

# TRANSPORT FRIENDLY SOCIETY LIMITED

## ANNUAL REPORT 2009

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**TRANSPORT FRIENDLY SOCIETY LIMITED**

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**Society Information**

**President:** Mr D A Brown      **Vice President:** Mr M Yexley

**Chief Executive:** Mr Richard Freeman

**Secretary:** Mr Peter Rudyk

**Board of Management:**

Mr C W Welch	<i>(Chairman)</i>
Mr S R Barker	<i>(Vice Chairman)</i>
Mr C Angell	<i>(Appointed 24 November)</i>
Mr P S Brown	
Mr N V Cohen	
Mr P J Doyle	
Mr R Freeman	<i>(Chief Executive)</i>
Mr C W Jeffrey	
Mr T R Parry	
Mr A Powell	
Mr M Storer	

<b>Registered Office:</b>	9 Betterton Street, London WC2H 9BH
<b>With-Profits Actuary &amp; Actuarial Function Holder</b>	Mr A J Chamberlain (Watson Wyatt Ltd) (until 17 August) Mr S Dixon (Steve Dixon Associates) (from 17 August)
<b>Auditors (External):</b>	F W Berringer & Co
<b>Auditor (Internal):</b>	OAC Actuaries and Consultants
<b>Consultants:</b>	E D (Financial) Limited
<b>Investment Managers:</b>	Rensburg Sheppard & Legal and General
<b>Solicitors:</b>	Gregory, Rowcliffe & Milners

## TRANSPORT FRIENDLY SOCIETY LIMITED

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#### Statement of Aims

The long term objectives of the Transport Friendly Society Limited (TFS) remain as shown below. They were agreed by the Board in January 2008:

- ◆ To maintain the long-term stability and security of the Society
- ◆ To embed Treating Customers Fairly into all aspects of the Society's Business
- ◆ To provide appropriate and value for money benefits for the Society's members
- ◆ To provide a timely, efficient and sympathetic administration service for the Society's members
- ◆ To promote the steady growth of the Society by:
  - increasing total premium income on a year by year basis,
  - increasing the average contribution per member,
  - reducing expenses as a percentage of income and
  - increasing the overall membership of the Society by
    - recruiting more London Bus operating staff particularly at garages with a low percentage of existing members
    - recruiting more engineers and other support and managerial staff in the Transport Industry and
    - expanding geographically.

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#### **Board of Management**

During 2009 the make up of the Board was as follows:

##### **Mr Colin Welch – Chairman**

Mr Welch has served on the Board since 1997, was elected Chairman of the Society in July 2005 and has been a Registered Introducer for TFS since 1990. He was a driver for London Central but is now a Supervisor and a member nominated trustee of the London Central Bus Company staff pension scheme. Mr Welch is a representative for the Transport Benevolent Fund and the HSA. He was also a representative for Unite.

##### **Mr Stephen Barker – Vice Chairman and Member Relations Director**

Mr Barker has been a member of the TFS Board since 2002 and was elected Vice Chairman in July 2005. He is Chairman of the Development and Remuneration Committees and is a member of the Audit Committee. Mr Barker has been a Registered Introducer for the Society since 2000 and is a branch secretary for the Unite.

##### **Mr Chris Angell BSc FCCA (Appointed 24 November 2009)**

Mr Angell worked for London Transport and its successors from 1970 until 2004 holding a number of senior finance positions including Financial Controller for London Underground Ltd. and was latterly Fund Secretary of the company's pension fund. From 2004 until his retirement in 2009 he worked as a Principal at Mercer Investment Consulting advising corporate clients on investment operations.

##### **Mr Peter Brown**

Mr Brown has held various supervisory and middle management positions and is currently a Controller with Selkent. Previously a member of the Board of the Bus Employees Friendly Society he was elected to the Board of TFS in 2004. He is also a member of the Compliance Committee and a union representative for ACTS.

##### **Mr Norman Cohen MSc**

Mr Cohen is a former President of the Society. He worked for London Transport between 1971 and 1997 holding a number of senior positions including Operations Manager (buses) and Operational Director (buses) and latterly Operations and Marketing Director. He has served on the Board of TFS since 1998 and is also a member of the Development Committee. Mr Cohen retires from the Board of Management at the end of the AGM 2010.

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#### **Mr Paul Doyle**

A former Chairman and Vice Chairman of TFS, Mr Doyle has served on the Board since 1990. He is a driver for London United, a Registered Introducer for TFS, a member of the Audit and Remuneration Committees and a representative for the Transport Benevolent Fund. Mr Doyle is also a member nominated trustee of the London United Staff Pension Scheme.

#### **Mr Christopher Jeffrey**

Mr Jeffrey is a driver with London Central and was elected to the TFS Board in 2004. He also serves as a member of the Audit and Development Committees. He is a branch secretary for the Unite and a representative for the HSA and HSF.

#### **Mr Trevor Parry BSc FIA ASA - Senior Independent Director**

Mr Parry qualified as an actuary in 1973, worked for a number of companies, including the Pension Annuity Friendly Society where he was a founding member and Chief Actuary, before retiring in 2003. He was elected to the Board in 2004 and also serves on the Compliance and Risk Assessment Committee and Audit Committee, both of which he chairs, and the Remuneration Committee. He is also Chairman of the Trustees of the Staff Pension Scheme.

#### **Mr Adam Powell**

Mr Powell joined London Transport in 1986 and is currently a driver with East London Bus Group based at Upton Park. In 2001 he became the elected Union Branch Secretary and since 2005 the elected Branch Representative. He was appointed as the registered Introducer and elected to the Board at the AGM in June 2007. He has sat on various sub committees to date. For most of 2008 he was seconded to work full time as an Officer for Unite the Union.

#### **Mr Michael Storer**

Mr Storer is at present a convener for Travel London and is a Registered Introducer for the society. He was elected to the board in June 2008 and is a member of both the Development and Nomination Committees.

#### **Mr Richard Freeman - Chief Executive**

Mr Freeman has worked in financial services since 1972 when he joined National Westminster Bank plc. Since that time he has also worked for an insurance company and another affinity group Friendly Society before being appointed Chief Executive of the Transport Friendly Society on 1 November 2005.

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**Chairman's Report for the year ended 31 December 2009**

**Overview of the year**

The UK economy started 2009 in recession and reflected a general global economic downturn. Despite moving out of recession at the end of the year the prospect for growth remains weak and the economy fragile.

Transport Friendly Society continues to weather the storm and in difficult times maintains the financial strength to keep paying benefits, both contractual and discretionary, to our members. The total number of new members has struggled to keep pace with those members who leave. However the new members that join are generally paying a higher contribution level which has a positive impact on our overall contribution income

The Society faced a number of difficult decisions during 2009 and made a number of changes with regard to discretionary benefits. These are covered further within this report.

Transport Friendly Society continues to pay bonuses to its with profit policyholders and have extended the No Claim Bonus (previously only available to holders of older sickness plans) to all existing members of our Sickness Section as well as to any new member who takes out a sickness plan from 2010 onwards.

Against the economic conditions we faced in 2009 our overall performance was commendable.

**Treating Customers Fairly (TCF)**

The Society exists in order to give security and value for money to its members. In delivering this the Board of Management considers what is fair and equitable to all members.

During 2009 the Board of Management reviewed discretionary benefits with a view to ensuring the Society could continue to pay the maximum amount affordable whilst maintaining the long term viability of the Society for the benefit of all its members, both existing and new.

The result of this review was to harmonise the level of benefits paid to all members. Any member affected by the change would have received a letter confirming their entitlement.

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TCF continues to be a focus for the Board and its Committees and a framework exists for all those associated with the Society to be able to raise any issues relating to the fair treatment of members.

Membership expectation and satisfaction surveys are always available on our website and can be printed off and returned at any time.

#### **Corporate Governance**

In June 2009 the Society completed the Questionnaire issued by the Association of Friendly Societies and the Association of Mutual Insurers to monitor compliance with the recommendations from the Myners' Review.

The questionnaire is completed on the basis of 'comply or explain' and yet again I am happy to report that throughout 2009 the Society has continued to comply with almost every one of the requirements in the Annotated Combined Code. There are only two areas where, in view of the Society's nature and size, we believe that the 'explain' option is more appropriate. These relate to performance related pay and enhanced notification of the AGM. Further details of these areas are set out later in this report.

Unfortunately the financial crisis in 2009 did find a number of larger financial institutions falling short of standards that the Regulator found to be acceptable. This will inevitably result in a tightening of the rules for governance. The Transport Friendly Society is confident that its Corporate Governance framework is robust and the Board of Management will act appropriately and proportionately in order for it to remain so.

The Society continues to carry out a robust appraisal of each member of the Board of Management, the Board and its committees.

During 2009 the Board of Management received further training on the Valuation Methodology and several sessions relating to Solvency II.

#### **Regulation**

The Society has a Compliance and Risk Assessment Committee which is responsible for monitoring new legislation and regulation in order to ensure the Society's continued compliance with the raft of rules and regulations that affect all firms within the financial services industry. The Society last met with an FSA Supervisor on a routine visit in December 2007.

The financial services industry has not been shown in the best of lights during the last 12 to 18 months. The focus of regulation is very much on financial strength, risk analysis and mitigation, governance and the fit and properness of those who govern. Mutual firms, such as Transport Friendly Society, will also need to consider issues relating to ownership.

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This regulation will impact on all firms who wish to continue to operate and will represent a significant challenge to Boards of Management. All this will take significant time, effort and resource.

**Financial Results**

The overall assets of the Society reduced slightly from £34.5m to £33.1m partly due to a slight fall in value of its property. However Contribution Income did show a slight increase compared with 2008.

The Board of Management has maintained a prudent control of claims and expenses. Claims incurred have been fairly static and net operating expenses increased very slightly.

**The Future**

Having received approval at the AGM in 2009 the Society has developed its own Child Trust Fund product which it launched in February 2010. We hope to develop this further in 2010.

The updating of the Society's computer software and systems continues to provide a challenge for the Board and Senior Management. Although progress has been extremely slow the Board are convinced that a system fit for purpose can be delivered during 2010.

**People**

On behalf of the Board of Management I would like to record my thanks and appreciation to all the Society's staff who have continued to provide a first class service to the members during 2009.

**Mr C W Welch**  
**(Chairman)**  
**25 May 2010**

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#### 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. The Society's policy is to follow the principles of the Combined Code of Corporate Governance annotated by the Association of Mutual Insurers and the Association of Friendly Societies to cover mutual insurers ('the Code'). It is our policy to observe 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 Society's Board which comprises the Non Executive Chairman, one Executive Director and nine Non Executive Directors met 7 times during 2009. The Board operated with 10 Members for the majority of 2009 but co-opted a new Non Executive Director in November 2009.

The Board was and is satisfied that its range of expertise and experience is appropriate for the past and current needs of the Society. The Board composition includes a number of individuals who work within the transport industry and also individuals with relevant financial experience. This balance of skills helps the society provide appropriate products and services for the benefit of members.

The Society has reviewed its composition again and for the time being has decided not to change the current structure. However this review will continue throughout 2010 as regulation and new practices unfold.

All Directors have access to both independent professional advice, as necessary, and the advice and services of the Society's Secretary, who is responsible to the Board for ensuring that Board Procedures are complied with. The Secretary is also responsible for ensuring good information flows to the Board and its Committees. 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:

- ◆ Bonus policy / bonus rates
- ◆ Preparation and Approval of accounts
- ◆ Approval of Internal Audit report
- ◆ Approval of FSC Returns
- ◆ Approval of financial budget
- ◆ Approval of Business Plan
- ◆ Approval of major expenditure
- ◆ Investment policy
- ◆ Approval of appointment of consultants / outsourcing arrangements / contracts with third parties
- ◆ Approval of appointment / termination of senior staff
- ◆ Recommendation of changes to the Memorandum and Rules of the Society to be proposed at the Society's AGM.
- ◆ Recommendation of changes to the Memorandum and Rules of the Society to be proposed at the Society's AGM.

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The Independence of the Non Executive Directors has been reviewed and, with the exception of the Senior Non Executive Director and the newly appointed Non Executive Director, it was noted that the remaining directors held policies with the society.

In the opinion of the Board, all Non Executive Directors, including the Chairman, are considered to be independent for the following reasons:

- ◆ The monetary contributions made by Board members to the Society are relatively small so their financial interest in the Society is modest.
- ◆ Similarly the payments received for being a Director are not material.
- ◆ Directors, in order to retain their independence, maintain an arms length distance from the day to day running of the Society.
- ◆ Robust, informed debate is encouraged at Board Meetings so that the independence of directors is not compromised.

The roles of the Chairman and Chief Executive remained separate during 2009 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. These respective responsibilities have been agreed by the Board and details are available on request.

The Board has established a number of Committees which have their own terms of reference. Details of the main Board Committees, including their membership during 2009 are set out below.

The remuneration of the Non Executive Directors on the Board of Management is via an annual fee of £3,705 paid in two half yearly instalments. There is a supplement payable for Chairman and Vice Chairman of £2285 and £675 per annum respectively. In addition all Non Executive Directors receive an attendance fee of £130 per day for meetings of Committees together with reimbursement of reasonable travel costs.

The Board of Management believe performance related pay is still not appropriate to an organisation of the Society's size.

#### **Audit Committee**

S Barker, P J Doyle, T Parry, A Powell

The Audit Committee normally meets at least 3 times a year and assists the Board in meeting its responsibilities in respect of systems and controls and external financial reporting. It also considers the effectiveness of Internal Audit, which, in the light of the size of the Society, is currently outsourced. The Audit Activities for 2009 covered governance, investments and claims, marketing, compliance and computer security. One member of the Audit Committee is an actuary with financial experience.

Terms of reference are available on request and are on the Society's website.

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**Compliance and Risk Assessment Committee**

P S Brown, P Doyle, T R Parry – Chairman, A Powell

The Compliance and Risk Assessment Committee meets at least 4 times a year and assists the Board in meeting its responsibilities in respect of Compliance matters including Corporate Governance and Risk Management.

Terms of reference are available on request and are on the Society's website.

**Development Committee**

S R Barker – Chairman, N V Cohen, C W Jeffrey, M Storer

The Development Committee meets at least 4 times a year and assists the Board in meeting its responsibilities in respect of development policy and its Treating Customers Fairly initiative.

Terms of reference are available on request and are on the Society's website.

**Remuneration Committee**

S R Barker – Chairman, N Cohen, P J Doyle, C Jeffrey

The Remuneration Committee meets at least twice a year to review the Society's remuneration policy and determines the remuneration packages for Directors and staff.

Terms of reference are available on request and are on the Society's website.

**Nominations Committee**

C W Welch, R A Freeman, C Jeffrey, M Storer

The Nominations Committee is convened only when required and met once during 2009. Terms of reference are available on request and are on the Society's website.

When a vacancy on the Board of Management exists the nomination process invites nominations from any individuals interested. Valid nomination forms are then considered by the Nominations Committee who assess those nominated and make appropriate recommendations to the Board of Management. More information about the process is available upon request.

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**ATTENDANCE AT 2009 BOARD AND COMMITTEE MEETINGS**

Name	Board	Comp	Dev	Audit	Rem	Appointment Date	Expiry of current term
C Angell	1/1					24 November 2009	June 2010
S R Barker ♦	7/7		4/4	2/2	1/1	22 June 2002	June 2011
P S Brown	7/7	4/4				22 June 2004	June 2010
N V Cohen	7/7		3/4		1/1	14 June 1998	Retires June 2010
P J Doyle	7/7			2/2	1/1	3 May 1990	June 2010
R A Freeman	7/7	4/4	4/4	2/2	1/1	26 June 2007	June 2010
C W Jeffrey	6/7		3/4		1/1	22 June 2004	June 2010
T R Parry □	5/7	4/4		2/2		27 July 2005	June 2010
A Powell	7/7	4/4		2/2		26 June 2007	June 2010
M Storer	7/7		3/4			8 July 2008	June 2011
C W Welch +	6/7	3/4	4/4	2/2	1/1	19 June 1997	June 2010

Key:

- + Chairman of Board of Management
- ♦ Vice Chairman of Board of Directors/Chairman Remuneration Committee and Development Committee
- Chairman of Audit Committee and Compliance & Risk Assessment Committee, Senior Independent Director and Trustee of the Pension Fund,

The Chairman and Chief Executive also attend the majority of committee meetings.

**Annual General Meeting of the Society**

All 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. The AGM is advertised by posters in garages and in one national newspaper. Currently members do not receive individual notification of the AGM but all members are nevertheless encouraged to attend. The Society hopes the implementation of a new computer system will enhance notification of the AGM to individual members. Those members unable to attend may appoint a proxy to vote on their behalf.

**Statement of Policy – Complaints Procedures**

The Society endeavours to maintain high standards of integrity and fairness when dealing with its members. However, if and when a complaint arises, the Society follows the complaints procedure advocated by the Financial Services Authority (FSA). This procedure is set out in the Society's Compliance Manual which is available for reference to all staff and members. The complaints procedure is also contained on our website. This procedure includes the right of referral to the Financial Ombudsman Service if the complaint cannot be resolved internally.

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**Report of the Board of Management**

**Constitution of the Board**

At the 2009 AGM the following were re-elected to the Board: Messrs N V Cohen, P Doyle and C W Welch following retirement in accordance with Rule 22(2). As there were three candidates for these vacancies no formal election took place.

At the end of the AGM in 2010 Messrs P Doyle and C W Welch, in accordance with Rule 22(1A), retire from the Board having served more than nine years as Directors and are eligible for re-election without nomination. Messrs P Brown, R Freeman, C Jeffrey, T Parry and A Powell retire from the Board having not been elected or re-elected at either of the last two AGM's as Directors and are eligible for re-election without nomination. Mr C Angell, who was appointed to the Board in accordance with Rule 21, is also eligible for election without nomination.

Mr N Cohen retires from the Board under Rule 20. The Board of Management wish to record their thanks to Mr Cohen for his long association and service during which his contribution has been invaluable.

**Membership and Recruitment**

The table below shows the number of new contracts effected in 2009 compared with 2008:

Section	2009	2008
Endowment	92	83
Sickness	641	656
Hospitalisation	175	184
Endowment (Junior)	33	31

A summary of the movement in membership in 2009 compared with 2008 is as follows:

	2009		2008	
	Adults	Juniors	<i>Adults</i>	<i>Juniors</i>
Number at beginning of year	19,435	122	20,153	95
New members	631	33	624	31
	20,066	155	20,777	126
Exits	942	4	1,342	4
Number at end of year	19,124	151	19,435	122

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#### Management Expenses

The Board of Management has continued to keep tight control of the management expenses and in 2009 these have remained almost identical. The following table identifies the changes which have occurred over recent years:

Year	Contribution Income £'000	Increase over previous year %	Net operating Expenses (Management costs) £'000	Increase (decrease) over previous year %	Net operating Expenses (Management costs)/Contribution Income Ratio £'000
1999	460	33.8	570	2.5	1.23:1
2000	552	20.0	575	0.9	1.04:1
2001	674	22.1	631	9.7	0.94:1
2002	830	23.1	706	11.9	0.85:1
2003	940	13.3	787	11.5	0.84:1
2004	1,012	7.7	893	13.5	0.88:1
2005	1,060	4.7	933	4.5	0.88:1
2006	1,132	6.4	980	5.0	0.87:1
2007	1,225	8.2	990	1.0	0.81:1
2008	1,249	1.9	1,045	5.5	0.83:1
2009	1,259	0.8	1,064	1.8	0.84:1

The net operating expenses stated above are before adjusting for pension fund service costs in accordance with Financial Reporting Standards 17. The amounts adjusted within the Income and Expenditure charge are £ 48,000 for 2009 and £51,000 for 2008.

#### Assets

The Financial Statements attached to this report show a small reduction in the Society's assets over the course of the year, which is only to be expected bearing in mind the turbulent times seen in financial markets.

At the year end the assets of the Society remained adequate to maintain benefits.

#### Margin of Solvency

The Society had at 31 December 2009 the required margin of solvency as prescribed in the FSA Regulations.

#### Indemnity Insurance

The Society is required by Law to indemnify its Board, Officers and Staff against certain liabilities as detailed in its Rules. A policy of insurance is in force to cover such indemnity and associated liabilities.

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***Activities***

Your Board did not carry out any activities during 2009 which were outside its powers.

**Appreciation**

Your Board wish to record their sincere thanks and appreciation to the Society's staff who continue to provide loyal and efficient support to the Chief Executive and Directors.

The continued co-operation that is received from the various companies which provide both recruitment and payroll deduction facilities is also much appreciated.

Appreciation is also expressed to the following for their valuable advice and assistance to the Society:

- |   |  |
|---|--|
| ▪ Mr S Dixon                            | - Our Actuarial Function Holder & With-Profits Actuary |
| ▪ F W Berringer & Co                    | - Our External Auditors                                |
| ▪ E D (Financial) Limited               | - Our Consultants                                      |
| ▪ Rensburg Sheppard and Legal & General | - Our Investment Managers                              |
| ▪ Gregory, Rowcliffe & Milners          | - Our Solicitors                                       |

**On behalf of the Board of Management**

Chief Executive

25 May 2010

**Statement of Responsibilities of the Board of Management**

The Friendly Society Act 1992 ('the Act') requires the Board of Management to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for that period. In preparing those Financial Statements, the Board of Management 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 departure disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable them to ensure that the Financial Statements comply with the Act. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**TRANSPORT FRIENDLY SOCIETY LIMITED**  
**INDEPENDENT AUDITORS' REPORT**  
**Report of the Independent Auditors to the**  
**Members of Transport Friendly Society Limited**

We have audited the financial statements of Transport Friendly Society Limited for the year ended 31 December 2009 on pages 19 to 36. These financial statements have been prepared on the basis of the accounting policies set out on pages 22 to 23.

This report is made solely to the Society's members as a body. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body for our audit work, for this report or for the opinions we have formed.

**Respective Responsibilities of the Board of Management and Auditors**

The Board of Management is responsible for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards. 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 if, in our opinion, the Report of the Board of Management has not been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

We further 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 that we require for our audit.

We read the Board of Managements' report, Chairman's report, and Corporate Governance report and 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 Audit 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 of Management 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.

**TRANSPORT FRIENDLY SOCIETY LIMITED  
INDEPENDENT AUDITORS' REPORT**

We planned and performed our audit so as to obtain all the 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 opinion, 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, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Society as at 31 December 2009 and of the income and expenditure of the Society 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 of Management 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.

F W Berringer & Co  
Chartered Accountants and  
Registered Auditors  
Lygon House  
50 London Road  
Bromley  
BR1 3RA

2010

**TRANSPORT FRIENDLY SOCIETY LIMITED**  
**INCOME AND EXPENDITURE ACCOUNT**  
**YEAR ENDED 31 DECEMBER 2009**

**Technical Account - Long Term business**

	Notes	2009 (£000)	2008 (£000)
<b>Income</b>			
Earned premiums		1,259	1,249
Investment income	2	1,468	1,812
Other income	15	19	75
<b>Total income</b>		<u>2,746</u>	<u>3,136</u>
<b>Change in Long Term Business Provision</b>	11	<b>8,210</b>	2,702
<b>Expenditure</b>			
Claims incurred	3	1,103	1,110
Bonuses, grants and rebates	4	1,219	1,141
Net operating expenses	5	1,112	1,096
Investment expenses and charges		121	112
Net realised loss on investments		363	2,860
Net unrealised loss on investments		61	3,178
<b>Total expenditure</b>		<u>(3,979)</u>	<u>(9,497)</u>
Transfer to the Funds for Future Appropriations		6,977	(3,659)
<b>Balance on the Technical Account - Long Term Business</b>		<u><u>-</u></u>	<u><u>-</u></u>

All amounts derive from continuing activities.

**TRANSPORT FRIENDLY SOCIETY LIMITED**  
**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**YEAR ENDED 31 DECEMBER 2009**

	<b>2009 (£000)</b>	2008 (£000)
<b>Transfer to the Funds for Future Appropriations</b>	<b>6,977</b>	(3,659)
Actuarial (loss)/gain in Defined Benefit pension fund (Note 15)	<b>(296)</b>	(604)
 	<hr/>	<hr/>
Total recognised gains and (losses) in year	<b>6,681</b>	(4,263)
	<hr/> <hr/>	<hr/> <hr/>

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**BALANCE SHEET**

**AS AT 31 DECEMBER 2009**

	Notes	2009 (£000)	2008 (£000)
<b>ASSETS</b>			
<b>Investments</b>			
Land and buildings	7	1,250	1,595
Other financial investments	8	<u>29,557</u>	<u>22,539</u>
		<b>30,807</b>	24,134
<b>Debtors</b>			
Debtors in respect of contributions		65	91
<b>Other Assets</b>			
Tangible assets	9	139	93
Cash at bank and in hand		<u>1,921</u>	<u>9,751</u>
		<b>2,060</b>	9,844
<b>Prepayments and Accrued Income</b>			
Accrued investment income		331	330
Other prepayments and accrued income		<u>38</u>	<u>43</u>
		<b>369</b>	373
<b>Pension Scheme Net Assets/(Liabilities)</b>	15	<b>(189)</b>	136
		<u><b>33,112</b></u>	<u><b>34,578</b></u>
<b>LIABILITIES</b>			
Fund for Future Appropriation	11	8,741	2,060
Technical provisions:			
Long Term Business Provision	11	23,823	32,033
Accruals and deferred income	10	548	485
		<u><b>33,112</b></u>	<u><b>34,578</b></u>

Approved by the Board of Management and signed on its behalf on 25 May 2010

\_\_\_\_\_ Chief Executive

\_\_\_\_\_ Chairman

\_\_\_\_\_ Secretary

# TRANSPORT FRIENDLY SOCIETY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

### 1. ACCOUNTING POLICIES

#### Basis of presentation

The financial statements have been prepared in compliance with the Friendly Societies Act (Accounts and Related Provisions) Regulations 1994 and in accordance with applicable accounting standards and the Statement of Recommended Practices issued by the Association of British Insurers.

#### Premiums

Premiums are accounted for when due for payment. All premiums arise from business written in the United Kingdom.

The Society does not utilise any reinsurance arrangements.

#### Claims

Prior to 1 January 2007, claims were recognised on notification by the member or their executors. From 1 January 2007, Provident and Endowment policy maturities are recognised when they become due on maturity while prior years' maturities not yet notified by members continue to be recognised when notified. All other claims are recognised on notification.

#### Investment Income

Fixed interest income and bank deposit interest are included as investment income on an accruals basis. Equity income is included as investment income by reference to the payment date. Rental income is included as investment income when it falls due. Realised gains and losses on investments are recognised on the date of disposal.

Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and the purchase price or, where they have been previously valued, at the previous balance sheet date.

#### Investments

Investments held at the balance sheet date, where listed, have been valued at middle market prices or, where unlisted, at Board of Management valuation. Units in Unit Trusts are included at published bid prices. Properties are shown at open market value for existing use.

#### Fixed assets

Tangible fixed assets are depreciated on the straight line method on the basis of estimated useful lives at the following rates:-

Computer system	0%
Furniture	12 1/2%
Equipment	20%
Motor vehicles	33 1/3%
Computer software	33 1/3%

# TRANSPORT FRIENDLY SOCIETY LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

### 1. ACCOUNTING POLICIES (continued)

#### Long Term Business Provision

The long term business provision is determined by the Society's Board of Management following the advice of the Actuarial Function Holder in accordance with his annual investigation on the method and assumptions used for the purpose of valuation. The calculation used the net premium calculation method and includes explicit provision for declared bonuses. Implicit provision is made for future reversionary bonuses by means of a reduction in the valuation rate of interest.

#### Fund for Future appropriations

The fund for future appropriations represents all funds, the allocation of which to policy holders had not been determined by the end of the financial year. Any surplus or deficit on the technical account is transferred to or from the fund on an annual basis.

#### Pensions

The Society operates a defined benefits pension scheme to which most staff belong. The scheme is valued every three years by a professionally qualified independent actuary. In the intervening years, the actuary reviews the continuing appropriateness of the rates. Payments to the scheme and amounts charged to expenses are calculated with actuarial advice and represent a proper charge to cover the accruing liabilities on a continuing basis.

	2009 (£000)	2008 (£000)
<b>2. INVESTMENT INCOME</b>		
Investment income from:		
Debt and other fixed income securities (listed)	797	619
Shares and other variable yield securities	393	290
Units in unit trusts and foreign holdings	112	547
Total investment income from listed investments	<u>1,302</u>	<u>1,456</u>
Land and buildings	11	11
Debt and other fixed income securities (unlisted)	83	125
Bank interest	72	220
	<u><u>1,468</u></u>	<u><u>1,812</u></u>

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

	<b>2009 (£000)</b>	2008 (£000)
<b>3. CLAIMS INCURRED</b>		
Claims	810	695
Surrenders for cash	293	415
	<b>1,103</b>	<b>1,110</b>
	<b>2009 (£000)</b>	2008 (£000)
<b>4. BONUSES, GRANTS AND REBATES</b>		
Bonuses	1,074	986
Cash Distribution from Death and Sick Fund	2	2
Grants	143	153
	<b>1,219</b>	<b>1,141</b>
	<b>2009 (£000)</b>	2008 (£000)
<b>5. NET OPERATING EXPENSES</b>		
Included in operating expenses are the following administration expenses:-		
Board members' emoluments (note 6)	138	144
Staff salaries	362	305
Social security costs	48	45
Pension costs	20	19
Audit fees	36	36
Depreciation (note 9)	16	21
Actuarial fees	153	192
	<b>2009</b>	2008
Average number of employees during the year	<b>12</b>	<b>12</b>

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

	<b>2009 (£000)</b>	2008 (£000)
<b>6. BOARD MEMBERS' EMOLUMENTS</b>		
Aggregate Board Members' emoluments, including pension scheme contributions:		
Salaries	128	132
Expenses allowance	2	2
Non cash benefits	8	10
	138	144
	138	144
	<b>2009 No. of Members</b>	2008 No. of Members
The emoluments of the Board members fell within the following bands:		
£0 - £5,000	5	8
£5,001 - £10,000	4	4
£80,000 - £95,000	1	1
	5	13
	5	13
	<b>2009 (£000)</b>	2008 (£000)
Chairman	8	8
Highest paid Board member	92	92
	92	92
	92	92

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

	2009		2008	
	Valuation (£000)	Cost (£000)	Valuation (£000)	Cost (£000)
<b>7. INVESTMENTS: LAND AND BUILDINGS</b>				
Freehold properties	-	-	165	37
Freehold properties: partly occupied by the Society	<b>1,250</b>	<b>587</b>	1,430	587
	<b>1,250</b>	<b>587</b>	1,595	624
	<b>1,250</b>	<b>587</b>	1,595	624

The Society's properties are included at open market values based on the valuation determined by the Board acting under professional advice.

	2009		2008	
	Valuation (£000)	Cost (£000)	Valuation (£000)	Cost (£000)
<b>8. INVESTMENTS: OTHER FINANCIAL INVESTMENTS</b>				
Debt and other fixed income securities	<b>26,052</b>	<b>26,627</b>	19,684	19,814
Units in unit trust and foreign holdings	<b>3,505</b>	<b>3,543</b>	2,813	3,543
Funds held by credit institutions	-	-	42	42
	<b>29,557</b>	<b>30,170</b>	22,539	23,399
	<b>29,557</b>	<b>30,170</b>	22,539	23,399

Of the amounts shown above, £30,164,000 (cost) and £29,551,000 (market value) is ascribable to listed investments (2008: £23,393,000 cost and £22,553,000 market value).

TRANSPORT FRIENDLY SOCIETY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2009

	Computer System (£000)	Furniture, Equipment and Software (£000)	Motor Vehicles (£000)	Total (£000)
<b>9. TANGIBLE ASSETS</b>				
<b>Cost</b>				
At 1 January 2009	70	202	36	308
Additions	44	8	16	68
Disposals	-	(23)	(19)	(42)
At 31 December 2009	114	187	33	334
<b>Depreciation</b>				
At 1 January 2009	-	194	21	215
Charge for the year	-	5	11	16
Disposals	-	(23)	(13)	(36)
At 31 December 2009	-	176	19	195
<b>Net Book Value</b>				
At 31 December 2009	114	11	14	139
At 31 December 2008	70	8	15	93
<b>10. ACCRUALS AND DEFERRED INCOME</b>				
	<b>2009 (£000)</b>			<b>2008 (£000)</b>
Accounts payable	<b>99</b>			191
Outstanding claims	<b>433</b>			283
Contributions paid in advance	<b>15</b>			10
Benefits held in trust	<b>1</b>			1
	<b>548</b>			485

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

	At 1 January 2009 (£000)	Net Transfers to/(from) Funds (£000)	At 31 December 2009 (£000)
<b>11. RECONCILIATION OF MOVEMENTS IN RESERVES AND PROVISIONS</b>			
<b>Funds for future appropriations:</b>			
Insurance Business Fund	2,025	6,681	<b>8,706</b>
General and Distress Fund	5	-	<b>5</b>
Management Fund	30	-	<b>30</b>
	2,060	6,681	<b>8,741</b>
<b>Long Term Business Provision:</b>			
Insurance Business Fund	32,033	(8,210)	<b>23,823</b>
	32,033	(8,210)	<b>23,823</b>

In December 2004, the Accounting Standards Board (ASB) issued Financial Reporting Standard (FRS) 27 on Life Assurance, which applies to all life assurance businesses, including Friendly Societies. For the Transport Friendly Society, the main impact of FRS 27 is to provide detailed disclosures of the liabilities and financial strength of the Society.

**Capital Statement**

The Capital Statement illustrates the financial strength of the Society's life business at 31 December 2009 and is set out below. This statement shows an analysis of the available capital resources calculated on a regulatory basis for the Society's with profit funds as a whole. It shows the margins over and above the regulatory requirements and the overall surplus capital within the fund under these bases. Further, the technical liabilities of the Society (i.e. those directly attributable to members policies), is split between with profit plans and non-participating plans.

TRANSPORT FRIENDLY SOCIETY LIMITED

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 2009

Long term business provision (continued)

Capital Statement Table	Non participating (£000)	With Profits (£000)	2009 Total (£000)	2008 Total (£000)
Fund for future Appropriations (FFA)	35	8,706	8,741	2,060
Regulatory adjustments:				
Assets	-	47	47	(211)
Liabilities	-	(3,486)	(3,486)	(80)
Total available capital resources	35	5,267	5,302	1,769
Capital requirement			1,316	1,474
<b>Overall surplus capital</b>			<b>3,986</b>	<b>295</b>

	Non participating (£000)	With Profits (£000)	2009 Total (£000)	2008 Total (£000)
Analysis of members' liabilities				
With profits	-	23,823	23,823	32,033
Non participating	-	-	-	-
Claims outstanding	-	433	433	283
<b>Total technical liabilities</b>	-	24,256	<b>24,256</b>	<b>32,316</b>

Basis of calculating capital requirements for life business

The total regulatory capital requirement for the Society amounts to £1.271m (2008:£1.474m), all of which relates to the Long Term Insurance Capital Requirement.

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

**Long term business provision** (continued)

**Asset mix at the valuation date**

	<b>2009</b>	2008
Cash	<b>6%</b>	29%
Fixed interest bonds	<b>75%</b>	58%
Variable interest bonds	<b>5%</b>	0%
Equities	<b>10%</b>	8%
Property	<b>4%</b>	5%
	<b>100%</b>	100%
	<b>100%</b>	100%

**Capital and risk management for life business**

For conventional with profits business, the key sensitivity is to future investment returns. The mix of assets is kept under review taking into account the level of capital required and the anticipated returns for members.

**Movement in available capital**

	<b>2009 (£000)</b>
Total available capital at 1 January 2009	<b>1,769</b>
Changes in valuation assumptions	<b>5,041</b>
New business and other factors	<b>(1,508)</b>
	<b>5,302</b>
Total available capital at 31 December 2009	<b>5,302</b>

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

**12. LONG TERM BUSINESS PROVISION - ASSUMPTIONS**

The long term business provision for 2009 has been calculated on the basis of the following principal assumptions:

Policy	Interest	Mortality	Other
Death Benefit	2%	80% AMC00/AFC00	
Provident	2%	80% AMC00/AFC00	Ill Health Requirements: Appropriate Scale
Sickness	2%	Nil in deferment CMIR 12 in payment	Sickness: Inception rates based on 131% to 341% of CMIR12-dependending on table and gender
Endowment (Adult)	2%	80% AMC00/AFC00	
Endowment (Junior)	2%	80% AMC00/AFC00	
Hospitalisation	2%	Nil in deferment and payment	Sickness: Inception rates of 1% to 7.5% depending on age and periods of payment of 3 days to 20 days depending on age

**Change in valuation rate of interest**

The valuation rate of interest for all types of business decreased in the year to 2% (2008:3.5%). At 31 December 2009 the margin between the risk adjusted asset yield and the valuation interest rate was 1.7% which covered an additional level of prudence above that already within the risk adjusted yield and an implicit allowance for the future cost of the annual (or reversionary) bonuses.

**13. CONTINGENT LIABILITIES**

Included in the regulatory figures in the Capital Statement table in note 11 is an amount of £2.156m in respect of an additional expenses reserve. This amount has not been included in the Long Term Business Provision on the balance sheet on the basis that such a liability is contingent on the Society closing to new business.

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

**14. STATEMENT BY ACTUARIAL FUNCTION HOLDER**

1. The Actuarial Function Holder has
  - a. never been a member of the Society
  - b. no pecuniary interest in any transactions between himself and the Society other than his interest as a member of Steve Dixon Associates in respect of the amounts disclosed below
  - c. not received in 2009 and will not receive any other pecuniary benefits from the Society
2. Fees paid to Steve Dixon Associates in 2009 for the services provided by Mr S Dixon and his support team for the period 17 August 2009 to 31 December 2009 amounted to £38,779. Fees paid to Watson Wyatt Ltd provided by Mr A J Chamberlain and his support team amounted to £82,743 (2008: £166,542).
3. The Society requested and the Actuary furnished particulars specified under Section 77(2) of the Friendly Societies Act 1992 and the Society has identified such particulars.

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

**15. PENSIONS**

The Society operates a defined benefit pension scheme, the Transport Friendly Society Limited Staff Pension Scheme. The Scheme's funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the Scheme in accordance with the recommendations of an independent actuary. Details in respect of the Scheme are provided below in accordance with FRS 17.

An actuarial valuation was carried out as at 31 December 2009 by an independent qualified actuary, Punter Southall. As required by FRS 17, the defined benefit liabilities have been measured using the projected unit method and both the assets and liabilities include the value of pensions in payment.

On the basis of the assumptions used for life expectancy, a male person aged 65 at the accounting date would be expected to live a further 21.1 years (2008: 21.1 years).

The following table sets out, as at the accounting dates, the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the surplus of assets above the FRS 17 liabilities (which equals the gross pension asset).

**Assumptions**

	<b>31 December 2009</b>	<b>31 December 2008</b>	<b>31 December 2007</b>
Price inflation	3.7% pa	3.0% pa	3.5% pa
Discount rates	5.8% pa	6.5% pa	5.9% pa
Pension increases	3.7% pa	3.0% pa	3.5% pa
Salary growth	5.2% pa	4.5% pa	5.0% pa

**Asset distribution and expected returns**

	<b>31 December 2009</b>		<b>31 December 2008</b>		<b>31 December 2007</b>	
	Expected return	Fair value (£000)	Expected return	Fair value (£000)	Expected return	Fair value (£000)
Components:						
Equities & hedge funds	7.7% pa	1,827	7.9% pa	1,597	7.5% pa	2,426
Gilts & cash	4.5% pa	251	3.8% pa	337	4.3% pa	297
Property	6.6% pa	69	6.8% pa	102	6.3% pa	145
Bonds	5.5% pa	431	5.7% pa	218	5.2% pa	200
<b>Total</b>		<u>2,578</u>		<u>2,254</u>		<u>3,068</u>

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

**15. PENSIONS** (continued)

**Balance Sheet analysis**

	<b>31 December 2009</b>	<b>31 December 2008</b>	<b>31 December 2007</b>
	<b>(£000)</b>	<b>(£000)</b>	<b>(£000)</b>
Total fair value of assets	2,578	2,254	3,068
Present value of liabilities	2,767	2,118	2,352
Gross pension (liability)/ Asset	(189)	136	716

Over the year to 31 December 2009, employer contributions of £20,000 were made to the Scheme. The Society is currently paying contributions of 5% of pensionable salary.

The post retirement surplus under FRS 17 moved as follows:

	<b>31 December 2009</b>	<b>31 December 2008</b>	<b>31 December 2007</b>
	<b>(£000)</b>	<b>(£000)</b>	<b>(£000)</b>
Post retirement surplus at start of year	136	716	716
Current service cost (employee and employer)	(76)	(70)	(70)
Contributions (employee and employer)	28	19	16
Other net finance income	19	75	91
Actuarial (loss)/gain	(296)	(604)	(37)
Post retirement (deficit)/ surplus at end of year	(189)	136	716

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

**15. PENSIONS** (continued)

**Analysis of amount charged to operating profit**

	<b>31 December 2009</b>	<b>31 December 2008</b>	<b>31 December 2007</b>
	<b>(£000)</b>	<b>(£000)</b>	<b>(£000)</b>
Current service cost	68	70	70
Past service cost	-	-	-
Gross pension asset	68	70	70

**Analysis of amounts credited to other finance income**

	<b>31 December 2009</b>	<b>31 December 2008</b>	<b>31 December 2007</b>
	<b>(£000)</b>	<b>(£000)</b>	<b>(£000)</b>
Expected return on pension scheme assets	156	213	209
Interest on post retirement liabilities	(137)	(138)	(118)
Net return credited to finance income	19	75	91

**TRANSPORT FRIENDLY SOCIETY LIMITED**

**NOTES TO THE FINANCIAL STATEMENTS**

**AT 31 DECEMBER 2009**

**15. PENSIONS** (continued)

**Analysis of amount recognised in statement of total recognised gains and losses (STRGL) and history of experience gains and losses**

	31 December 2009		31 December 2008		31 December 2007		31 December 2006	
	(£000)	%age	(£000)	%age	(£000)	%age	(£000)	%age
Actual return less expected return on scheme assets	242	9%	(970)	(43%)	(85)	(3%)	197	7%
Experience gains and (losses) arising on liabilities	76	3%	(74)	(3%)	2	0%	(62)	(3%)
(Loss) or gain due to changes in assumptions underlying the present value of scheme liabilities	(614)	(22%)	440	21%	46	2%	126	6%
Actuarial (loss)/gain recognised in the STRGL	(296)		(604)		(37)		261	

The above percentages show the STRGL components as a percentage of the end of year asset or liability, as appropriate.

**16. RELATED PARTIES**

The majority of the Board of Management are members of the Society and, therefore, make the appropriate contributions to applicable funds. The total of contributions paid by such members during their service on the Board in 2009 was £2,901 (2008: £2,999). None of these contributions are material by size or nature to the relevant fund or the individual contributing member.