

COMPASS FRIENDLY SOCIETY LIMITED

ANNUAL REPORT OF THE BOARD

AND

ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 2010

COMPASS FRIENDLY SOCIETY LIMITED

DETAILS OF THE SOCIETY AS AT 31 DECEMBER 2010

Registered and Incorporated on: 11 December 1995

Registration Number: 1143F

Members of the Board: R C Wroath FCII (Acting Chairman)
M R Burrow MA FIA *
T G Davies MA RIBA
E Fairless MA AIA DipDM
D Moakes BSc FIA
C G Rostron *

* Subject to approval by the FSA.

Chief Executive and Secretary: D Moakes BSc FIA

Actuarial Function Holder: N F Silby BSc FIA

Auditors: Liles Morris
Park House
233 Roehampton Lane
London
SW15 4LB

Bankers: Barclays Bank plc
Basingstoke Business Centre
PO Box 6093
Basingstoke
RG21 3RX

Solicitors: Lamb Brooks
Victoria House
39 Winchester Road
Basingstoke
RG21 7EQ

The Society is authorised and regulated by the Financial Services Authority and is a member of the Association of Financial Mutuals and the Financial Services Compensation Scheme.

COMPASS FRIENDLY SOCIETY LIMITED

REPORT OF THE BOARD FOR THE YEAR ENDED 31 DECEMBER 2010

Objectives of the Society

- To provide financial security for members through quality protection and investment products.
- To attend to members' claims for benefits and assistance in a prompt, sympathetic and efficient manner.
- To maintain the long term stability and security of the Society.
- To ensure that the Society's current and potential members are treated fairly in their dealings with the Society.

Solvency

As at 31 December 2010 the Society had the required margin of solvency as prescribed in Regulations made under section 48(2) of the Friendly Societies Act 1992.

Statement of Responsibilities of the Society

The Friendly Societies Act 1992 requires the Board to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period. In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The Society must cause proper accounting records to be kept and establish and maintain systems of control of its business and records and of inspection and report. The accounting records must show and explain the transactions of the Society and disclose with reasonable accuracy and promptness the financial position of the Society at any time. The accounting records and the systems of control and of inspection and reporting must:

- enable the Board properly to discharge the duties imposed on them by or under the Friendly Societies Act 1992 and their function of direction of the affairs of the Society; and
- enable the Society properly to discharge the duties imposed on it by or under the Friendly Societies Act 1992.

Hence the Society is responsible for safeguarding the assets and taking reasonable steps for the prevention and detection of fraud and other irregularities.

Complaints Procedures

The Society endeavours to maintain high standards of integrity and fairness when dealing with its members. However, should a complaint arise, the Society would follow the complaints procedure advocated by the Financial Services Authority. The procedure is set out in the Society's Compliance Manual which, in particular, includes the right of referral to the Financial Ombudsman Service if the complaint cannot be resolved by the Society.

Corporate Governance

The Society's Board is accountable to the Society's members for the operation of the Society and regards good corporate governance as fundamental to this responsibility. Corporate governance, often defined as the way a firm is controlled and directed from within, has been the subject of increasing focus for mutual organisations, both internally and from the regulators.

The Corporate Governance Code for mutual insurers (the Annotated Combined Code for Mutual Insurers (July 2005) as amplified by the Best Practice Guidelines for Mutual Insurers (December 2005)) became effective from 1 January 2006. The Combined Code was updated in June 2010 and is now called the UK Corporate Governance Code. The UK Corporate Governance Code as Annotated for Mutual Insurers was issued in October 2010.

It is our policy to adhere to the Code wherever appropriate for an organisation of our size and status or to explain why we think a deviation from the Code is acceptable or necessary.

The Board is satisfied that its range of expertise and experience is appropriate for the current needs of the Society.

All Board Members have access to both independent professional advice, as necessary, and the advice and services of the Secretary, who is responsible to the Board for ensuring its procedures are complied with. The Secretary, who is also the Society's Chief Executive, is also responsible for ensuring good information flows to the Board. The Board is satisfied that he carries out these duties effectively. Both the appointment and removal of the Secretary is a matter for the Board as a whole.

The following decisions are reserved for the Board:

- ◆ Approval of accounts
- ◆ Approval of FSC Returns
- ◆ Investment policy
- ◆ Approval of appointment of outsourcing arrangements / contracts with third parties
- ◆ Recommendation of changes to the Memorandum and Rules of the Society to be proposed at the Society's AGM.

In the opinion of the Board, all non-executive directors are considered to be independent.

The roles of the Chairman and Chief Executive remained separate during 2010 and are distinct in their purpose. The Chairman is responsible for leadership of the Board and ensuring that the Board acts effectively. The Chief Executive has overall responsibility for managing the Society.

The Board established the Management and Finance Committee on 19 November 2009 to keep abreast of regulatory developments. The Committee consists of Mike Burrow, Elaine Fairless, David Moakes and Nigel Silby and reports directly to the Board.

Monitoring of the Board's performance is not appropriate for an organisation of the Society's size and product range. Similarly, performance related pay is not appropriate.

Annual General Meeting of the Society and Member Relations

All adult members are entitled to attend and vote at the Society's Annual General Meeting. All proposals are decided by a simple majority unless the Rules of the Society specify otherwise. All members receive individual notification of the AGM. Those unable to attend the AGM may appoint a proxy to vote on their behalf.

The Board is committed to maintaining good communications with members and providing them with sufficient relevant information to understand the performance of their products.

Financial Crime

The Society continually reviews its exposure to financial crime and takes appropriate measures including anti-fraud and anti-money laundering training to mitigate these risks.

Treating Customers Fairly

The Financial Services Authority (FSA) which regulates the work of the Society has a number of special initiatives, one of which is called "Treating Customers Fairly". This is a long-term project aimed at improving the way in which customers are treated by all financial services organisations.

Compass Friendly Society prides itself on the high standard of service it provides to its members, but it is reviewing all its activities to identify any areas where we may be falling short so that the necessary remedial action can be taken.

The UK Stewardship Code

The UK Stewardship Code was published in July 2010. The Code sets out good practice for shareholders on engagement with investee companies, and is overseen by the Financial Reporting Council (FRC). The following is the Society's statement of compliance.

Compass Friendly Society delegates investment management of its funds externally to BNY Mellon Fund Managers Limited (Newton) and so is not involved in direct engagement with companies. However, we monitor compliance with the Code through reports provided by Newton detailing results from stewardship and voting activities.

Review of Activities for the Year

As at 31 December 2010, the Society had 338 members, paying regular premiums of £53,764 per annum. This compares with 339 members and £54,634 regular premiums at the end of 2009. During the year 30 new members joined the Society, paying annual premiums of £6,120 and single premiums of £7,000, whilst 31 members (representing 23 policies) surrendered or reached the end of their premium-paying term.

The Society's savings plans were available throughout the year, although the Society did not commit any resources to finance any new marketing campaigns. Enquiries came in steadily throughout the year, both directly from the website and through IFAs, but the majority of the new business was generated from the IFA contacts.

The Board is pleased to announce that, after lengthy discussions with the Sons of Temperance Friendly Society, Compass expects to receive a transfer of some of their assets and liabilities as part of a major reorganisation. The amount of the transfer involved is expected to exceed £500,000 and should be completed in the near future.

The price of a tax-exempt unit in the Compass Equity Fund increased from 1.7485 at the beginning of the year to 1.9778 at the end – a growth of 13.1% in the year (13.6% in 2009). For the first time since taxable policies were first issued in 2000, it has become necessary to differentiate between the price of tax-exempt and taxable units, and the price of the latter as at 31 December 2010 was 1.9541 compared to 1.9778 for the tax-exempt units – a difference of 1.2%.

The Society was authorised and regulated by the Financial Services Authority throughout the year.

The Board held 3 meetings during the year.

The Board is of the opinion that no activities have been carried on outside its powers during the year ended 31 December 2010.

Signed on behalf of the Board on 29 June 2011.

D Moakes
Chief Executive and Secretary

COMPASS FRIENDLY SOCIETY LIMITED

**INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2010**

	2010 £	2009 £
Technical Account - Long term business		
Earned premiums, net of reinsurance	58,979	52,900
Investment income		
Income from investments	14,065	12,126
Unrealised Gains on Investments	34,331	26,832
Other technical Income		
Other income (note 10)	10,000	0
Claims incurred, net of reinsurance	(41,875)	(33,394)
Changes in other technical provisions, net of reinsurance		
Technical provision for linked liabilities	(57,657)	(53,274)
Net operating expenses		
Acquisition costs (note 5)	(1,527)	(1,499)
Administrative expenses (note 6)	(7,848)	(6,862)
Reinsurance commissions and profit participation	625	455
Investment expenses and charges		
Investment expenses including interest	(395)	(270)
Losses on the realisation of investments	0	0
Unrealised losses on investments	0	0
Tax attributable to the long term business	(1,193)	(735)
Transfers from (to) the fund for future appropriations	(7,505)	3,721
Balance on the technical account	0	0

COMPASS FRIENDLY SOCIETY LIMITED

**BALANCE SHEET
AS AT 31 DECEMBER 2010**

	2010	2009
	£	£
Assets		
Investments		
Debt securities and other fixed interest securities	105,312	108,144
Assets held to cover linked liabilities	383,010	325,353
Debtors		
Debtors in respect of contributions	324	295
Other debtors	63	0
Other Assets		
Cash at bank and in hand	19,148	10,166
Total assets	<u>507,857</u>	<u>443,958</u>
LIABILITIES		
Fund for future appropriations reserve (note 7)	108,269	100,764
Technical provision for linked liabilities (note 8)	393,310	335,653
Creditors		
Other creditors including taxation and social security	6,278	7,541
Total Liabilities	<u>507,857</u>	<u>443,958</u>

Signed on behalf of the Board on 29 June 2011.

D Moakes
Chief Executive and Secretary

COMPASS FRIENDLY SOCIETY LIMITED

NOTES ON THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2010

1 Accounting Policies

(a) The Society's accounts have been prepared in compliance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and in accordance with applicable accounting standards and the "ABI Statement of Recommended Practice on Accounting for Insurance Business" (SORP) issued in December 2005.

(b) Income from premiums, net of reinsurance premiums, is accounted for when due for payment. All premiums arise from business in the United Kingdom.

(c) Income and expenditure is accounted for on an accruals basis.

(d) Claims are recognised on notification by the member or his/her executors.

(e) Unrealised gains and losses on investments represent the difference between the valuation of the investment at the balance sheet date and the purchase price or, if they have been previously valued, their valuation at the last balance sheet date. Investments held at the balance sheet date are valued at their market price at that date.

(f) The fund for future appropriations contains the excess of assets over and above the long term business provision and other liabilities. It represents the free assets of the Society. Any surplus or deficit on the technical account is transferred to or from the fund on an annual basis.

2 Staff

There were no paid employees of the Society during 2009 or 2010.

3 Board Members' Emoluments

No emoluments, pensions or other payments were paid to the Board.

The Society did not hold either Errors and Omissions Insurance or Directors' and Officers' Insurance for members of the Board throughout the year.

4 Taxation

The Society bears tax at source on dividend income received from its investments in Open-Ended Investment Companies (OEICs). In addition, the Society has issued a number of non-exempt contracts, as a result of which a provision for corporation tax of £250 has been made as at 31 December 2010.

5 Acquisition Costs

	2010	2009
	£	£
Commission paid on new members	1,527	1,499
Total	1,527	1,499

6 Administrative Expenses

	2010	2009
	£	£
Actuarial Fees	nil	nil
Audit Fees	3,293	3,066
Administration Services	2,795	2,913
FSA Fees	531	523
Telephones and Postage	254	248
Other	112	112
Total	7,848	6,862

7 Movement in Fund for Future Appropriations

	£
Balance at 31 December 2009	100,764
Transfer from Income and Expenditure Account	7,505
Balance at 31 December 2010	108,269

8 Technical Provision for Linked Liabilities

The reserve for linked liabilities has been calculated by the Actuary as the value of the units to which the contracts are linked together with an additional provision for future expenses and mortality risks. The principal assumptions used to calculate the additional reserve are a growth in unit values of 4.5% per annum gross of expenses, an interest rate of 1.5% per annum (2.5% last year) and mortality in accordance with the A67/70 ultimate tables.

9 Related Party Transactions

Fees in respect of administration services from E D (Financial) Limited were as follows:-

	2010	2009
	£	£
Fees/commission	2,795	2,913
Expenses	0	0

At the end of 2010, £464 was owed to E D (Financial) Limited (£1,693 in 2009).

10 Other Income

A donation of £10,000 was received in December 2010.

E Fairless is a director of E D (Financial) Limited and also a member of the Board.

D Moakes is a director of E D (Financial) Limited and also Chief Executive and Secretary of the Society and a member of the Board.

M R Burrow is an employee of E D (Financial) Limited and also a member of the Board.

E D (Financial) Limited provides administration services to the Society.

COMPASS FRIENDLY SOCIETY LIMITED

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

We have audited the financial statements of Compass Friendly Society Limited for the year ended 31 December 2010 which comprise the Income and Expenditure Account and the Balance Sheet and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 7.

Respective Responsibilities of the Board and Auditors

The Board's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of the Board's Responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. We also report to you our opinion as to whether the Report of the Board has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and as to whether the information given therein is consistent with the accounting records and the financial statements.

We also report to you if, in our opinion, the society has not kept proper accounting records or if we have not received all the information, explanations and access to documents we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Report of the Board. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Board in the preparation of the financial statements, and of whether the accounting policies are appropriate to the society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinions we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the society's state of affairs as at 31 December 2010 and of the income and expenditure of the society and the group for the year then ended and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

In our opinion the Report of the Board on pages 2 to 4 has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it and the information given therein is consistent with the accounting records and the financial statements for the year.

TRT Morris (Senior Statutory Auditor)
Liles Morris
Chartered Accountants and Registered Auditors
Park House, 233 Roehampton Lane
London SW15 4LB

Date:

COMPASS FRIENDLY SOCIETY LIMITED

**STATEMENT UNDER SECTION 77 OF THE FRIENDLY SOCIETIES ACT 1992
FOR THE YEAR ENDED 31 DECEMBER 2010**

1. The Actuarial Function Holder was not a member of the Society at any time during the year ended 31 December 2010.
2. The Actuarial Function Holder received no fees during the year ended 31 December 2010 (nil in 2009). No provision was made as at 31 December 2010 in respect of advice and assistance given to date.
3. No payments were made to the Actuarial Function Holder in respect of any contract of service during the year ended 31 December 2010.
4. No other pecuniary benefits were received by the Actuarial Function Holder from the Society during the year ended 31 December 2010.

The Society did not consider it necessary to make a request to the Actuarial Function Holder for the above information since it was readily available from the Society's records.