

ANNUAL REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 2009



Annual Report & Accounts
2009

“Providing financial peace of mind since 1922”

ANNUAL REPORT & FINANCIAL STATEMENTS 2009

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SCHOOLTEACHERS FRIENDLY SOCIETY

Schoolteachers Friendly Society
30 Mather Avenue, Liverpool, L18 5HS
Established in the City of Liverpool in 1922
Registered under the Friendly Societies Act 1974, Registration Number 454F

OFFICERS AND PROFESSIONAL ADVISERS

Chairman	A. N. Spencer
Vice-chairman	G. Harrison, F.C.I.I., Chartered Insurer
Treasurer	D. A. Eaton, B.A.
Board of Management	S. J. Code, M.B.A. J. Hodson R. W. Morley, B.Sc., P.G.C.E. R. G. Morris, B.A., A.C.A. C. R. Nugent, A.C.I.I. D. Proffitt, B.A., Dip Ed., D.A.S.E., DHP.
Chief Executive and Secretary	S. J. Code, M.B.A.
Registered Office	30 Mather Avenue, Liverpool L18 5HS
Auditors - External	Duncan Sheard Glass Chartered Accountants, Liverpool
Auditors – Internal	M. McGuire, Independent Auditor Harvey Guinan, Chartered Certified Accountants, Liverpool
Bankers	HSBC, Liverpool
Medical Adviser	Dr. I. Shiffman, Liverpool
Appropriate Actuary	G. Lock, B.Sc., F.I.A., Watson Wyatt Limited, a Towers Watson company
Arbitrators	R. Enoch, OBE, B.A., Liverpool D. Kelso, Liverpool P. L. Parry, D.A.S.E., J.P., Liverpool

The Society is:

Open to children of all ages and adults from all occupations;
A registered unincorporated non-directive friendly society;
A member of the Association of Financial Mutuals;
Authorised and regulated by the Financial Services Authority (Ref. No.: 139829); and
A member of the Financial Services Compensation Scheme

Membership of Board Committees as at 31/12/2009

Audit, Risk and Compliance

Graham Harrison (Chairman)
Dave Eaton
Jan Hodson
Rod Morris
Colin Nugent

Nomination & Remuneration

Bill Morley (Chairman)
Steve Code
Jan Hodson
Colin Nugent
Andrew Spencer

Investment (Camelot Trustee Company Ltd)

Andrew Spencer (Chairman)
Steve Code
Dave Eaton
Graham Harrison
Rod Morris
Dorothea Proffitt

Sales & Marketing

Dorothea Proffitt (Chairman)
Steve Code
Dave Eaton
Jan Hodson
Andrew Spencer

NOTICE OF ANNUAL GENERAL MEETING 2010

The EIGHTY-FIFTH ANNUAL GENERAL MEETING of THE SCHOOLTEACHERS FRIENDLY SOCIETY will be held in The Village Hotel, Whiston, Merseyside on Saturday 8 May 2010, at 11.30am.

Andrew Spencer, Chairman of the Board of Management, will take the chair.

S. J. Code, Chief Executive
February 2010

All members are eligible to attend the Annual General Meeting, but voting rights only apply to members over 16 years of age.

STANDING ORDERS

1. That the proposer of a motion be allowed to speak for 10 minutes.
2. That the seconder and all succeeding speakers be allowed five minutes.
3. That all amendments to a motion be submitted to the Chairman in writing with the name of the mover attached.
4. That only one amendment shall be submitted for discussion at one time.
 - (a) If an amendment be carried, it shall then be put as a substantive motion upon which a further amendment may be moved.
 - (b) If an amendment be negatived, then a further amendment may be moved to the original motion, or to the original motion amended in accordance with (a).
5. That the decision of the Chairman on any point of order shall be final.
6. That no member be permitted to speak more than once on the same motion except the proposer, who shall have the right to reply.
7. That subject to the discretion of the Chairman, any discussion may be closed by a resolution "That the question be now put" being moved, seconded, and carried, such resolution to be put to the meeting without debate.
8. That when the Chairman rises to speak, members shall immediately take their seats.

**SICKNESS INCOME AND CHILDCARE PLAN ALLOCATIONS
FOR YEAR ENDED 31 DECEMBER 2009**

45% OF CONTRIBUTIONS APPORTIONED TO MEMBERS' FUNDS

**1.00% ALLOCATION (INTEREST) ON MEMBERS' FUNDS
(Equal to 1.25% GROSS for base rate taxpayers)**

**2.75% ALLOCATION (INTEREST) ON DEPOSIT ACCOUNTS
(Equal to 3.44% GROSS for base rate taxpayers)**

NOTICE TO HOLDERS OF THE TAX-EXEMPT INVESTMENT POLICY

The Bonus declaration for eligible policies for the year ended 31 December 2009 will be announced by the Treasurer at the AGM. Policyholders will then be informed of this individually in writing and the impact it has on their policies.

85th ANNUAL GENERAL MEETING OF THE SCHOOLTEACHERS FRIENDLY SOCIETY

AGENDA

- 1. Adoption of Standing Orders.**
- 2. Apologies.**
- 3. Minutes of the 84th Annual General Meeting as printed.**
- 4. Annual Report of the Board of Management.**
Proposed by Mrs. D. Proffitt. Seconded by Mr. C.R. Nugent.
- 5. Approval of the Board of Management Report on Board remuneration.**
Proposed by Mr W. Morley (Chairman, Nomination and Remuneration Committee). Seconded by Mrs. J. Hodson.
- 6. Balance Sheet and Financial Statements*.**
Proposed by Mr. D. A. Eaton (Treasurer). Seconded by Mr. R.G. Morris.
- 7. Re-appointment of Auditors (Rule 37(1)).**
Proposed by Mr. D. A. Eaton (Treasurer). Seconded by Mr. J.G. Harrison.
That Duncan Sheard Glass be re-appointed Auditors of the Society to hold office from the conclusion of this meeting until the conclusion of the next General Meeting at which accounts are laid before the Society, at a remuneration to be fixed by the Board of Management.
- 8. Partial amendment of rules (1996 printing).**
Proposed by the Chairman.
Appendix D. Rules and Conditions of the Child Trust Fund Account
Rule D6. Lines 1 and 2: delete 'person with parental responsibility for' and substitute 'personal representatives of'.
Lines 3 and 4: delete 'next published unit price following receipt of the required details at the Society's Head Office' and substitute 'unit price at the date of death as per the Death Certificate'.
- 9. Election of members to the Board of Management. (Rule 25 (2)).**
Mr. D.A. Eaton and Mrs. D Proffitt (retiring members) offer themselves for re-election for one year (Rule 25 (1)). (See explanatory note below).
Mr. S. Code (retiring member) offers himself for re-election for three years (Rule 25 (1)). (See explanatory note below).

* The Treasurer would appreciate notice of any questions on the detail of the Accounts in writing one week before the Annual General Meeting.

There will be time set aside after the formalities of the Annual General Meeting for questions on matters of general interest to members.

Explanatory Notes

Item 5: Approval of the Board of Management Report on Board Remuneration.

This item is included now as part of the recommendations from the Myners Review so that members can see and comment during the meeting if they so wish on the remuneration of Board members as detailed on page 15 of this Report and Accounts. Any vote will be advisory only.

Item 8: Partial amendment of Rules.

This amendment is to bring this rule in line with the HMRC Child Trust Fund Guidance Notes for Providers which were updated on the 16th September 2009.

Item 9: Election of members to the Board of Management

The Chairman has pleasure to confirm that following formal performance evaluation, the individual performances of Messrs. Eaton and Code, and Mrs Proffitt continues to be effective and clearly demonstrates their commitment to the role of Board member, including commitment of time for Board

Item 9: Election of members to the Board of Management cont.

and Committee meetings and other duties on behalf of the Society. The Board fully supports the re-election of these three members.

Members of the Board of Management are re-elected every three years. The Myners Report on Corporate Governance of Mutuals ('the Myners Report') recommended the adoption by friendly societies of an annotated version of the Combined Code on Corporate Governance (which applies to Plcs and limited companies). This Code recommends that where Directors (or in our case, Members of the Board of Management) have been Members of the Board for over nine years, they should be subject to annual re-election, unless the Board of Management can explain why it considers these members still to be independent of judgement and character.

Whilst your Board of Management considers all current Board Members to be independent of judgement and character the Board has adopted this recommendation and it is for this reason that Mr. Eaton and Mrs. Proffitt, who have both served on the Board of Management for more than nine years, are seeking re-election for a further one year term.

Mr. Code, the Society's Chief Executive, who has served on the Board of Management for three years, is seeking re-election for a further term of three years.

BIOGRAPHICAL DETAILS OF MEMBERS OF THE BOARD

Mr. A.N. Spencer (Chairman)

Age 60, a retired secondary school Assistant Headteacher, Andrew was born, bred and educated in Liverpool. He joined the Society in 1985 and was first elected to the Board in 1990 and was subsequently elected Chairman of the Board in 1996. He is Chairman of the Camelot Trustee Company Limited. He is a member of the Nomination and Remuneration and Sales and Marketing Committees. No other directorships are held.

Mr. G. Harrison, F.C.I.I., Chartered Insurer (Vice-chairman, senior independent Board member and Chairman of the Audit, Risk and Compliance Committee)

Age 63. Educated in Leeds, where in 1964 he joined Royal Insurance. He has over 25 years management experience gained in a variety of branch and Head Office roles. In the last 15 years he held a number of senior management positions in both Life and General insurance sectors. He retired from business in December 1999 and in 2001 he joined the Society and was first elected to the Board in 2002. He is a Director of Camelot Trustee Company Ltd. No other directorships are held.

Mr. D. A. Eaton, B.A. (Treasurer)

Age 55, Dave is a retired secondary schoolteacher living in Lincolnshire. First elected to the Board in 1991 and elected Treasurer in 1996. He is a member of the Audit, Risk and Compliance and the Sales and Marketing Committees. Dave is also a Director of Camelot Trustee Company Ltd. No other directorships are held.

Mr. Stephen Code, M.B.A. (Chief Executive)

Age 49. Stephen joined the Society in November 2006 and was appointed Chief Executive and Secretary on 1 May 2007 and was elected to the Board on 12 May 2007. He has worked in the financial services industry and Friendly Societies Movement for over 31 years, half of which have been spent in various senior management positions. He has worked both in the UK and Ireland and his management experience stretches across general management, strategic change, operations, programme management, sales and marketing. He achieved a Master of Business Administration in 1998. No other directorships are held.

Mrs. J. Hodson

Age 60. Retired teacher. Joined the Society in 1984 and was first elected to the Board in 1992. Previously Vice-chairman 1998-2004. Jan was previously chair of the Remuneration Committee and a member of the Risk Committee. She now serves on the Audit, Risk and Compliance, Nomination and Remuneration and Sales & Marketing Committees and is a Director of the Camelot Trustee Company Limited. No other directorships are held.

Mr. R. W. Morley, B.Sc., P.G.C.E. (Chairman of the Nomination and Remuneration Committee)

Age 67, Bill was educated at St. Mary's College, Crosby, and at Liverpool and Leeds Universities. He began teaching in 1965 and retired in 2000 as Asst. Head of Science in a Sefton Comprehensive. He has been an active member of NASUWT for over 30 years and was elected National President in 1999. He joined the Society in 1975 and was first elected to the Board in 2002. He holds no other directorships.

Mr. Rod Morris, B.A., A.C.A.

Age 52. Rod was brought up and educated in Liverpool and then graduated from the University College of North Wales in Bangor, gaining a BA in Economics. He then joined the Liverpool office of a major international firm of Chartered Accountants and qualified as a Chartered Accountant in 1984. Since then Rod has held a number of senior financial roles in a variety of companies involved in a variety of sectors including Life and Pensions, property and transport. Rod is currently the Finance Director of Raphael Healthcare Limited a company involved in providing psychiatric healthcare. No other directorships are held.

Mr. Colin Nugent, A.C.I.I.

Age 55. Colin was brought up and educated in Liverpool, joining the Head Office of Royal Liver Friendly Society in 1971. He progressed through a number of administration and management roles leading to his election in 1984 to Assistant Company Secretary. Further elections followed in 1993 to Company Secretary and to the Committee of Management, as Customer Services Director, in 1998. Since 2005, Colin has operated as a financial services consultant, particularly in the area of corporate governance and compliance. Colin is sole director of CRN Consulting Ltd. No other directorships are held.

Mrs. D. Proffitt, B.A., Dip Ed., D.A.S.E., DHP, (Chairman of the Sales and Marketing Committee)

Age 62. Formerly a primary schoolteacher, now a counsellor and hypnopsychologist. She joined the Society in 1990 and was first elected to the Board in 1996. Dorothea is the Board's appointed TCF Champion. She is also a Director of Camelot Trustee Company Ltd. No other directorships are held.

MEMBERS OF STAFF

S. J. Code, M.B.A: Chief Executive and Secretary

Mrs. D. Brand: Office Manager

Miss S. McGowan: Administrative Assistant

Miss S. Preston: Administrative Assistant.

REPORT OF THE CHAIRMAN OF THE BOARD OF MANAGEMENT

Overview

The on-going effects of the World financial crisis have continued to be a major factor in the Board's deliberations throughout 2009. Protecting the Society's assets and the members' funds has been the top priority and the Board has, therefore, continued to follow a risk-averse investment strategy.

The remaining corporate bonds in the Society's portfolio were disposed of in January and, for the rest of the year, all the investments have been in cash deposits.

The Child Trust Fund (CTF) has continued to grow very satisfactorily throughout 2009 and the associated management fees have made a significant contribution to the Society's running expenses.

The Sickness Income Plan (SIP) has continued to support claimants in times of ill health and remains a viable scheme, despite a steady decline in numbers.

The Board feels that it has been able to maximise the return on investments prudently so that Members will receive bonuses in line with their reasonable expectations for the past year.

Corporate Governance

The Board has worked over recent years to comply with the requirements of the Myners Report on Corporate Governance. The final part of this process is to be put in place at the AGM in May 2010 when a new cycle of yearly re-elections will begin for those Board Members who have served longer than 9 years.

Board

The re-structuring of the Board's Committees that was referred to in last year's report has been embedded successfully and there is a robust risk-based regime in place in the Board's management of the Society's business. As Chairman, I undertake an annual appraisal of each Board Member to ensure that relevant skills and personal commitment are developed and enhanced. The Board conducts a similar process in respect of the Chairman.

The Society's members can be assured that their interests are always carefully taken into account by the Board and that treating customers fairly is a priority.

Strategy

The volume of CTF business that the Society is conducting will inevitably mean that the SFS will change its status from Non-directive to Directive in 2012. The most important effect of this will be the regulatory requirement for the Society to hold a larger solvency reserve. The Board's Business Plan has taken this process into account. However, the change in status will coincide with the introduction of a new European Directive for insurance firms, known as 'Solvency II'. The implications of Solvency II have become clearer in recent months and it is evident that this is a process which will treat the smallest firms and societies in the same way as the biggest by imposing a requirement for an even larger solvency reserve.

The Board is examining Solvency II in detail and consulting with the Society's Actuary and other advisers to consider the options available for meeting the new requirements. One of these options will be to look at whether the Society will have sufficient funds to meet the new reserving regulations independently, or whether the interests of members will be best served by seeking a suitable partner with whom to combine resources.

Staffing

The SFS is fortunate in having a very efficient staff who not only run the day to day operation of the business, but also provide a friendly first point of contact for members. You have told us in questionnaires how much this particular aspect of their work is appreciated. The Board is very grateful for the work of Dawn, the Office Manager, and her staff, Sandra and Sarah.

I also wish to recognise the continued hard work of Steve Code, the Chief Executive, who has coped with all the regulatory developments and has kept the Society's business moving forward, as well as providing detailed management information which is used by the Board to monitor the Society's progress.

Andrew Spencer, Chairman.
15 February 2010

CHIEF EXECUTIVE'S OPERATIONAL REVIEW

Introduction

I am pleased to say that our key growth targets in assets under management, solvency and membership were achieved in 2009. Nonetheless, 2009 continued in the same vein as 2008, and again proved to be a very eventful year, with the Society facing challenges as a result of the current economic situation. We started the preparatory work in regard to the Solvency II capital regime due for implementation in 2012 and responded in detail to general questionnaires from the FSA in regard to solvency and with-profits.

Growth

Our membership grew by 21% in 2009, largely through the Child Trust Fund (CTF) accounts. We now have over 74,000 members. Our ever increasing membership base continues to provide us with the opportunity to achieve our growth targets through existing and future new products. Our funds under management grew to over £45m.

Efficiency

By eliminating unnecessary complexity and by streamlining our operations we continue to manage our growth cost effectively. We are now recognised to be one of the lowest cost and most efficient operators of the CTF in the industry.

Financial results

Total premium income increased to £6.96m (2008: £3.4m). Having taken steps not to breach our non-directive status in 2008 we took full advantage of maximising our premium income opportunities during 2009. New CTF business, an increase in the number of CTF direct vouchers and the additional contributions and the start of the Aged 7 additional contributions from HMRC all contributed to the increase in our total premium income. In addition, the natural erosion of the Sickness Income Plan slowed, when compared to previous years. The funds under management increased by 38% to £45.2m (2008: £32.6m) as a result of the increase in premium income and a rise in the FTSE All-Share Index. It is encouraging to note that the maturity values on the Tax-exempt Investment Plan (TIP) are in line with expectations.

Investments

As a result of the turbulent start to the year the Board of Management decided to sell the remaining Corporate Bond portfolio such that by the end of January all of the Society's With-profit funds were invested in fixed-term cash deposits. The impact on the Gilt market of the quantitative easing, the defaults built into the pricing of the Corporate Bonds and the volatility of the Stock Market proved difficult to predict and, for these reasons, the Board set a strategy of protecting the capital values during 2009.

In March 2009 we saw the Equity markets reach their lowest point and the volatility has had an impact on our CTF members and their funds. We realise that many of the CTF annual statements made poor reading. I know that many of our members hold savings, investments and pensions elsewhere and understand that these investment conditions are widespread. However, there has been a slow but consistent improvement since March and by the end of 2009 the CTF unit price showed growth of 34% since the start of the year. I would like to thank all our members for their understanding and patience.

People

We continue to service the needs of our members through a small and very dedicated team. Dawn (the Office Manager), Sandra and Sarah have continued to work with great professionalism and dedication throughout the challenging year. Based on the feedback we have received from our membership surveys 90% rate our customer service as either excellent or very good. I am very grateful for their support and commitment and it is to their credit that we have continued to see our membership base grow whilst not having to increase our human resources.

Outlook

Whilst 2009 again demonstrates that we can manage growth whilst keeping tight control of our costs, the Board of Management remain very aware of the challenges facing us over the coming years. The continued uncertainty in the investment markets means that the continued security of our members' funds remains a key priority during 2010. The full impact of Solvency II will become clearer and we are again forecasting increases in our assets under management, solvency and membership. Our members are the reason we have a business. Constant attention to meeting their needs will ensure we continue to treat our customers fairly.

Steve Code, Chief Executive.
15 February 2010

BOARD OF MANAGEMENT REPORT FOR THE YEAR 2009

Board of Management

The names of the Board of Management and Chief Executive are as stated on page 3. They all held office during the period under review. This report is the statutory report required by 'The Friendly Societies (Accounts and Related Provisions) Regulations 1994' and also incorporates recommendations from the Myners Review of the Governance of Life Mutuals. The details of the Board of Management's remuneration are set out in the remuneration report on page 15.

Business objectives and activities

The Society is a registered unincorporated non-directive friendly society. The Society's products include the Sickness Income Plan (incorporating the ChildCare Plan) which is a unique form of Income Protection, the Tax-exempt Investment Policy which is another form of tax-exempt savings combined with life assurance, and the Child Trust Fund (CTF). All funds within CTF accounts are invested in a FTSE All-share Tracker Fund and thus are held completely separate from other funds of the Society. The annual management charge for these Stakeholder accounts is currently 1½% of the value of the funds.

In the opinion of the Board of Management, the Society has not carried on any activities outside its powers in the year to 31 December 2009.

After making enquiries, the Board of Management is satisfied that the Society has adequate resources to continue to operate as a going concern and has prepared the financial statements on that basis.

Indemnity insurance

The Board of Management maintains Indemnity insurance for Board members' and Officers' liability.

Board of Management – Corporate Governance

The Annotated Combined Code for Mutual Insurers

The Board is committed to a high standard of corporate governance and meets monthly.

With one exception the Board considers that, at the end of 2009, it has applied the relevant principles and complied with the relevant provisions of the Combined Code – Annotated version for Small Mutual Insurers. The one exception relates to the combination of the roles of Chief Executive and Society Secretary in one person and the Board is of the opinion that combining these two roles is an appropriate arrangement for the size of this Society. The Board does not regard this exception as a material departure.

The Board

Composition and balance

The Board must consist of not more than 10 nor less than 7 members. Currently the Board is made up of the Chairman, Vice-Chairman, Treasurer, five Non-Executive members and the Chief Executive, who is the only Executive Member. Details of committee membership are shown on page 3. All members of the Board of Management are considered by the Board to be independent of judgement and character and there have been no relationships or circumstances which have affected a Board Member's judgement. All Board Members deal with all matters that come before them fully and in the interest of the members, which all of them are.

Biographies of all the Board Members appear on page 7, together with descriptions of their expertise, experience and qualifications. The Board is satisfied that the current range of expertise, experience and qualifications is appropriate for the needs of the business.

The Board has appointed Mr. Harrison (Vice-Chairman) as the senior independent Non-Executive Board Member, and he is available to the Society's members if they have concerns which contact through the normal channels of Chairman, Chief Executive or Treasurer has failed to resolve or for which such contact is inappropriate.

Role

The Board determines the Society's:

- Values, standards and ethics;
- Strategy and objectives and approves an annual business plan and budget, and monitors the Society's performance in achieving them;
- Risk appetite;
- Organisational structure; and
- Pension and remuneration policies.

The Board:

- Reviews the most significant risks affecting the Society and the actions being taken to manage and mitigate them;
- Appoints the Chief Executive and Society Secretary and successor;
- Determines the responsibilities of the Chief Executive and approves any delegation of his responsibilities to other staff;
- Declares apportionments, allocations, reversionary and terminal bonuses;

SCHOOLTEACHERS FRIENDLY SOCIETY

- Approves the annual report and accounts and the significant regulatory returns; and
- Reserves to itself certain decisions, including the acquisition or disposal of any significant assets and significant investments and transactions not at arm's length.

Beneath the Board there is in place clear and appropriate apportionment of responsibilities amongst the Chief Executive and staff so that the business of the Society can be effectively managed and monitored.

How the Board operates

The Chief Executive circulates to the Board on a monthly basis a comprehensive report on the performance of the Society and any other material matters, both internal and external. This includes financial information. The report is reviewed at the Board meetings. Additional papers on issues upon which the Board is required to make a decision are submitted as required.

Board Committees

The Board has established Audit, Risk and Compliance, Investment, Nomination and Remuneration and Sales & Marketing Committees. The Chairmen and Board members sitting on these committees are set out on page 3.

The Society has a combined Audit, Risk and Compliance (ARC) Committee which has a clear line of sight of all the risks within the Society. The responsibilities of the ARC Committee include:

- Examining the manner in which risks are identified, assessed and controlled;
- Ensuring effective compliance with the regulatory and financial reporting requirements;
- Ensuring the development and continuation of effective financial reporting and internal controls;
- Providing a direct means of communication for internal and external auditors to the Board; and
- Annually reviewing the performance and cost-effectiveness of internal and external auditors.

The Board has delegated to the Directors of Camelot Trustee Company Limited (the Investment Committee) the responsibility for:

- Implementing and monitoring the investment strategy decided upon by the Board following the advice of the actuary;
- Monitoring the investment performance of the fund manager; and
- Meeting with the fund manager quarterly to discuss investment performance and agree performance targets.

The role of the Nomination and Remuneration Committee is explained in the Board of Management Remuneration Report on page 15.

The terms of reference of all Board Committees are available on request and can be downloaded from the Society's website.

Board Member (No. of meetings)	Board (11)	Audit, Risk & Compliance (5)	Investment (6)	Nomination & Remuneration (2)	Sales & Marketing (0)
A N Spencer (Chairman)	10	-	6	2	0
G Harrison (Vice-chairman)	11	5	6	-	-
D A Eaton (Treasurer)	10	4	6	-	0
S J Code (Chief Executive)	11	-	6	2	0
J Hodson	10	5	1*	2	0
R W Morley	11	-	-	2	-
R G Morris	11	5	6	-	-
C R Nugent	11	3*	-	1*	-
D Proffitt	11	-	6	-	0

Meetings and attendance (*Indicates a change of committee or a change of role).

Evaluation

The Board undertook a formal and rigorous evaluation of its own performance, and that of the committees and individual members. The Chairman evaluated the performance of the Chief Executive. The Non-Executive Board Members, led by the Vice-Chairman, evaluated the performance of the Chairman.

The Board was satisfied that each Non-Executive Board Member displayed the time commitment required to properly discharge the role. Board members have continued to update their skills and knowledge, both within the Society and outside. Presentations have been given and attended on key issues and developments within the industry.

Succession

It is the responsibility of the Board, through the Nomination and Remuneration Committee, to ensure that plans are in place for election and appointments to the Board which maintain an appropriate balance of skills and experience. This was successfully achieved in 2009 with the election of Mr. Morris and Mr. Nugent to the Board of

Management at the Annual General Meeting in May 2009, following their co-option to the Board in 2008.

Internal control

The system of internal control

The Society's internal control system encompasses policies, processes, tasks, behaviours and other aspects of the Society that taken together:

- Facilitate the effective and efficient operation of the Society by assisting it to respond appropriately to significant business, operational, financial, compliance, and other risks that could impact on the Society's ability to meet its objectives; and
- Are designed to encourage compliance with applicable laws, regulations and internal policies.

The role of the Board

The Board is ultimately responsible for the Society's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risks of failure to achieve business objectives, and inevitably can provide only reasonable and not absolute assurance against material mis-statement or loss. The system has been in place throughout the period under review and accords with the Regulatory Guidance. The Board is very conscious of the importance of the Society's internal controls and attaches high priority to developing them in line with best practice.

The Board has conducted a review of the effectiveness of the Society's system of internal control. This covered all material controls, including financial, operational, and compliance controls and risk management systems. It was conducted in part on an on-going basis, via the reports submitted to the Board and the ARC Committee during the period under review and also by reports prepared as part of the year end process.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Society through the ARC Committee.

Element of oversight

A key element of the Society's internal system of controls is the element of oversight provided by the ARC Committee, Compliance and Internal and External Audit functions.

Risk Management:

- Assists management to achieve the objective of ensuring risk management is embedded throughout the Society and to manage risks within the support functions;
- Facilitates the risk management process;
- Maintains a risk assessment that sets out all the significant risks impacting on the Society, rating them in terms of probability and impact; and
- Reports and makes recommendations to the Chief Executive on the management of all categories of risk, including whether adequate risk management systems are in place, key risks are being properly managed and whether changes should be made to the overall strategy for the management of risk.

Compliance function:

- Monitors and enforces compliance with the requirements and rules of regulators;
- Monitors that systems and controls are in place to counter the risk that the Society may be exposed to practices linked with financial crime;
- Develops a compliance plan and undertakes work in accordance with that plan;
- Co-ordinates the Society's relationships with its regulators.

Internal Audit:

- Provides management and the ARC Committee with independent and objective assurance on, and evaluation of, the overall effectiveness of the Society's internal systems and controls;
- Develops an annual audit plan in conjunction with management, the ARC Committee and the external auditors;
- Conducts independent audits in line with that plan or additionally where required; and
- Includes recommendations within reports and monitors the implementation of these recommendations.

One of the primary roles of the ARC Committee is to ensure that a formal risk management framework is in place, adequate risk management systems exist, that key risks are being properly managed and that consideration of potential risks forms a part of all decision making throughout the Society.

Views' of members

The Board Members are always willing and available to listen to the views of the Society's members. Personal contact can be made at General Meetings, at the social evening of the Lincolnshire members in January each year, at the NASUWT Annual Conference and by appointment. At all other times comments and suggestions can be made in writing addressed to the senior independent Board Member, Mr G. Harrison, care of the Society's Head Office.

Business review and future developments

General

The Society has continued to achieve good growth, in terms of membership numbers during 2009 stemming from new Child Trust Fund (CTF) business. Overall membership increased by 21% to 74,800 members (2008: 61,794). As a result of the growth in new business and an overall improvement in the stock markets during 2009 funds under management increased to £45,277,738 (2008: £32,674,485). Premium income increased to £6,959,251 (2008: £3,407,232). The Sickness Income and ChildCare Plans continue to decline due to the nature of the contract and the ageing membership base. However, these contracts continue to fulfil their aims of remaining viable and providing much needed benefit to those members during sickness.

Sickness Income and ChildCare Plans

Membership of the Sickness Income and ChildCare Plans at the year end stood at 2,860 (2008: 3,097). Gross Premium Income received amounted to £681,011 (2008: £746,494). The Society paid out a total of £407,002 in sickness claims (2008: £477,671) of which £157,355 came from the members own funds and £249,647 came from the Society's funds.

Feedback and testimonials received from members of the Sickness Income Plan continue to demonstrate how this product is meeting the needs of those relevant policyholders.

Tax-exempt Investment Policy

At the end of the year there were 157 policyholders. Gross premiums received amounted to £42,937 (2008: £45,155). The reduction was due to 18 policies maturing during 2009, although a number of those members took out a new policy with the Society. The bonus declarations for both series for the year ended 31 December 2009 will be declared at the Annual General Meeting in May 2010, and relevant policyholders will be notified in writing shortly afterwards.

Child Trust Fund

At the end of 2009 there were 71,884 accounts (2008: 58,644). The total value of the CTF accounts at the end of the year was £29,588,701 (2008: £16,618,604) reflecting the increase in new business and the rise in the FTSE All-share index during 2009. A large proportion of the accounts opened in 2009 were allocated to us by HM Revenue and Customs, thus attracting no acquisition costs. During the final quarter of 2009 we started to receive the additional Age 7 payments from HMRC. The Society continues to experience an increase in the number of new vouchers received directly, mainly as a result of the original CTF parents having additional children and choosing to place their vouchers with the Society. In addition, it is pleasing to note that the Society also saw an increase in the amount of additional contributions being made into the CTF accounts. As a Stakeholder account the annual management charge is capped at 1½% of the value of the funds and contributes towards the running costs of the Society.

Rules

The reasoning behind the changes being proposed to the rules at the AGM is explained on page 5.

Staffing

The growth of the Society has only been possible with the support of all our Staff who continue to respond tremendously well to the challenges presented to them. The Board is ever grateful, and impressed by, our people, for their flexibility and the superb contribution they continue to make to the progress of the Society.

Financial

Financially, the Society had another solid year. In terms of premium income we achieved £6,959,251 and exceeded target by 11%. Like most financial institutions the Society experienced the volatility in the investment markets and the impacts of the credit crunch during 2009. However, as a result of the improvement in the FTSE Indices particularly during the second half the year and the new business written, the value of the Society's Child Trust Fund increased by 78%. Since 2007 the Board have been aware of the volatility in the investment markets and have taken steps to realign the Society's investments by moving away from the stock market and transferring funds into fixed-term cash deposits with the most reputable investment banks. These concerns remained during 2009, with the impact of quantitative easing from the Bank of England on the gilt market difficult to forecast, the high level of defaults built into the pricing of corporate bonds and the lack of consumer confidence impacting on the equity market. At the year end the Society had 100% of the with-profit funds in fixed term cash deposits with the aim of protecting the capital values.

Overall, as a result of locking in a large proportion of our cash deposits at the reasonably high rates of interest secured in 2008, we received an above average return from our cash investments during 2009 and, with a realised loss of £30,322 from the sale of the remaining corporate bonds, we avoided the losses experienced in 2008. This has meant that we can maintain the Apportionment of 45% (2008: 45%) and an Allocation rate of 1% (2008: 1%) on Members Own Funds. The Allocation rate on Deposit Accounts is also maintained at 2.75% (2008: 2.75%).

Expenses increased as a result of the increased work associated with the growth in membership.

The Board is aware of the challenges which face the Society, particularly prudently maximising the rates of return on the investments made on behalf of our members and fulfilling the Society's regulatory obligations throughout 2010 and beyond. Continuing to put our members at the heart of everything we do, means ensuring we continue to treat them fairly at every stage of their relationship with the Society. The Board is committed to ensuring that this continues.

Margin of solvency

The Society had the required margin of solvency under Chapter 4 of the Interim Prudential Sourcebook for Friendly Societies for its relevant classes of business at 31 December 2009.

Political and charitable donations

The Society has not made any donations for political purposes. Donations not exceeding £250 have been made for charitable purposes.

Complaints

Although we receive very few complaints from members, it is important that members should be aware that the Society has an internal complaints procedure which complements those procedures laid down in Rules 45 and 46 which deal with disputes and complaints. The conduct of the Society's business is also regulated by the FSA and complaints not dealt with internally to the member's satisfaction may be referred by them to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR, Tel: 0845 080 1800.

Responsibilities of members of the Board of Management

Under the Friendly Societies Act, 1992, the Board of Management is required 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 accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). 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 departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the 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 Friendly Societies Act, 1992. 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.

The Board of Management believes that the Society has fully met all the requirements of Rule 3.1 of the Interim Prudential Sourcebook for Friendly Societies.

Auditors

The Board of Management has confirmed that, so far as they are aware, there is no relevant audit information of which the Society's Auditors are unaware, and that they have taken all steps that they ought to have taken as Board members in order to make themselves aware of any relevant audit information and to establish that the Society's Auditors are aware of that information.

Duncan Sheard Glass has expressed its willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

On behalf of the Board of Management
S. J. Code,
Chief Executive and Secretary
15 February 2010

**The Board of Management Report on Board Member Remuneration
For the year ended 31 December 2009**

This report has been prepared in accordance with the requirements of the Directors' Remuneration Report Regulations 2002. No total shareholder return performance graph is provided because of the Society's mutual status.

Membership:

The Nomination and Remuneration Committee comprises 4 independent Non-Executives and 1 Executive Board Member. Bill Morley (Chairman of the Committee and Non-Executive Board member), Jan Hodson and Andrew Spencer (Chairman) were members throughout the year. Colin Nugent joined the Committee in March 2009.

The Chief Executive is the Executive Member of the Committee but is excluded from discussions relating to his own remuneration.

Terms of Reference:

There were no changes to the Terms of Reference for the Nomination and Remuneration Committee during 2009. These appear on the Society's website.

The primary responsibilities of the Committee are concerned with determining the remuneration arrangements, for Board approval, of the Chairman and the Chief Executive and determining relevant targets for performance.

It has not been necessary to seek independent advice, although the Committee does regularly research the Board remuneration paid by other similarly sized friendly societies.

Policy & Procedures:

The Committee, acting in the best interests of the Members, aims to:-

- Maintain a remuneration package that will enable the Society to attract, motivate and retain high quality Executives; and
- Produce measures that incentivise and encourage enhanced performance in a fair and reasonable manner.

The remuneration of the Chairman and the Chief Executive is determined annually by the Committee and that of the Non-Executive members by the Chairman and the Chief Executive and are all subject to approval of the Board as a whole. This ensures no individual Board member is involved in any decisions as to their own remuneration.

The principle to be adopted by the Board in determining the fees is that they should be competitive, appropriate to attract and retain Board members of the necessary calibre, and reflect the time and responsibilities involved in Society matters.

Board members' emoluments – Audited								
	Salary/Fees		Performance Bonus		Other Benefits*		Total	
	2009 £	2008 £	2009 £	2008 £	2009 £	2008 £	2009 £	2008 £
Chairman Andrew Spencer	10,184	10,000	0	0	0	0	10,184	10,000
Chief Executive Steve Code	75,539	72,914	11,331	7,292	7,299	7,087	94,169	87,293
Other Non-Executive Board members								
Dave Eaton (Treasurer)	4,074	4,000	0	0	0	0	4,074	4,000
Graham Harrison (Vice-chairman)	5,604	5,340	0	0	0	0	5,604	5,340
Jan Hodson	3,054	3,000	0	0	0	0	3,054	3,000
Evan Lewis (retired 10.05.08)	-	1,350	-	-	-	-	-	1,350
Bill Morley	3,564	3,500	0	0	0	0	3,564	3,500
Rod Morris	3,054	3,000	0	0	0	0	3,054	3,000
Colin Nugent (co-opted 15.12.08)	3,054	-	-	-	-	-	3,054	-
Dorothea Proffitt	3,654	4,000	0	0	0	0	3,654	4,000
Totals	111,781	107,104	11,331	7,292	7,299	7,087	130,411	121,483

* Other benefits include car allowances and medical insurance.

By order of the Board

Bill Morley, Chairman of the Nomination and Remuneration Committee.

15 February 2010

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
THE SCHOOLTEACHERS FRIENDLY SOCIETY**

We have audited the financial statements of The Schoolteachers Friendly Society on pages 17 to 24 for the year ending 31 December 2009. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Society's members, as a body, in accordance with Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an 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's responsibilities for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Board of Management's Responsibilities.

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 of Management 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 further report to you if, in our opinion, the Society has not kept proper accounting records, if we have not received all the information, explanations and access to documents that 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 the Report of the Board of Management. 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 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.

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 United Kingdom 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;
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it; and
- the Report of the Board of Management on pages 10 to 15 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 ended 31 December 2009.

Duncan Sheard Glass
Chartered Accountants
Registered Auditors
Castle Chambers
43 Castle Street
Liverpool L2 9TL
15 February 2010

INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 December 2009

	Notes	2009 £	2008 £
INCOME			
Contributions			
Sickness Income Plan		681,011	746,494
Tax-exempt Investment Policy		42,937	45,155
Child Trust Fund		6,235,303	2,615,583
		<u>6,959,251</u>	<u>3,407,232</u>
Rents from land and buildings		12,900	12,900
Interests from other investments	2	1,307,079	1,683,439
Realised (Loss)/Gain on investments	3	(30,322)	(121,241)
Other income		25,128	29,005
		<u>1,314,785</u>	<u>1,604,103</u>
		<u>8,274,036</u>	<u>5,011,335</u>
Total Income			
EXPENDITURE			
Sickness benefits		249,647	288,659
Death benefits and surrenders		68,533	116,163
Child Trust Fund deaths and transfers out		71,213	75,651
Outward reinsurance		918	825
Divided among the members	4	539,285	586,543
Deducted for expenses of management			
Salaries	5	230,750	210,923
Audit fees		21,275	23,911
Valuation expenses		23,421	35,083
Depreciation		7,598	6,797
Other expenses		173,826	127,897
		<u>456,870</u>	<u>404,611</u>
Acquisition costs		137	257
Agency commission and expenses		2,447	7,184
Investment management expenses		17,959	31,376
Unrealised (Gain)/Loss on investments	3	(6,242,702)	8,157,764
		<u>(4,835,693)</u>	<u>9,669,033</u>
		<u>(4,835,693)</u>	<u>9,669,033</u>
Total Expenditure			
Net Surplus/(Deficit) before provisions		13,109,729	(4,657,698)
Long term business provisions			
Transfer (to)/from Child Trust Fund	11	(12,970,097)	4,698,854
Transfer (to)/from Tax-exempt Investment Policy	11	(1,056)	48,977
Transfer (to)/from Sickness Income Plan	10	(54,265)	39,260
		<u>(13,025,418)</u>	<u>4,787,091</u>
Transfer to Fund for Future Appropriations	9	84,311	129,393
		<u>84,311</u>	<u>129,393</u>

Continuing Operations

None of the Society's activities were acquired or discontinued during the above two financial years.

Total Recognised Gains and Losses

The Society has no recognised surplus or deficit other than the deficit or surplus for the above two financial years.

The notes on pages 19 to 24 form part of these financial statements.

BALANCE SHEET**As at 31 December 2009**

	Notes	2009 £	2008 £
ASSETS			
Investments	6		
Land and buildings	7	230,000	230,000
Other investments		44,704,511	32,145,413
		<u>44,934,511</u>	<u>32,375,413</u>
Other assets			
Tangible assets	8	11,948	11,535
Cash at bank and in hand		190,926	265,857
Other prepayments and accrued income		140,353	21,680
		<u>343,227</u>	<u>299,072</u>
		<u>45,277,738</u>	<u>32,674,485</u>
		<u><u>45,277,738</u></u>	<u><u>32,674,485</u></u>
LIABILITIES			
Fund for Future Appropriations		1,534,584	1,450,273
Benefit and Benefit Reserve funds			
Sickness			
Members' Own Fund	10	5,576,699	6,193,661
Other	10	1,403,042	1,348,777
		<u>6,979,741</u>	<u>7,542,438</u>
Other Benefit and Benefit Reserve funds			
Surplus contributions (Deposit account)	11	6,802,905	6,705,185
Tax-exempt Investment Policy	11	318,572	317,516
Child Trust Fund	11	29,588,701	16,618,604
		<u>36,710,178</u>	<u>23,641,305</u>
Accruals and deferred income		53,235	40,469
		<u>45,277,738</u>	<u>32,674,485</u>
		<u><u>45,277,738</u></u>	<u><u>32,674,485</u></u>

Approved by the Board of Management on 15 February 2010.

S. J. Code
Secretary and Chief Executive.

The notes on pages 19 to 24 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

1. Accounting policies

(a) Basis of Preparation

The financial statements have been prepared under the historical cost convention, modified by the revaluation of investments and property and in accordance with applicable accounting standards.

(b) Presentation of Financial Statements

The financial statements have been presented in accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 for non-directive societies.

(c) Premiums

These are recognised on a receivable basis.

(d) Investments

- i) Listed investments are stated at market values.
- ii) The value of fixed interest securities excludes accrued interest.
- iii) Property is stated at open market valuation.

(e) Tangible assets

Depreciation is provided at rates calculated to write off the cost less estimated residual value at the following rate:-

Office equipment	20% straight line
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(f) Claims incurred

Claims for sickness benefit are recognised in the financial statements as and when they are paid.

Life insurance claims in respect of the Tax-exempt Investment Policy are accounted for in the year that they arise.

(g) Investment income

Income from fixed-interest securities is accounted for on an accruals basis and is adjusted by the accrued interest on the purchase and sale of investments. Other income is accounted for on a cash received basis.

(h) Rental income

This is in respect of property held as an investment and occupied by the Society for its own use.

(i) Taxation

The Society is exempt from taxation in regard to the Sickness Income Plan and Tax-exempt Investment Policy. If the management fees receivable in respect of the Child Trust Fund exceed the costs incurred in providing those services a corporation tax liability would arise. No provision has been made in these accounts should such a liability arise.

(j) Pensions

The pension costs charged in the financial statements represent the contributions payable by the Society during the year in accordance with Financial Reporting Standard 17.

(k) Fund for Future Appropriations

The Fund for Future Appropriations incorporates amounts which have yet to be allocated to participating policyholders. Any surplus or deficit arising in the Income and Expenditure Account is transferred to or from the fund on an annual basis. Surpluses are allocated by the Board of Management to participating policyholders by way of bonuses. Any unallocated surplus is carried forward in the fund for future appropriations.

7. Land and Buildings

	2009 £	2008 £
Freehold Property		
At Valuation 1 January	230,000	215,000
Increase in valuation	-	15,000
	<u>230,000</u>	<u>230,000</u>
At Valuation 31 December	<u><u>230,000</u></u>	<u><u>230,000</u></u>

The Property is occupied by the Society for its own use.
The property was re-valued on the 21 August 2008 by Smith and Sons Property Consultants at an open market valuation.

8. Tangible assets

	Office Equipment £
Cost	
At 1 January 2009	76,005
Additions	8,011
	<u>84,016</u>
At 31 December 2009	<u><u>84,016</u></u>
Depreciation	
At 1 January 2009	64,469
Charge for year	7,598
	<u>72,067</u>
At 31 December 2009	<u><u>72,067</u></u>
Net book value 31 December 2009	<u>11,948</u>
Net book value 31 December 2008	<u><u>11,535</u></u>

9. Fund for Future Appropriations

	2009 £	2008 £
At 1 January as originally stated	1,450,273	1,320,880
Transfer from Income and Expenditure Account	84,311	129,393
	<u>1,534,584</u>	<u>1,450,273</u>
At 31 December	<u><u>1,534,584</u></u>	<u><u>1,450,273</u></u>

SCHOOLTEACHERS FRIENDLY SOCIETY

10. Benefit and Benefit Reserves Funds

**Sickness Income and ChildCare Plans
Members Own Fund**

	2009	2008
	£	£
At 1 January	6,193,661	6,772,539
Transfers	(252,231)	(183,407)
Interest	53,590	60,050
Apportionment	305,422	340,087
	<u>6,300,442</u>	<u>6,989,269</u>
LESS		
Withdrawals	(559,858)	(604,949)
Sick pay	(150,591)	(177,722)
Payment of premiums	(13,294)	(12,937)
	<u>5,576,699</u>	<u>6,193,661</u>

Other

	2009	2008
	£	
At 1 January as originally stated	1,348,777	1,388,037
Transfer from/(to) Income and Expenditure account	54,265	(39,260)
	<u>1,403,042</u>	<u>1,348,777</u>

11. Other Benefit and Benefit Reserves Funds

**Sickness Income and ChildCare Plans
Surplus Contributions (Deposit Account)**

	2009	2008
	£	£
At 1 January	6,705,185	7,511,657
Transfers	252,231	183,407
Interest	180,273	186,406
Deposits	294,053	340,935
	<u>7,431,742</u>	<u>8,222,405</u>
LESS		
Withdrawals	(621,581)	(1,504,102)
Sick pay	(6,764)	(11,290)
Payment of premiums	(492)	(1,828)
	<u>6,802,905</u>	<u>6,705,185</u>

Tax-exempt Investment Policy

	2009	2008
	£	£
At 1 January as originally stated	317,516	366,493
Transfer from/(to) Income and Expenditure account	1,056	(48,977)
	<u>318,572</u>	<u>317,516</u>

The amount shown represents the value of gross premiums earned less related expenses, together with a general provision.

11. Other Benefit and Benefit Reserves Funds continued

Child Trust Fund	2009 £	2008 £
Linked Business Provision		
At 1 January	16,618,604	21,317,458
Transfer from Income and Expenditure account		
Gross premium less transfers out and death payments	6,164,091	2,539,932
Increase in value of Child Trust Fund accounts	6,758,663	(7,273,317)
)
Actuarial provision for expenses and mortality risks	47,343	34,531
	—————	—————
	12,970,097	(4,698,854)
At 31 December	29,588,701	16,618,604
	=====	=====

The Technical Provision in respect of Linked Business is equal to the value of the assets to which the policies are linked.

12. Actuary

Mr. Scott Robinson of Watson Wyatt Ltd., a Towers Watson Company, held the Appropriate Actuary role up until 13 December 2009. Mr. Gavin Lock, also of Watson Wyatt Ltd. was appointed on 14 December 2009 to carry out the role. The Society has requested Mr. Robinson and Mr. Lock to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992, and they have confirmed that neither they nor their families were members of the Society, nor have they any financial or pecuniary interest in the Society, with the exception of fees paid for professional services which amounted to £59,922 (inclusive of VAT) (2008: £39,716, inclusive of VAT). The amount of £59,922 includes £36,501 in respect of development work.

13. Pension Scheme

The Society provides a defined contribution scheme. The assets are held separately from the Society in independently administered funds. The pension costs represent contributions payable by the Society and amounted to £13,432 (2008: £12,965).

14. Related Party Disclosure

All of the members of the Board of Management are also members of the Society. They hold balances with the Society on the same basis as other members. See also note 6 in respect of The Camelot Trustee Company Limited.

15. Capital Statement

The following summarises the capital resources and requirements of Schoolteachers Friendly Society as determined for UK regulatory purposes.

The Society is not required to report under the FSA's realistic capital regime.

As the Society has no shareholders, all capital belongs to its members.

Capital Resources Available

	2009	2008
The Society's total available capital resources are:	£1,534,584	£1,450,273

There has been an increase in the available capital resources from 31 December 2008 to 31 December 2009.

It remains the intention of the Board of Management to ensure that there is adequate capital to exceed the Society's regulatory requirements. Total available capital resources are 239% (2008: 272%) of the required minimum margin of solvency.

Basis for setting technical provisions

A net premium method is used for calculating the Society's liabilities, aside from the Members' Own Fund and Surplus contributions which are valued at face value.

Interest rate:		2.00% to 2.25% p.a. (2008: 3% to 3.40% p.a.)
Mortality rates:		A67/70
Morbidity rates:		85% of Manchester Unity Sickness Rates
Expenses:	SIP:	Net premium as maximum of 58% of office premium
	TIP:	Net premium as maximum of 95% of office premium
	CTF:	Annual management charge 1.5% p.a.

Aside from the benefits provided under policy conditions (which may include certain guaranteed sums at maturity and/or sickness) the Society does not provide any guarantees and options.

Sensitivity analysis

The capital position is sensitive to changes in market conditions, which may affect the value of assets and/or liabilities. It is also sensitive to assumptions and experience relating to persistency, morbidity and expenses, and to a lesser extent mortality. The key risks to the Society are an increase in sickness rates, economic/investment market risks and operational risks. In the event of an adverse situation arising, the Society would take action to reduce the impact. These actions may include:

1. A decrease in the level of allocation to the Members' Own Fund and Deposit Fund.
2. A reduction in the apportionment of premiums or no apportionment of premiums to the Members' fund.
3. A reduction in the level of new business written or the discretionary expenditure of the Society.

Capital and risk management policies

The Society's free asset position is regularly reviewed to ensure it maintains an acceptable level of solvency. The Society has a formal Risk Management process and risk management has a regular place on the Board of Management agenda. If the Society sees a large change in its available capital, it will amend the level of apportionments and allocations payable to members accordingly, or reduce the level of new business written.

SCHOOLTEACHERS FRIENDLY SOCIETY

**MINUTES OF THE 84th ANNUAL GENERAL MEETING OF
THE SCHOOLTEACHERS FRIENDLY SOCIETY
HELD ON SATURDAY 9th May 2009 IN THE VILLAGE HOTEL, WHISTON, MERSEYSIDE**

Present:

A N Spencer	Chairman
D A Eaton	Treasurer
J G Harrison	Vice-Chairman
R G Morris	
R W Morley	
C R Nugent	
D Proffitt	
S J Code	Chief Executive
and 14 other members	

In addition, 27 valid proxy votes were received, of which 25 appointed the Chairman to vote and 2 appointed representatives, who were present at the meeting, to vote on their behalf.

Before moving the adoption of Standing Orders, the Chairman advised that due to regulatory pressures the number of Local Secretaries had declined over the last number of years and the Board had taken the decision towards the end of 2008 to end the Local Secretary network. The Chairman wanted to express his thanks for all the work undertaken by the Local Secretaries over the years and particularly made mention of Mr. Bob Forbes, who had stood down as Local Secretary for the Lincolnshire Agency at the Local Branch AGM in early 2009, after more than 38 years service. The Chairman advised that Mr. Forbes had become a member in 1965 and had become a Local Secretary in 1971. The Chairman stated that Mr. Forbes' claim to fame was that he had the largest SFS agency in the world. The Chairman offered his best wishes to all of the Local Secretaries.

1. Adoption of Standing Orders.

On the motion of the Chairman, Standing Orders as printed were adopted.

2. Apologies.

Apologies were received from Mrs. J. R. Hodson, member of the Board of Management, Mr D. McDermott, Mr. C. Wrench, Mr. R. Feltham, Mr. D. Fellows, Mr. R. Forbes, Ms. S. McGowan, Ms. S. Preston, Mr. J. Maddison, Ms. K. Russell and Mr. A. Clarke.

3. Minutes of the 83rd Annual General Meeting.

The Minutes of the 83rd Annual General Meeting held at Whiston, Merseyside were confirmed as printed, and duly signed.

4. Annual Report of the Board of Management.

Mr. J. G. Harrison provided explanations regarding the financial markets, the Child Trust Fund and Corporate Governance and then moved the adoption of the Report of the Board of Management for 2008. Mr. R. W. Morley seconded the adoption of the Report.

Mrs. M. Jones asked for further information regarding Treating Customers Fairly (TCF). The Chairman stated that this would be dealt with at the end of the meeting.

The adoption of the Annual Report of the Board of Management for 2008 was put and approved unanimously.

5. Approval of the Board of Management Report on Board Remuneration.

Mr. R. W. Morley provided explanations regarding the Board's revised remuneration structure and then moved the approval of the Board of Management report on Board Remuneration for 2008. Mrs. D. Proffitt seconded the approval of the Report. The approval of the Board of Management Report on Board Remuneration for 2008 was put and approved unanimously. The Chairman advised that one proxy form had been received voting against this motion.

6. Balance Sheet and Financial Statement.

Mr D. A. Eaton, Treasurer, announced a 1% bonus to be applied to eligible Series 1 and 2% bonus to be applied to eligible Series 2 Tax-exempt Investment Policies as at 31 December 2008. He then moved the adoption of the Balance Sheet and Financial Statements for 2008. Mr. J. G. Harrison seconded.

The adoption of the Balance Sheet and Financial Statements for 2008 was put and approved unanimously.

7. Re-appointment of Auditors (Rule 37(1)).

It was proposed by Mr D. A. Eaton, Treasurer, and seconded by Mrs D. Proffitt that Duncan Sheard Glass be re-appointed as Auditors.

The motion was put and approved unanimously.

8. Election of members to the Board of Management retiring under Rule 25 (1).

There being only two candidates for the two vacancies on the Board of Management, the Chairman declared that Mr. J.G. Harrison and Mr. R.W. Morley (retiring members) be re-elected for a period of three years.

9. Election of members to the Board of Management retiring under Rule 24 (4).

There being only two candidates for the two vacancies on the Board of Management, the Chairman declared that Mr. R.G. Morris and Mr. C.R. Nugent (retiring members) be elected for a period of three years.

The Chairman then declared the meeting closed.

There followed an opportunity for members to raise any queries on matters of general interest:

The Chairman informed the meeting that a letter had been received by Mr. J. Maddison, a member from Lincoln, regarding the Board's remuneration. The Chairman advised that the points raised by Mr. Maddison had been covered by Mr. Morley under Item 5 and a suitable reply would be sent to Mr. Maddison.

The Chairman asked Mrs. Proffitt to say a few words in response to the question from Mrs. Jones regarding TCF. Mrs. Proffitt advised that the FSA launched the TCF initiative approximately four years ago. She stated that it was not enough to think we were efficient or no complaints meant that we were treating our customers fairly but it was necessary to demonstrate with clear evidence that we were treating our customers fairly. Mrs. Proffitt advised that the FSA had broken the TCF initiative down into six outcomes. She advised that these outcomes applied to all financial organisations regardless of size. Mrs. Proffitt advised that she had been appointed by the Board as the TCF 'Champion' and it was her role to promote and raise TCF throughout the Society. Mrs. Proffitt confirmed that the Board was fully aware that the customer is central in the Society's operation and all members of the Staff have always been committed to the good welfare of our customers. Mrs. Proffitt summarised by saying that it was necessary to show how TCF had been embedded into the Society's culture and she confirmed that TCF is reported to the Board on a monthly basis and discussed quarterly. Mrs. Jones thanked Mrs. Proffitt for a very informative presentation and commented that she was impressed with the approach that had been taken by the Society.

Mr. A. Moss stated that in regard to the final year end position he would like to congratulate the Treasurer and the members of the Board in keeping the Society solvent in what have been very difficult times and for anticipating the problems in the financial markets as evidenced by moving most of the members funds into safer investments. The Chairman thanked Mr. Moss for his comments.

The Chairman asked the Treasurer to comment on the Society's current and future investment strategy. The Treasurer advised that all of the Society's non-unit linked funds were now invested in cash deposits. However, he highlighted that interest rates had dropped considerably over the last six months and the Society will not achieve the same return on its cash deposits in 2009 as it did in 2008. This meant that the Society cannot remain in cash deposits indefinitely and the Board will be considering alternative investment strategies over the coming months.

Mr. J. Ownsworth enquired whether the Chief Executive could provide details of any key highlights which existed within the Society. The Chief Executive advised that both the membership numbers and premium income continued to grow and this ensured the Society had a bright future in terms of providing increased capital to meet expenses, maximise bonuses, increase reserves and develop new products, as well as providing opportunities to cross sell other products.

Mrs. M. Ownsworth asked what proportion of non-Child Trust Fund members were teachers. The Chief Executive advised that he thought approximately 80% were either current or retired teachers.

As there were no more questions the meeting closed.