

**Association of Financial Mutuals**  
**Directors' Report and Financial Statements**  
**Year Ended 30 June 2016**

# Association of Financial Mutuals

## Contents

Information	1
Directors' Report	2 to 7
Statement of Directors' Responsibilities	8
Accountants' Report	9
Profit and Loss Account	10
Balance Sheet	11
Notes to the Financial Statements	12 to 14

The following pages do not form part of the statutory financial statements:

Detailed Profit and Loss Account	15 to 16
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# Association of Financial Mutuals Information

<b>Chief executive</b>	Martin Shaw
<b>Directors</b>	Andy Chapman, Exeter Friendly Society (Chairman) Jane Nelson, The Oddfellows (Vice Chairman) Marc Bell, Benenden Healthcare Stuart Bell, Metropolitan Police Friendly Society Elaine Fairless, Compass Friendly Society Alan Goddard, Cornish Mutual Paul Hudson, Cirencester Friendly Society Paul Osborn, Foresters Friendly Society Mike Perry, PG Mutual Russ Piper, Sovereign Health Care Kevin Rogers, Paycare
<b>Office address</b>	7 Castle Hill Caistor Lincolnshire LN7 6QL
<b>Bankers</b>	The Co-operative Bank plc PO Box 101 1 Balloon Street Manchester M60 4EP
<b>Accountants</b>	Francis Clark LLP Chartered Accountants Lowin House Tregolls Road Truro TR1 2NA

# **Association of Financial Mutuals**

## **Directors' Report**

### **Year Ended 30 June 2016**

The directors present their report and the unaudited financial statements for the year ended 30 June 2016.

#### **Directors**

The directors who held office during the year were as follows:

Andy Chapman, Exeter Friendly Society (Chairman)

Jane Nelson, The Oddfellows (Vice Chairman)

Euan Allison, Forester Life (resigned 31 December 2015)

Marc Bell, Benenden Healthcare

Stuart Bell, Metropolitan Police Friendly Society (appointed 14 March 2016)

Mike Rogers, LV= (resigned 31 December 2015)

Craig Errington, Wesleyan (resigned 31 December 2015)

Elaine Fairless, Compass Friendly Society

Alan Goddard, Cornish Mutual

Mark Goodale, Reliance Mutual (resigned 31 December 2015)

Paul Hudson, Cirencester Friendly Society (appointed 14 March 2016)

Stephen Mann, Police Mutual (resigned 31 December 2015)

Simon Markey, Family Investments (resigned 31 December 2015)

Fiona McBain, Scottish Friendly (resigned 31 December 2015)

Paul Osborn, Foresters Friendly Society (appointed 14 March 2016)

Mike Perry, PG Mutual (appointed 14 March 2016)

Russ Piper, Sovereign Health Care (appointed 14 March 2016)

Kevin Rogers, Paycare (appointed 14 March 2016)

Mike Rogers acted as Chairman until he resigned on 31 December 2015 and was replaced by Andy Chapman.

#### **Chief Executive**

Martin Shaw

#### **Principal activity**

The principal activity of the Association is to represent mutual insurers and other financial mutuals in the UK.

The Association's purpose is to advocate the values of mutuality and, through this, promote the expansion of the sector.

# Association of Financial Mutuals

## Directors' Report

Year Ended 30 June 2016

### Business review

The accounts to the end of June 2016 show an operating surplus for AFM of £23,844 (£8,893 for year to 30 June 2015) and an overall profit for the year of £23,584 (£8,515 for 2014/15). The 2015/2016 profit compared to a budgeted deficit for the year of £33,133.

The stark numbers do not fully reflect the scale of change AFM went through in the year, which is better demonstrated by the change in Directors on the preceding page. At the Association's Annual General Meeting in October 2015, the membership agreed to the need to change, and an Extraordinary General Meeting concluded that rather than merge AFM's operations into another trade body, it would instead re-focus its efforts on the interests of smaller mutual and not-for-profit organisations. As a result, nine of the largest mutual insurers stood down as members on 31 December 2015, with the result that membership on 30 June 2016 stood at 38.

The budget for 2015/16 was set on a conservative basis, and in the expectation of radical change at some point. Member subscriptions for the year were budgeted at £113,000, a reduction of around 45% in two years. We achieved income of £115,130, and this was only possible because most departing members agreed not to claim back their unused subscriptions. Associates subscription has proved more consistent over time, but was also below budget, at £124,000 compared to a planned £135,000, as the number of Associates reduced to 24 (from 29 in 2014/15), with the departure of some businesses less focused on smaller mutuals.

Notwithstanding the reduced income and future uncertainty, the Board agreed to retain AFM's planned expenditure at around the same level as the previous year (£282,451, excluding the annual conference which was budgeted to break even). This, and the robust level of AFM's reserves, allowed the Board to plan for a deficit for 2015/16. It was also agreed at the start of the financial year, by the Board and subsequently the AGM, to amalgamate the ring fenced friendly society reserves into the main member reserves.

Actual administrative expenses for the year, excluding the conference were £217,259 (£260,515 in 2014/15). In addition, conference expenses of £54,585 were matched by an income of £55,260. The main variances were: Subscriptions, with ILAG choosing not to renew our membership; Web and print costs as more work was taken in-house; and Public Affairs and projects, as fewer commitments were taken on in the first half of the year. Costs overall have been reduced by 20% compared to two years ago.

As a result of careful financial management of our reducing income, total members' funds during the year increased to £361,981 as at 30 June 2016, from £338,397 a year earlier. The 30 June 2015 figure included the sum of £78,199 held in the ring-fenced friendly societies' reserve, which had been used to subsidise the subscriptions of small friendly societies and to reduce the cost of attending the AFM conference, which during the year was absorbed into the general members' reserve.

Member subscriptions for 2016/17 have been set on a new basis, reflecting a more egalitarian working approach and constitution adopted in early 2016. All Members and Associates now pay the same subscription rate regardless of size, with the exception of smaller members who fall outside the scope of Solvency 2. The budget for the year also envisages more work being done in-house, to reduce expenditure. We are making significant use of the inherited reserves, to retain subscriptions at a reasonable level for the small organisations that make up the majority of our membership, and to ensure members can still identify effective value for money from their subscriptions.

# Association of Financial Mutuals

## Directors' Report

Year Ended 30 June 2016

### 2015/16 activities

At the start of the financial year, the AFM Board agreed that the Association's working priorities should continue unchanged, pending wider changes to our purpose and approach. In early 2016, members were consulted on a revised set of priorities, and the following six areas were agreed:

1	<b>Training and development</b> support to members through events including the AFM conference, and through effective networking of members
2	Maintaining regulatory compliance and <b>communication with the Regulators.</b>
3	Demonstrating a commitment to <b>high standards of governance.</b>
4	Seeking further opportunities to <b>work together as a sector</b> , to improve efficiency, to spread the adoption of good practice, and to deliver better value for customers
5	Maintaining a strong focus on the Association's income, and on <b>delivering value to members.</b>
6	Working with other parts of the mutual sector to <b>promote the benefits of corporate diversity</b> to policymakers and other stakeholders.

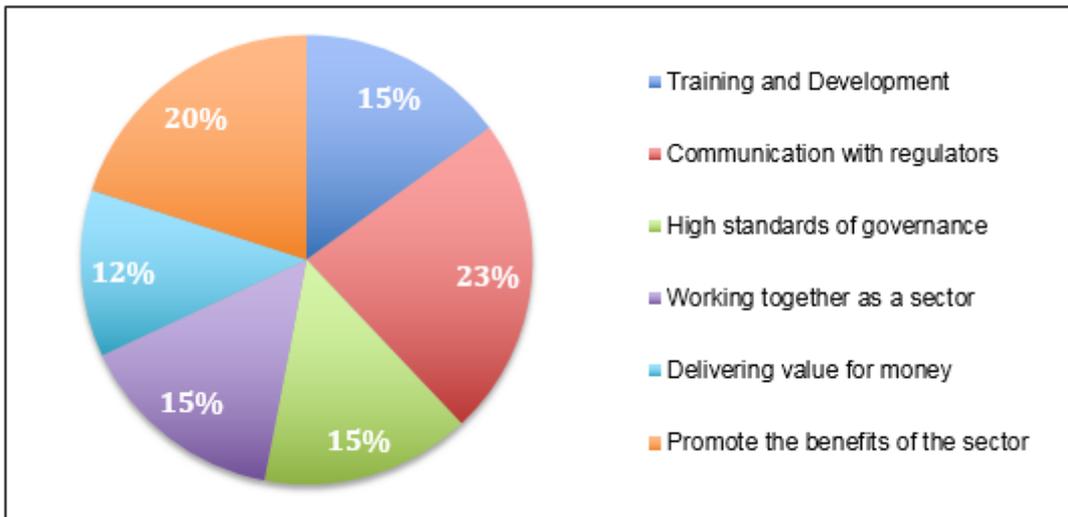
The Board receives quarterly updates against each of these priorities. We are also in the process of establishing a Board champion for each of our key activities, to support leadership in each area of work, and are developing KPIs against each.

# Association of Financial Mutuals

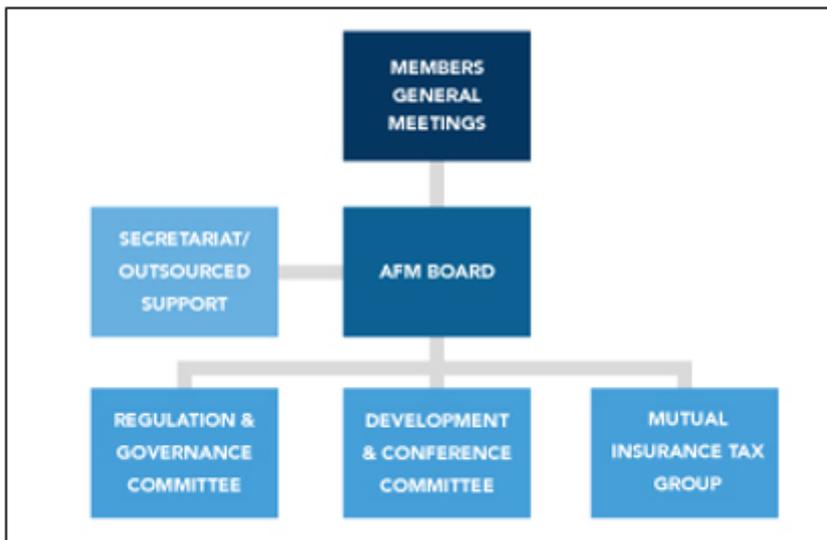
## Directors' Report

Year Ended 30 June 2016

Total resource allocation for 2015/16, including allocation of activities, expenses, project work and outsourcer fees:



A series of Committees, with personnel drawn from Members and Associate members, helps direct and support activity through the year. In January, we simplified our Committee structure as per the following chart:



Members are also involved in our work through the series of networks and seminars that are run through the year, and of course the Annual General Meeting and Conference are the primary route for formally engaging with all Members.

# Association of Financial Mutuals

## Directors' Report

Year Ended 30 June 2016

The table below provides a brief snapshot of main outcomes for 2015/16:

Issue	Outcome	Impact
Training and Development	<ul style="list-style-type: none"> <li>New Committee established to co-ordinate work and identify new training needs for sector</li> <li>AFM conference provided thoughtful content on future of sector</li> </ul>	<ul style="list-style-type: none"> <li>New framework being established, with clearer set of outcomes and needs-driven support to members.</li> </ul>
Communication with regulators	<ul style="list-style-type: none"> <li>Continued regular engagement with PRA and FCA on a range of topics. A number of amendments by PRA to policy proposals following AFM consultation responses.</li> </ul>	<ul style="list-style-type: none"> <li>Improving knowledge of sector by regulators.</li> <li>Policy amends have produced savings for all members as well as more proportionate requirements.</li> </ul>
High standards of corporate governance	<ul style="list-style-type: none"> <li>High standards maintained in the Annotated Corporate Governance Code.</li> <li>AFM work on member engagement supporting member activity to improve AGM turnout and engagement</li> </ul>	<ul style="list-style-type: none"> <li>AFM reporting provides detailed analysis of governance standards in the sector.</li> </ul>
Working together as a sector	<ul style="list-style-type: none"> <li>AFM sponsored project on 'collaboration as a source of competitive advantage'</li> <li>New projects established, based on shared interests of membership in 2016</li> </ul>	<ul style="list-style-type: none"> <li>Beginning to demonstrate the value of members working together</li> <li>AFM negotiated much better terms for members on rating agency data licenses.</li> </ul>
Delivering value for money	<ul style="list-style-type: none"> <li>Reduced external costs means work delivered at lower cost.</li> </ul>	<ul style="list-style-type: none"> <li>New constitution and priorities set</li> <li>New subscription formula and budget established to best fit members now</li> </ul>
Promote the benefits of the sector	<ul style="list-style-type: none"> <li>Bank of England and Financial Services Act carried new clause on corporate diversity</li> <li>Continued work with Treasury on Mutual Deferred Shares</li> </ul>	<ul style="list-style-type: none"> <li>Regulars must now incorporate consideration of mutuals in all aspects of their work.</li> </ul>

# **Association of Financial Mutuals**

Directors' Report

Year Ended 30 June 2016

Approved by the Board on 9 September 2016 and signed on its behalf by:

Andy Chapman, Exeter Friendly Society (Chairman)  
Director

# **Association of Financial Mutuals**

## **Statement of Directors' Responsibilities**

### **Statement of Directors' Responsibilities**

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations. Under United Kingdom Generally Accepted Accounting Practice (UK GAAP) the Directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law. Under UK GAAP 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 Association and of the surplus or deficit of the Association for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the association will continue in business.

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

**Chartered Accountants' Report to the Board of Directors on the  
Preparation of the Statutory Accounts of the  
Association of Financial Mutuals  
for the Year Ended 30 June 2016**

In accordance with our terms of engagement we have compiled the financial information of the Association of Financial Mutuals which comprises the Profit & Loss Account, Balance Sheet and the related notes from the accounting records and information and explanations you have given us.

The financial information has been compiled in accordance with your instructions. The financial information is not intended to achieve full compliance with the provisions of UK Generally Accepted Accounting Principles.

This report is made to you in accordance with the terms of our engagement. Our work has been undertaken so that we might compile the financial information that we have been engaged to compile, report to you that we have done so and state those matters that we have agreed to state to you in this report, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors for our work or for this report.

We have carried out this engagement in accordance with the technical guidance issued by the Institute of Chartered Accountants in England & Wales and we have complied with the ethical guidance laid down by the Institute.

You have approved the financial information for the year to 30 June 2016 and have acknowledged your responsibility for it, for the appropriateness of the accounting basis and for providing all information and explanations necessary for its compilation.

We have not verified the accuracy or completeness of the accounting records or information and explanations you have given to us and we do not, therefore, express any opinion on the financial information.

.....  
Francis Clark LLP  
Chartered Accountants  
Lowin House  
Tregolls Road  
Truro  
TR1 2NA

9 September 2016

# Association of Financial Mutuals

## Profit and Loss Account

Year Ended 30 June 2016

	<b>Note</b>	<b>2016 £</b>	<b>2015 £</b>
<b>Turnover</b>		294,390	307,508
Administrative expenses		<u>(271,843)</u>	<u>(299,972)</u>
<b>Operating profit</b>		22,547	7,536
Other interest receivable and similar income		<u>1,297</u>	<u>1,357</u>
<b>Profit on ordinary activities before taxation</b>		23,844	8,893
Tax on profit on ordinary activities	3	<u>(260)</u>	<u>(378)</u>
<b>Profit for the financial year</b>	6	<u><u>23,584</u></u>	<u><u>8,515</u></u>

## Association of Financial Mutuals

### Balance Sheet at 30 June 2016

	Note	2016 £	2015 £
<b>Current assets</b>			
Debtors	4	3,142	39,717
Cash at bank and in hand		367,317	344,923
		370,459	384,640
Creditors: Amounts falling due within one year	5	(8,478)	(46,243)
Net assets		361,981	338,397
<b>Capital and reserves</b>			
Friendly Societies' reserve	6	-	78,199
Members' reserve	6	361,981	260,198
Members' funds		361,981	338,397

Approved and authorised for issue by the Board on 9 September 2016 and signed on its behalf by:

Andy Chapman, Exeter Friendly Society (Chairman)  
Director

Jane Nelson, The Oddfellows (Vice Chairman)  
Director

# Association of Financial Mutuals

## Notes to the Financial Statements

Year Ended 30 June 2016

### 1 Accounting policies

#### Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2015).

#### Turnover

Turnover comprises income from membership subscriptions arising in the period and income from network and seminar events held. Subscriptions received but relating to periods falling after 30 June 2016 are carried forward as deferred income (note 5).

The total turnover of the association for the year has been derived from its principal activity undertaken in the UK (99%) and in the rest of the EU (1%).

### 2 Friendly Society costs

During the year expenses were incurred on smaller friendly societies business as below. Transfers have been made to the members' reserve to reflect these transactions (note 6).

	2016	2015
	£	£
Membership discounts given	6,738	7,363
Conference income discount	4,500	-
General expenses	-	10,000
Interest received (net of tax)	(280)	(353)
	<u>10,958</u>	<u>17,010</u>

### 3 Taxation

#### Tax on profit on ordinary activities

	2016	2015
	£	£
<b>Current tax</b>		
Corporation tax charge on investment income	260	272
Adjustments in respect of previous years	-	106
UK Corporation tax	<u>260</u>	<u>378</u>

**Association of Financial Mutuals**  
Notes to the Financial Statements  
Year Ended 30 June 2016

**4 Debtors**

	<b>2016</b> £	<b>2015</b> £
Trade debtors	-	18,000
Other debtors	893	948
Prepayments and accrued income	2,249	20,769
	<u>3,142</u>	<u>39,717</u>

**5 Creditors: Amounts falling due within one year**

	<b>2016</b> £	<b>2015</b> £
Trade creditors	2,110	3,463
Corporation tax	239	233
Other taxes and social security	3,029	4,697
Accruals and deferred income	3,100	37,850
	<u>8,478</u>	<u>46,243</u>

# Association of Financial Mutuals

## Notes to the Financial Statements

Year Ended 30 June 2016

### 6 Reserves

	Friendly Societies' reserves £	Members' reserves £	Total £
At 1 July 2015	78,199	260,198	338,397
Profit for the year	-	23,584	23,584
Transfers between reserves	(78,199)	78,199	-
At 30 June 2016	<u>-</u>	<u>361,981</u>	<u>361,981</u>

The Friendly Societies' reserve consisted of the retained surplus of the Association of Friendly Societies (AFS) that was transferred in to the Association during the merger of the AFS and the Association of Mutual Insurers (AMI) on 1 January 2010.

There was an agreement in place which has ring fenced these funds for use in smaller Friendly Societies specific business occurring prior to 31 December 2019.

During the year membership discounts of £6,738 and conference discounts of £4,500 were given to smaller Friendly Societies. In addition, investment income of £280 (net of associated tax) has been received on the ring fenced funds.

It was agreed during the financial year, by the Board and subsequently the AGM, to amalgamate the ring fenced Friendly Societies' reserves into the main Members' reserves.

The transfer between reserves of £78,199 shown above comprises £10,958 in respect of smaller Friendly Societies' discounts net of interest received as referred to above, plus the remaining unutilised balance of £67,241 on the Friendly Societies' reserve at the end of the accounting period.

# Association of Financial Mutuals

## Detailed Profit and Loss Account

Year Ended 30 June 2016

	2016		2015	
	£	£	£	£
<b>Turnover</b>				
Member subscriptions		115,130		148,408
Associate member subscriptions		124,000		138,000
Conference income		55,260		21,100
		<hr/>		<hr/>
Turnover		294,390		307,508
<b>Administrative expenses</b>				
Administration expenses		(271,843)		(299,972)
		<hr/>		<hr/>
<b>Operating Profit</b>		22,547		7,536
Other interest receivable and similar income		1,297		1,357
		<hr/>		<hr/>
<b>Net Profit for the year</b>		<u>23,844</u>		<u>8,893</u>

# Association of Financial Mutuals

## Detailed Profit and Loss Account

Year Ended 30 June 2016

..... *continued*

	<b>2016</b>	<b>2015</b>
	<b>£</b>	<b>£</b>
<b>Administrative expenses</b>		
Remuneration	113,623	111,395
Employer's NI contributions	12,057	12,766
Home office allowance	3,600	3,600
Postage, stationery and other office costs	2,891	1,389
Subscriptions	5,500	10,598
Smaller friendly society discounts	6,738	7,363
General expenses	360	332
Travel and subsistence	12,009	13,618
Conference costs	54,584	39,457
PR and lobbying	25,000	14,022
Financial websites	1,225	2,250
Mutuality campaign and research	2,100	60,380
Accountancy	1,600	1,550
Legal and professional	25,516	21,252
Bad debts written off	5,040	-
	<u>271,843</u>	<u>299,972</u>