnel of the Society include all Directors, Executive and Non-Executive, and senior management.

	Group		Society	
	2015	2014	2015	2014
	£000	£000	£000	£000
Salaries and other short-term employee benefits	2,524	2,386	2,524	2,386
Termination benefits	-	-	-	-
Post-employment benefits	216	185	216	185
Other long-term benefits	-		-	-
Total key management compensation	**2,740**	**2,571**	**2,740**	**2,571**

29.3 Other related parties

During their term of office in 2015, the Chief Executive and the three (2014: three) other executive members of the Board of Directors received free Private Medical Insurance, total claims made under these policies was £0 (2014: £0). The Chief Executive also has an Income Protection policy under the normal terms applicable to other policyholders, total premium paid on this policy was £98 (2014: £95) and total claims made on this policy was £0 (2014: £0).

During the year the Society made payments to Le Beau Visage of £2,500 (2014: £5,850) and Protection Review Limited of £0 (2014: £3,000) exclusive of VAT where applicable, companies of which Peter Le Beau is an Executive Director.

Peter Le Beau is also a former Non-Executive Director of Health Claims Bureau to which the Society made a payment of £9,085 (2014: £4,885) exclusive of VAT, in 2015. All payments were in respect of services provided to the Society's Income Protection business.

During the year the Society paid commission on sales of insurance products to Intrinsic, a network of Independent Financial Advisers, of which Wallace Dobbin is an Executive Director. The payments were made under the Society's commercial terms of business and Wallace Dobbin was not involved in the negotiation of these terms.

30 IFRS developments

Standards, amendments and interpretations effective for 2015, which are considered to have no significant impact on the Society's results, are set out below.

30.1 New standards which are now effective

The following standards, amendments and interpretations are mandatory for Exeter Friendly Society in this financial reporting period; however, their implementation has not had a significant impact on the results or net assets of the group:

- IFRS 9 'Financial instruments' (effective for periods beginning on or after 1 January 2015);
- Amendment to IAS 19, 'Employee benefits', on defined benefit plans (effective 1 July 2014) (endorsed for 1 Feb 2015)

30.2 New standards not yet effective

As at the date of authorisation of these financial statements, the following Standards and Interpretations as well as amendments to existing Standards and Interpretations, which have not been applied in these financial statements, were in issue but not effective:

- IFRS 14, 'Regulatory deferral accounts' (effective 1 January 2016);

Management are of the opinion that the above new Standards and Interpretations as well as amendments to existing Standards and Interpretations will not have a material impact upon the Society.

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