Homeowners Friendly Society Group
annual report & accounts for the year
ended 31 December 2007

engage
Mutual Assurance

society information

engage Mutual Assurance is a trading name of Homeowners Friendly Society Limited.

registered office

Hornbeam Park Avenue, Harrogate HG2 8XE

telephone: 01423 855000

e-mail: mail@engagemutual.com

website: engagemutual.com

Registered and Incorporated under the Friendly Societies Act 1992

Registered No: 964F

Authorised and regulated by the Financial Services Authority

Member of the Association of Mutual Insurers (AMI) and the Association of Friendly Societies (AFS)

independent service providers

auditors

KPMG Audit Plc (resigned 17 September 2007)
Registered Auditors

Deloitte & Touche LLP
(appointed 17 September 2007)
Registered Auditors

solicitors

Addleshaw Goddard

bankers

Barclays Bank Plc

board of directors

Raymond F Pierce BA FRSA

David G Hargrave B Comm MSc FIA

Andrew S Haigh BSc

Rt. Hon. Lord Clark of Windermere
BA MSc PhD

Karl J D Elliott BA
(appointed 4 December 2007)

Penelope J Hemming
(resigned 31 October 2007)

W Graham Henderson B Comm CA FRSA

Peter W Mason BSc FIA

Christina M McComb BA MBA

other society officers

secretary

Andrew J Horsley MSI FCIS

actuarial function holder and with profits actuary

Trevor M Batten FIA

board committees

audit

Peter W Mason (Chairman)

Rt. Hon. Lord Clark of Windermere
(resigned from Committee 6 December 2007)

David G Hargrave

Christina M McComb

finance & risk

David G Hargrave (Chairman)

Andrew S Haigh

W Graham Henderson

Peter W Mason

nominations

Raymond F Pierce (Chairman)

Andrew S Haigh

David G Hargrave

remuneration

Christina M McComb (Chairman)

Rt. Hon. Lord Clark of Windermere

Penelope J Hemming
(resigned 31 October 2007)

Raymond F Pierce

our mission is to enable people to protect their welfare.

We will do this by providing our customers with accessible, simple, value for money, protection and savings products.

contents

chairman's report

for the year ended 31 December 2007

Despite some rather turbulent times for the financial markets towards the end of the year, we were able to deliver good strategic progress and most importantly, positive returns for investors in 2007.

The so called 'credit crunch' and subsequent market volatility has had an unsettling impact on the financial services sector. However, the nature of our business is such that engage has not been directly affected by the issues of sub-prime lending or the problems faced by the banking industry. We remain well capitalised and have sustained steady growth in new business in 2007. We understand that market volatility may be a general concern for some customers with equity investments. We encourage customers to take an appropriate, long term view with regard to equity investments as part of their planned savings, and of course, seek independent advice if they are unsure as to what action to take in the short term.

Our approach to the development of engage continues to be to offer appropriate, easy to understand products which encourage saving or help people put in place some simple life cover. We believe these basic principles of saving and protection are even more relevant under the current market conditions.

The Society's performance is set out in detail in the Chief Executive's Business Review, but the headline results of new business growth, a substantial increase in customers and good cost control demonstrate the impact of our sustained investment in a growth strategy in recent years.

We have established a strong brand which reflects our mutual, customer oriented values. Our simple, value for money products are underpinned with modern, effective processes and systems, in which we continue to invest. Our priority now is to continue to build on these foundations to develop greater scale, becoming more efficient and delivering more good value products to more customers.

As part of our ongoing review of strategy, we have identified the health sector as a natural extension of our current product range. It is our intention to enter the health market in 2008 to bring simple health products to our members. This will be an important move, involving the establishment of a new subsidiary which we expect to play a significant role in the future development of the Society. In the first instance, we will focus on a health cash plan.

Events in the latter part of 2007 and into 2008 have brought into focus the need for all businesses to have an effective Risk Management process. Understanding risk is a vital part of any business and we have continued to develop and embed processes to understand and manage risk on a continuous basis. One action we have taken to manage risk on behalf of policyholders who invest in deposit based policies, has been to diversify their deposit investments across a range of quality financial institutions. Historically, our approach has been to concentrate life fund deposit investments into a small number of institutions in order to seek an attractive rate. With our new approach, we are confident we can achieve a similar return while removing the concentration risk. This change in no way suggests we believe there are any problems with our historic partners, but is an appropriate action in response to recent events in the deposit markets and adds a layer of protection for our deposit based funds against the impact of any future events of a similar nature. We will now invest members' funds either directly across a more diverse range of banks and building societies or through a pooled fund managed by our investment advisors. This carries the aim of receiving good returns from a range of deposit investments while minimising credit risk.

Last year we issued our first Annual Report under the new governance standards for life mutuals, "The Annotated Combined Code".

I am pleased to confirm that we adhere to the Code in all principal areas and, in the small number of areas where our approach is different to the Code, we have explained why in this year's report.

There were two changes to the Board in 2007. Penny Hemming decided to step down after 3 years' service. We are grateful to Penny for her commitment over the period and we wish her well for the future. As I have explained, we believe the Society has potential for significant development in the years ahead, and in view of this we decided to strengthen the Executive membership of the Board. We were very pleased to welcome Karl Elliott as Marketing Director. Karl joined the Society in 1999 and has played a key role in the development of the engage brand, our products and new business capabilities.

In view of the investment made in the Society in recent years, I believe we are well placed for significant progress despite a more uncertain economic outlook. We wish the Executive, Management and Staff well in their endeavours over the next 12 months and the inevitable challenges they will face in the coming year. Most importantly, the Board and I would like to thank our customers for their continued support.

Raymond F Pierce
Chairman

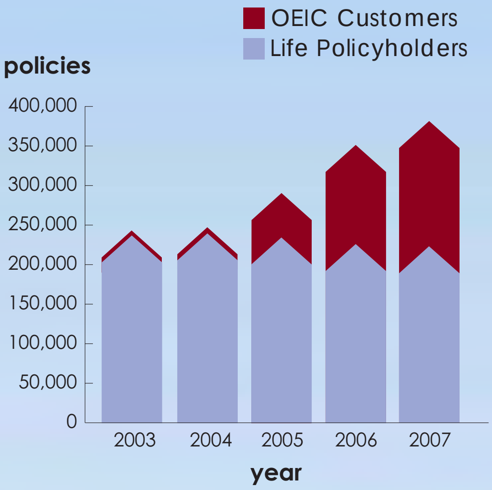
27 March 2008

society performance

for the year ended 31 December 2007

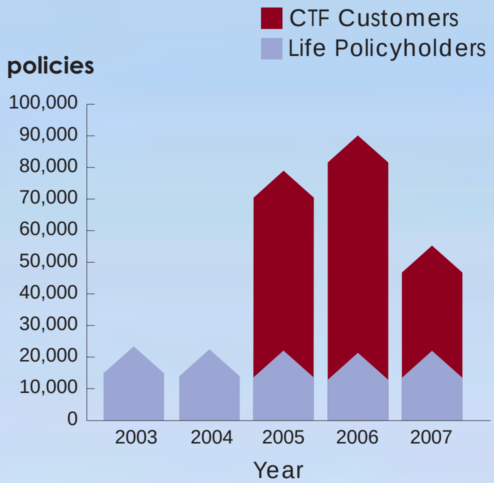
The following graphs are the main Key Performance Indicators (KPIs) used to manage the business.

group customers



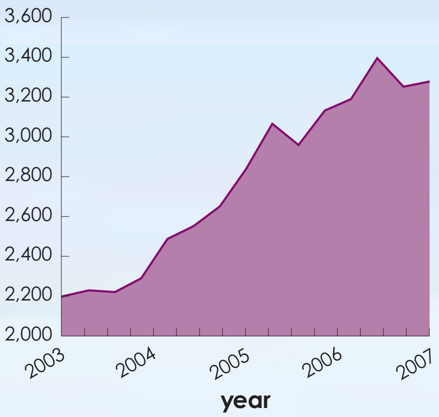
The number of life policyholders remained steady in 2007 while we saw continued growth in OEIC customers through the Child Trust Fund (CTF).

new business volume



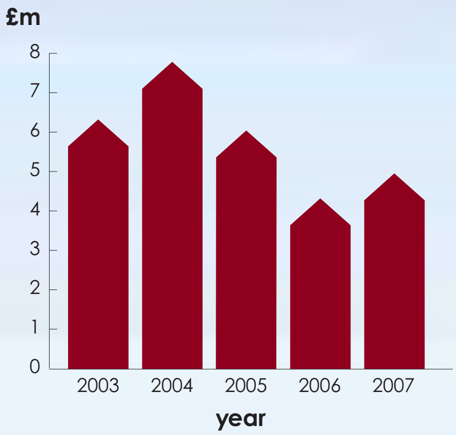
New CTF customer volumes were lower in 2007 as the first two years' operations included the initial backlog of vouchers issued by the Government, dating back to September 2002.

FTSE® all share index



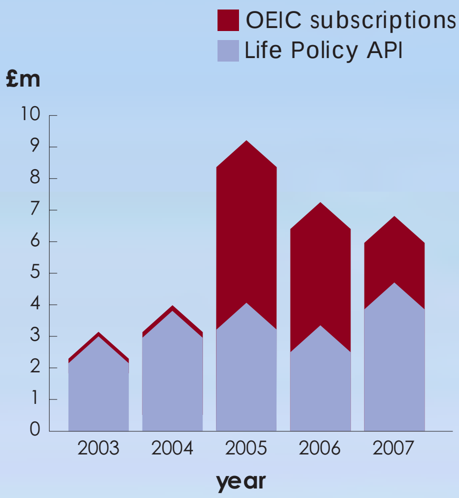
Equity performance proved to be more volatile in 2007 than in recent years.

group administration expenses



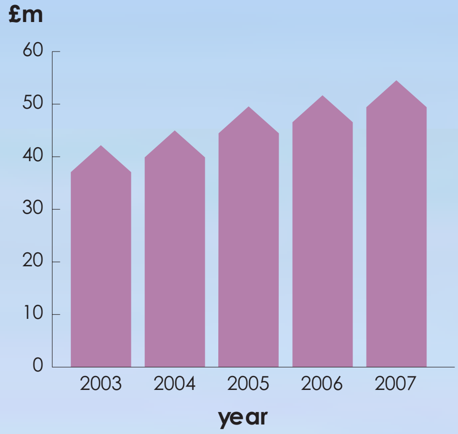
Group administration expenses reflect our focus on tight control over ongoing expenses, while continuing to invest in infrastructure and business development.

new business performance



New annualised premiums for life funds increased by 41% over the year. New OEIC subscriptions were reduced in line with the lower volumes received.

group fund for future appropriations



The continuing growth in our Fund for Future Appropriations demonstrates satisfactory capital support for our operations.

assets under group management

The total assets under management for the Group were stable, with a slight decrease in Non-Profit and With Profits and an increase in OEIC funds.

chief executive's business review

2007 proved to be another positive year in the delivery of our ongoing strategy for the Society:

- new annualised premiums for life funds increased by 41%
- gross premiums written for life funds increased by nearly 11% to more than £38m
- our customer base increased by over 9% to more than 380,000 through new business growth
- the total funds we manage increased to more than £678m (total assets under management for life funds and our Open Ended Investment Company (OEIC) subsidiary).

Our priority is to develop engage as a successful business that will help increasing numbers of customers look after the financial welfare of their families. Once again we are pleased to have paid out more than £73m to customers through life cover claims and investment maturities over the last twelve months.

The current credit problems of the financial sector have, as noted in the Chairman's Report, not caused any significant impact for engage.

However, we are conscious that any short term fall in equities may have an unhelpful impact for some customers whose policies are about to mature and we would always encourage them to consider their full range of options and seek advice if necessary. In the medium to long term, we believe that equities hold potential for significant growth, although as always, we stress that past performance is not a guide to what might happen in the future.

business performance

Growth has been sustained across the product range:

- the Child Trust Fund continued to perform well (investments for CTF are written into the engage OEIC)
- we maintained a strong share of the Over 50s guaranteed acceptance life cover market
- our new range of single premium products was established through the second half of the year. We are currently experiencing steady new business growth into 2008
- we also saw an increase in regular premium tax exempt business.

Our current range of Tax-Exempt Savings Plans invest into our With Profits Fund, which became part of the Society following the transfer of engagements of the UK Civil Service Benefit Society (UKCSBS) in 2003. We have introduced a wide range of improved reporting and management processes since the transfer, such that the With Profits Fund has grown in strength to the point where it is now able to invest in its continued growth. This is a very pleasing result because a sustainable future and clear intention to invest in future growth were the main priorities (after securing members' interests) of the UKCSBS Board and members who voted for the transfer.

Two of the key indicators by which we manage the business are Embedded Value and Capital. Embedded Value (EV) is a measure of the overall value of the in-force portfolio of policies and reserves of the business, including future surpluses.

At present, EV is not part of our formal reporting requirement and is not therefore included in this report nor is it audited or commented on by our Auditors. I can confirm however, that the information received by management over the year showed an increase in EV as a result of our activities. We are considering how we might introduce EV as part of our formal reporting in future years to demonstrate the change in the underlying value of our business.

Our capital position is set out in detail in Note 15 to this report. Sustaining and managing an appropriate level of capital while growing the organisation requires careful control of expenses and the rate at which we invest in infrastructure and new business. I am pleased to report that we have maintained a strong capital position in 2007, with an increase in the total capital we hold in excess of the minimum regulatory requirement to more than £40m.

As well as considering how much capital we hold above the regulatory minimum, we also consider whether we hold sufficient economic capital to manage under different “stress scenarios” which reflect the full range of risks the Society might face. This analysis informs a regulatory process called the Individual Capital Assessment or ICA, which we review on a regular basis. Again, I can confirm that we maintained a strong and improved position in 2007 when our capital was considered on this basis.

In presenting the accounts, our reporting basis recognises the full costs of our business development work in the current year. This includes the cost of projects on IT systems and the development of new products. As a result, this report shows an increase in both acquisition and maintenance costs which reflect substantial forward investment in infrastructure, products, brand and distribution during 2007.

I am pleased to report that even with significant investment in infrastructure and business development, we were able to make a transfer into the Fund for Future Appropriations which stands at over £54m at the end of 2007 for the Group. This represents the capital available to support our current business and future growth.

chief executive's business review
(cont.)

investment performance

The volatility of the markets resulted in the FTSE® 100 index increasing by 3.8% in the year. A number of our linked funds invest either wholly or partially into equity based investments which have produced returns in line with this benchmark. As stated above, equity returns are expected to outperform cash deposits over time, reflecting the inherently greater risks and volatility of returns but should play a role in balanced savings planning. This represents a key feature of our products.

Our With Profits Fund is set up to support delivery of smoother investment returns over time. It held 52% of its assets in Government Gilts, 44% in equities and 4% in cash equivalents. This provided some insulation from the volatile equity markets and so the fund returned 4.7% in the year.

Our Child Trust Funds are invested in the Investment Growth Fund and High Income Fund of our in-house Open Ended Investment Company (OEIC).

The Investment Growth Fund returned 6.8%. Investors in the engage Mutual Funds Limited High Income Fund will have been pleased to note that their fund appeared in the top quartile of all funds in the sector in which it is classed for returns over 1, 3 and 5 years (as reported by Moneyfacts Life and Pensions, December 2007).

As is noted in this year's statement from the Chairman, we have taken action to bring diversity to our deposit based life funds. Our aim is to reduce the risk to customers which may arise from one of the institutions which hold deposits on our behalf facing difficulties. We are confident that we will continue to deliver attractive returns for our deposit based investors, the majority of whom hold their investments in Tax-Exempt Savings Plans.

future plans and strategy

The strategy for the Society's continued growth can be summarised as follows:

- the development of strong brand which has a positive reputation that customers will grow to recognise
- meeting customers' needs to provide for their families' welfare through a range of simple, good value savings and protection products (including the development of a health cash plan in 2008)
- underpinning our commitment to service and product value with modern, efficient systems and our services which will also help make engage more accessible, in particular via the internet but also through telephone and post
- seeking partners that will enable us to grow on a sustained basis while delivering greater efficiencies and reaching out to a wider audience. This may be through distribution partnership or through transfer, merger or acquisition.

Over recent years we have been working to develop an increasingly efficient operating structure. We see it as essential that we continue to invest and develop the organisation to be ready to respond to future changes in market, regulation and consumer demand.

We believe that our modern systems, strong governance and effective new business capability could make a compelling proposition for any mutual that may be interested in discussing the potential for a transfer to engage. We are also interested in identifying potential acquisitions which might bring scale or new capabilities to the Group and, if appropriate, we will seek to raise additional capital to support this type of growth.

We have continued to invest in activities which build awareness of the engage brand – most notably our sponsorship of the engage Super League and International Open Bowls competitions and in 2007, a return to Direct Response TV advertising. These activities will continue in 2008 and we expect to announce a two year extension to the Super League sponsorship which will take us through to 2010. We continually measure the effectiveness of our sponsorship activities and there has been a tangible improvement in customer awareness over the last twelve months. Most importantly, we have also seen an improvement in marketing efficiency (a measure of the cost of our marketing activities against the value they generate).

We aim to develop a general insurance subsidiary in 2008 which will focus initially on a health cash plan. The new subsidiary will be named engage Mutual Insurance Limited. We have been considering a move into health cash plans for some time – they are a natural fit with our family target audience and welfare oriented mission and there is also a strong mutual heritage amongst cash plan providers.

working with partners

We have a long established practice of working with business partners who bring specialist skills to the organisation – most notably the provision of fund management which has been operated on a partnership basis for over 10 years, originally with State Street Global Advisers and more recently with Insight Investments (part of the HBOS Group) as well. Last year we decided to outsource our fund accounting capability to Bank of New York Mellon (BNY Mellon). Fund accounting is a highly complex activity for which BNY Mellon is able to offer us sophisticated and well proven systems which are utilised by many of the world's leading financial institutions. The change means that we have an extremely robust system underpinning the pricing and accounting of our life funds and we are now very well placed to develop further our products and meet any future changes in regulatory requirements.

We work with a range of distribution partners including leading building societies and banks. We are always keen to add new, like-minded organisations who wish to work with us.

chief executive's business review
(cont.)

social, community and environmental issues

We take our social and environmental responsibilities seriously. The nature of our business means that in many ways we do not present an environmental threat but, even so, we operate in an environmentally conscious manner wherever we can.

We have strong links with St Michael's, a local hospice and SmartRisk, a charity which works in schools to help children identify and minimise the many risks they take in the course of their daily lives. In addition to our sponsorship of the engage Super League, we also provide support to the Rugby League Benevolent Fund and the Leeds Rugby Foundation providing help and assistance throughout the rugby community.

I am pleased to report that the staff of the Society once again received a Gold Award for Payroll Giving and in 2007 launched an initiative to raise funds for a Guide Dog for the Blind.

Staff feedback is received annually through a feedback survey, continually through team meetings and quarterly reviews and formally through a consultative body, the engage Forum.

Communication from our customers is extremely important. Last year, the Chairman reported that several hundred customers had joined our Customer Panel. This year I am very pleased to report that the customer numbers on the Panel have grown to more than 1,500. Panel members' involvement has covered wide ranging issues through questionnaires, telephone interviews, informal meetings and moderated research groups.

controls and risk management

Risk Management is delivered through a framework of policies, procedures and internal controls which involve the whole organisation, including regular review by the Board, a number of management committees and individual procedures and controls. All key policies are subject to Board approval and ongoing review by management, and key risks are reviewed and reported through the Risk Officer and Internal Audit.

Compliance with regulatory, legal and ethical standards is a high priority for the whole Group and the Compliance Team and Finance Department take on an important oversight role in this regard. The Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively.

Included in the framework are the processes to identify and assess risks for our Individual Capital Assessment (as noted in this report under 'Business Performance'). The ICA, combined with our measurement of regulatory capital, enables us to manage our capital requirements to ensure we have the financial strength and capital adequacy to support the growth of the business and to meet the requirements of

policyholders and regulators. We also use a realistic reporting approach for our internal reporting, to monitor the resilience of the With Profits Fund to changes in the financial markets.

The Board uses the information gathered from across the risk processes and measures to maintain a Risk Map which identifies and tracks progress in managing key risks.

The principal risks we aim to manage for our life insurance business arise from being able to pay our obligations to policyholders as they fall due. Key areas of focus are therefore Market, Credit and Liquidity risks, relating to the performance of those financial assets supporting our policyholders' funds and our own capital base. The Management Team monitor these risks through the Capital, Risk and Investment Committee which meets on a monthly basis.

In addition to the changes to deposit based policies mentioned elsewhere in this report, our risk process has resulted in us taking a number of specific actions. We have improved the resilience of our defined benefit pension scheme (the improvements are documented in Note 18 in the accounts). We updated the investment policy for holding our surplus capital which is now invested in a pooled liquidity fund and we have agreed a change in the investment mandate for our With Profits Fund with a view to improving our investment returns over time. We expect these actions to assist us in dealing with the recent turbulence in financial markets and to protect our customers' interests whilst still providing financial flexibility to develop and deliver our business strategy.

future outlook

We are in a strong position to deliver our strategy in 2008 and move the business forward through the quality of our products, our brand and the delivery of further operational efficiencies.

We will remain focused on meeting the needs of our customers as we seek to enhance our product range to meet their savings, protection and welfare needs with simple, value for money products with high levels of service at all times.

thanks

Finally, I would like to offer my thanks to the Board and Staff of engage for their hard work and enthusiasm during 2007 and the customers for their continued commitment to the organisation. We look forward to making further progress in 2008.

Andrew Haigh
Chief Executive

27 March 2008

board of directors

Ray Pierce

BA FRSA (62)
Chairman

Ray joined the Board, and was appointed Chairman, in 1999. He has extensive experience in the financial services industry, in both general management and strategic marketing roles. Ray was a Director of Guardian Royal Exchange Plc and has also held senior positions at Robson Rhodes, The Mortgage Corporation and American Express. He is Deputy Chairman of Thinc Group Limited, Chairman of Guinness Flight Venture Capital Trust Plc and Chairman of Parasol Group Limited. Ray is also Chairman of the Board of Trustees of the National Motor Museum.

David Hargrave

B Comm MSc FIA (57)
Vice Chairman

David joined the Board in 1981 and was re-appointed as Vice Chairman in 2004 having served in this position during 1998/1999. David is a Fellow of the Institute of Actuaries with over 30 years of experience as a consultant. He is currently a Non-Executive Director at MetLife Assurance Limited and the Independent Trustee of a number of large pension funds.

Andrew Haigh

BSc (45)
Chief Executive

Andrew became Chief Executive in March 2002. He joined the Society in 1998 and was appointed to the Board as Sales and Marketing Director in 1999. Prior to joining the Society, Andrew held senior marketing positions with NCR Corporation and National & Provincial Building Society. His early career was with Barclays Bank, British Airways and Volvo. He is a Director of the Association of Friendly Societies and the Association of Mutual Insurers. Andrew is also a Director of Mutuo, an organisation which promotes the interests of the mutual sector to Government, media and other decision makers.

Rt. Hon. Lord Clark of Windermere

BA MSc PhD (68)
Non-Executive Director

Lord Clark joined the Society as a consultant in 1982 and became a Director in 1989. He left to join the Cabinet in 1997 as Chancellor of the Duchy of Lancaster being responsible for, amongst other things, the machinery of Government, including IT. Lord Clark, who rejoined the Board in 1999, was MP for South Shields from 1979 until his elevation to the House of Lords in July 2001. He is currently Chairman of the Forestry Commission, and a Non-Executive Director of Thales Plc, Sellafield Limited and Carlisle United Football Club Limited.

Karl Elliott

BA (35)
Marketing Director

Karl became Marketing Director of the Society in October 2004 and was appointed to the Board in December 2007. He joined the Society in 1999 and carried out a number of product, marketing and distribution roles within the marketing team, including responsibility for the launch of Child Trust Funds and the move to the engage brand. He represents the Society on a number of industry groups including the Association of Mutual Insurers Communications Group and the TISA Childrens' Savings Council.

Graham Henderson

B Comm CA FRSA (53)
Finance Director

Graham joined the Board in February 2006 as Finance Director. He is a Chartered Accountant with over 23 years of executive experience in financial services companies. He has gained significant experience in senior finance and change management roles in a variety of major companies including Lloyds Bank, Royal Insurance, Britannia Life, Britannic Assurance and Abbey. He is now applying this experience within our Group.

Peter Mason

BSc FIA (57)
Senior Independent Director

Peter joined the Board in December 2005. He is a Fellow of the Institute of Actuaries with over 30 years of experience of financial services businesses. He is Investment Director and Actuary at the Neville James Group, an investment management company, and is a Non-Executive Director of Chesnara Plc.

Christina McComb

BA MBA (51)
Non-Executive Director

Christina joined the Board in May 2005. She has extensive experience of investing in smaller companies, having spent 14 years at leading venture capital group, 3i. In 2003, Christina became a Director of the Shareholder Executive, a new department established in the Cabinet Office to manage the Government's shareholder interests in a number of public-owned enterprises. Christina is currently Head of Investment and Commercialisation at Partnerships UK Plc. She is a member of the Investors Advisory Board of the London Technology Fund and a member of the Investment Advisory Group of Imperial Innovations Plc. She is a Governor of Surbiton High School and Treasurer of the Griffin Society.

directors' report

The Directors present their annual report, together with the financial statements for the year ended 31 December 2007.

business objectives

The mission of engage is to enable people to protect their welfare. We will do this by providing our customers with accessible, simple, value for money protection and savings products. Our major subsidiaries are playing an increasingly important role in meeting the mission:

- engage Mutual Funds Limited is the provider of our stakeholder Child Trust Fund, along with our Equity ISA product
- engage Mutual Administration Limited, our administration services subsidiary, provides services to the Society, its operating subsidiaries and to external organisations
- engage Mutual Services Limited is a non-regulated (as defined by the Financial Services & Markets Act 2000) introducer of third party products and services.

The role of the subsidiaries and the impact on the finances of the Society is such that we present consolidated accounts for the Group.

The Board is committed to the ongoing development of engage as a leading friendly society, delivering a range of good value welfare products to a wide audience through direct, worksite and partnership distribution.

The Directors are of the opinion that all activities performed during the year by the Society and its subsidiaries have been carried out within their respective powers.

business review

Key business developments and the future outlook for the business of the Society and its subsidiaries are detailed in the Chief Executive's Business Review on pages 6 to 13 which includes Key Performance indicators (KPIs).

principal risks and uncertainties facing the business

A description of the principal risks and uncertainties facing the business of the Society and its subsidiaries are detailed in the Controls and Risk Management section of the Chief Executive's Business Review on pages 12 to 13.

board of directors

A list of Directors who held office during the year appears within the Society Information on page 2.

Karl Elliott was appointed as a Director on 4 December 2007 and, being eligible, offers himself for election to the Board of Directors. Penny Hemming resigned on 31 October 2007.

Ray Pierce retires in accordance with the Society's rules and the Friendly Societies Act 1992 and, being eligible, offers himself for re-election. In addition, the Board has resolved that any Director who has served the Society for longer than 9 years will be subject to annual re-election. As a result Lord Clark and David Hargrave will also stand for re-election at this year's Annual General Meeting (AGM).

As at the year end, no Director of the Society had any interest in the shares of the Society's subsidiary companies.

The Society maintains Directors' and Officers' Insurance for the Board of Directors in respect of their duties as members of the Board.

statement of solvency

As at 31 December 2007, the Society's capital resources for each class of relevant business exceeded the minimum capital resources requirements prescribed by the Financial Services Authority.

membership

Membership of the Society as at 31 December 2007 stood at 222,636 (2006: 225,468). The total number of customers was 381,149.

complaints policy

We aim to deliver the highest possible level of service to our customers. If any customer believes that we have failed in this aim, they have recourse to our complaints procedures.

We have documented procedures for the handling and recording of complaints. We deal with all complaints with due care, ensuring that they are thoroughly investigated.

The Board of Directors regularly reviews the number and type of complaints received to monitor that complaints are properly dealt with and corrective action has been taken to prevent recurrence.

Senior management deals with serious complaints. In the unlikely event that a complaint cannot be resolved to the customer's satisfaction, the customer will be made aware of the option to appeal to the Financial Ombudsman Service.

employees

The average number of Directors and staff employed by the Group, in each week of the year, totalled 180. The aggregate remuneration paid to Directors and staff employed by the Group, during the year, amounted to £5,375,000. All of the staff are employed by our third party administration services subsidiary, engage Mutual Administration Limited.

directors' report (cont.)

The Society's management meets employee representatives regularly to discuss a wide range of topics, through its staff forum. Communication with and between all employees is subject to regular review and includes staff satisfaction surveys, team briefings and informal meetings with the Chief Executive.

engage has an equal opportunities policy for recruitment and is committed to the ongoing development of its staff. The Society has been officially recognised as an 'Investor in People' since 2001.

creditor payment policy

It is the Society's policy to settle invoices in accordance with suppliers' standard terms, unless specifically agreed otherwise in advance.

pensions arrangements

We are committed to assisting our staff to make adequate provision for their retirement. Our defined benefit scheme closed to new members on 29 March 2001.

The Directors are working with the Trustees to seek to manage the pension scheme investment policy, to build on the current relative strength of the fund, to ensure that the scheme remains in a position to meet its obligations going forward in a manner which should not place a material financial strain on the Society.

For employees joining the Society since 29 March 2001 we have a defined contribution arrangement in place whereby the Society matches the employee's contributions with a maximum corporate contribution of 10% of salary.

disclosure of information to auditors

Each of the persons who is a Director at the date of approval of this report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware

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

social, community and environmental issues

Social, community and environmental issues impacting on the business of the Society and its subsidiaries are detailed in the Chief Executive's Business Review on page 12.

In 2007 we donated £16,200 to charities, which included donations to local charity, St Michael's Hospice as well as donations to SmartRisk, Heroes Support and Pannal Junior Football Club. We met all the costs of maintaining the grounds that we share with our local Hospice.

Our staff fully support charities and have donated £8,170 to Children in Need, Cancer Research, Comic Relief, Guide Dogs for the Blind and St John Ambulance as well as donations to local charity, St Michael's Hospice.

engage has been officially recognised as having one of the country's most successful Give as You Earn schemes and was awarded the Payroll Giving Gold Award. This award recognised the number of our employees who had enrolled on the scheme.

appointment of auditors

KPMG Audit Plc tendered their resignation as auditors on 17 September 2007. The Directors appointed Deloitte & Touche LLP on 17 September 2007 to fill a casual vacancy. A resolution to appoint Deloitte & Touche LLP as auditors will be proposed at the forthcoming Annual General Meeting. Our policy on rotation of auditors is such that audit services are now re-tendered at least every five years. The existing auditors are permitted to submit a re-tender as part of this process. A full review process is conducted at least every three years.

By Order of the Board

Andrew Horsley
Secretary

27 March 2008

corporate governance report

The Board is accountable to the Society's members for the operation of the Society and regards good corporate governance as being fundamental to this responsibility.

It has been the Society's policy to follow the principles of the Combined Code on Corporate Governance matters for a number of years. As a result, the Board has welcomed the recommendations of the Myners Review and the introduction of the Annotated Combined Code. The Board is firmly of the view that, to comply with best practice in corporate governance, it should aim to adhere to the principles and provisions of the Combined Code on Corporate Governance annotated by the Association of Mutual Insurers and the Association of Friendly Societies to cover mutual insurers ("the Code").

It will be our policy to observe the Code wherever appropriate for an organisation of our size, status and aspiration or to clearly explain why we feel any deviation from the Code is acceptable or necessary. The Board considers that it complies with all aspects of the Code unless the contrary is stated within this Report. The Board applies principles of good governance by adopting the following procedures:

- the Board meets a minimum of six times a year for Board meetings and, in addition, meets at least twice a year for a detailed review of the Society's strategy
- the Board's principal role is to focus on the Society's strategy and ensure that the necessary resources are in place for the Group to meet its objectives and that financial control and risk management procedures are robust. In particular, its role is to provide general direction to the organisation and to safeguard the interests of members
- the Board maintains a schedule of retained powers relating to approval of the strategic aims of the Group as well as approval of policies and matters which must be approved by the Board under legislation and the Society's rules
- to ensure that the Board functions effectively, all Directors receive accurate, timely and clear information and it is the responsibility of the Chairman to ensure that this is periodically reviewed.

- the Chairman also ensures that, on appointment, Non-Executive Directors receive a comprehensive tailored induction programme on the Group's business and regulatory environment. All Non-Executive Directors update their skills, knowledge and familiarity with the Group through meetings with the Executive of the Society and its employees and relevant external courses. Individual training requirements for Non-Executives are discussed during the performance evaluation process
- the Board has access to independent professional advice at the Society's expense, where they judge it necessary to discharge their responsibilities as Directors
- all Directors have access to the advice and services of the Group Secretary who is responsible for ensuring the Board procedures are complied with and advising the Board, through the Chairman, on governance matters
- the Board currently consists of three Executive Directors and five Non-Executive Directors. The size and composition of the Board is kept under review to ensure that there is adequate succession planning for Executive and Non-Executive Directors and that there are sufficient skills and experience represented on the Board for the direction of the Group's activities. The Board is of the opinion that its composition is appropriate for the business.

attendance of directors at board and committee meetings

	Ray Pierce	David Hargrave	Andrew Haigh	Graham Henderson	Lord Clark	Karl Elliott	Penny Hemming	Peter Mason	Christina McComb
Board Meetings									
HFSL (9)†	9	9	9	9	8	1 of 1	6 of 7	9	8
eMFL (3)*	3	3	3	3	3	N/A	3	3	3
eMAL (3)**	3	3	3	3	3	N/A	2 of 2	3	3
eMSL (2)***	2	2	2	2	2	N/A	2	2	2
Committee Meetings									
Audit (5)	N/A	5	N/A	N/A	4 of 4	N/A	N/A	5	5
Finance (7)	N/A	7	7	7	N/A	N/A	N/A	7	N/A
Nominatons (1)	1	1	1	N/A	N/A	N/A	N/A	N/A	N/A
Remuneration (5)	5	N/A	N/A	N/A	5	N/A	3 of 3	N/A	5

* engage Mutual Funds Limited.
** engage Mutual Administration Limited.
*** engage Mutual Services Limited.
† Homeowners Friendly Society Limited.

corporate governance report (cont.)

non-executive directors

In the opinion of the Board, each Non-Executive Director, including the Chairman, is independent in character and judgement. The Vice Chairman, David Hargrave has served the Society since his first election by members in 1982. Lord Clark has served the Society, as a Non-Executive Director, from 1989 until he left to join the Cabinet in 1997. Lord Clark re-joined the Board in 1999. The Board is unanimously of the view that David Hargrave's and Lord Clark's knowledge and experience remain invaluable to the Society and that the independence of their judgement will not be prejudiced by a continuation of their period in office.

The Board has resolved that any Director who has served the Society for longer than 9 years will be subject to annual re-election. As a result Lord Clark and David Hargrave will stand for re-election at this year's Annual General Meeting (AGM).

The Society appointed Peter Mason as Senior Independent Director on 25 January 2007. The Senior Independent Director will be available to members, if they have concerns which contact through the Chairman, Chief Executive or Finance Director has failed to resolve (or for which such contact is inappropriate).

In 2007, the Non-Executive Directors, led by the Senior Independent Director, met without the Chairman present to appraise the Chairman's performance. The Non-Executive Directors also meet without the Executive Directors present at least once a year.

chairman and chief executive

The roles of the Chairman and Chief Executive are held by different people 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 and its subsidiaries and for implementing the strategies and policies agreed by the Board.

performance evaluation

The Group has a formal performance evaluation system for all members of staff including the Executive Directors. The Chief Executive appraises the Executive Directors on their performance and the Chairman undertakes an appraisal of the Chief Executive.

A performance evaluation system for Non-Executive Directors has been established. The Chairman meets each Non-Executive Director annually to discuss individual performance.

A meeting of the Non-Executive Directors is also held, without the Executive Directors present, to discuss collectively the performance of the Executive Directors.

In 2007 the appraisal of Non-Executive Directors took the format of a formal appraisal of each individual Director by the Chairman. This procedure identifies any individual and Board training requirements and provides the evidence for the Board to decide whether to recommend to members that a Director should be re-elected.

appointments to the board

The appointment of new Directors is considered by the Nominations Committee (see page 24) which makes recommendations to the Board. All Directors are subject to election by members at the AGM following their appointment. In addition, all Directors must receive approval from the Financial Services Authority as an Approved Person in order to fulfil their controlled function as a Director. Under the Society's Rules, Directors have to submit themselves for re-election at least once every three years.

Given their particular individual expertise, experience and performance to date, the Board recommends that Karl Elliott be put forward for election, and Ray Pierce, Lord Clark and David Hargrave be put forward for re-election by members.

The terms and conditions of appointment of Non-Executive Directors are available for inspection at our Head Office and can be viewed by contacting the Group Secretary.

board committees

The Board has established a number of Committees which have their own terms of reference. Details of the principal Board Committees, including their membership during 2007, are set out below.

audit committee

The Audit Committee consists of three Non-Executive Directors under the Chairmanship of Peter Mason. All of the Committee members have relevant financial sector experience. The responsibilities of the Committee are in line with the provisions of the Smith Guidance on Audit Committees. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- the integrity of the financial statements and reviewing significant financial reporting judgements contained in them
- the effectiveness of systems of internal control and risk management processes
- the internal and external audit processes
- compliance with applicable laws and regulations
- the recommendation to the Board on the appointment, re-appointment and removal of external Auditors.

During 2007 the Committee met five times in the execution of its responsibilities. During the meetings the Committee considered reports on:

- the system of internal control
- the integrity of financial statements
- high level risks and associated controls
- compliance with laws and regulations, including adherence to Money Laundering regulations
- the activities of internal audit and of the external Auditors on the audit.

Reports were provided by the Internal Audit, Risk and Compliance functions and the external Auditors. The Chairman of the Audit Committee meets regularly with the Internal Auditors to discuss issues of internal control. The Committee considers that it has met its responsibilities and performed its duties with appropriate levels of care and expertise during 2007.

finance & risk committee

The Finance & Risk Committee consists of Peter Mason, Andrew Haigh, Graham Henderson, under the Chairmanship of David Hargrave. The Committee met seven times during 2007 to review key aspects of Group financial management and risk quantification in greater detail than is possible at regular Board meetings. In particular, the Board has charged the Committee with providing direction and monitoring strategic progress in the areas of management of the Society's with profits business, management of the Group's investment strategy, monitoring of the Group's investment performance, review of the principles underlying capital management of the Group, product pricing for all Group products, the expense analysis and FSA returns.

corporate governance report (cont.)

nominations committee

The Nominations Committee consists of the Chairman, the Vice Chairman and the Chief Executive. The majority of members of the Nominations Committee were not independent Non-Executive Directors during 2007. The Board considers that the structure of the Nominations Committee is appropriate to the size of the organisation. The Nominations Committee meets as appropriate to review the structure, size and composition of the Board and to make recommendations to the Board with regard to any adjustments that are deemed necessary. It is also responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. Nominations for appointment to the Board are considered for approval by the full Board.

Ordinarily, we would appoint professional recruitment consultants to ensure that vacancies are brought to the attention of a wide audience. All applicants are independently appraised by the external consultants and a short list is drawn up, prior to interview by the Board and appointment.

remuneration committee

The Remuneration Committee currently consists of the Chairman of the Society and Lord Clark, under the Chairmanship of Christina McComb. The Committee meets as appropriate to determine the policy for Executive remuneration. The objective of the Committee is to give Executive Directors encouragement to enhance the Society's performance by ensuring that they are fairly and responsibly rewarded for their individual and collective contributions. Further details of the Committee and the remuneration policy can be found in the Report of the Directors on Remuneration on pages 26 to 28.

Where the Society appoints remuneration consultants, they have no other connection with the Society.

The full terms of reference of the Audit, Finance & Risk, Nominations and Remuneration Committees are available on request from the Group Secretary or by viewing our website at engagemutual.com.

executive sub-committees

The governance structure includes a number of Executive Sub-Committees that have responsibility for key risk areas. These Committees are: Sales, Operations, Product, Unit Pricing, Resourcing, Compliance and Capital Investment & Risk.

relations with customers

The customers of the engage Group are made up of the friendly society's life fund members and non-life customers of its open ended investment subsidiary company. engage applies the same principles of value and service to all customers and encourages feedback on any aspect of the Group's activities.

The engage Group has established a Customer Panel, consisting of over 1,500 customers, who are invited to comment on a variety of issues. It is the intention of the Society that members of the Board will attend meetings of the Panel and use this as an opportunity to understand customers' issues and concerns.

Examples of assistance provided during 2007 by the Customer Panel include: the re-design of the customer website; the format and extra information required on investment statements; insights and objectives in forming good savings habits for themselves and children, and many other areas besides.

All members of the friendly society who are eligible to vote are encouraged to exercise their vote at the Annual General Meeting (AGM) by being sent a proxy voting form and pre-paid reply envelope. An individual resolution is proposed on each separate issue including a resolution on the Annual Report and Accounts.

system of internal control

The Board has delegated responsibility for managing the system of internal control to senior management. The Internal Audit function provides independent assurance to the Board on the effectiveness of the system of internal control through the Audit Committee.

The information received and considered by the Committee provided reasonable assurance that during 2007 there were no material breaches of control or regulatory standards and that, overall, the Group maintained an adequate system of internal control.

auditors

The Group has a policy on the use of the external auditors for non-audit work which is implemented by the Audit Committee. The purpose of the policy is to ensure the continued independence and objectivity of the external auditors.

The external auditors undertook a number of non-audit assignments during 2007 and these were conducted within the limits set out in the policy and are considered to be consistent with the professional and ethical standards expected of the external auditors in this regard.

role as an institutional shareholder

The Group has appointed State Street Global Advisers, Legal & General Investment Management and Insight Investment Management to undertake its investment management.

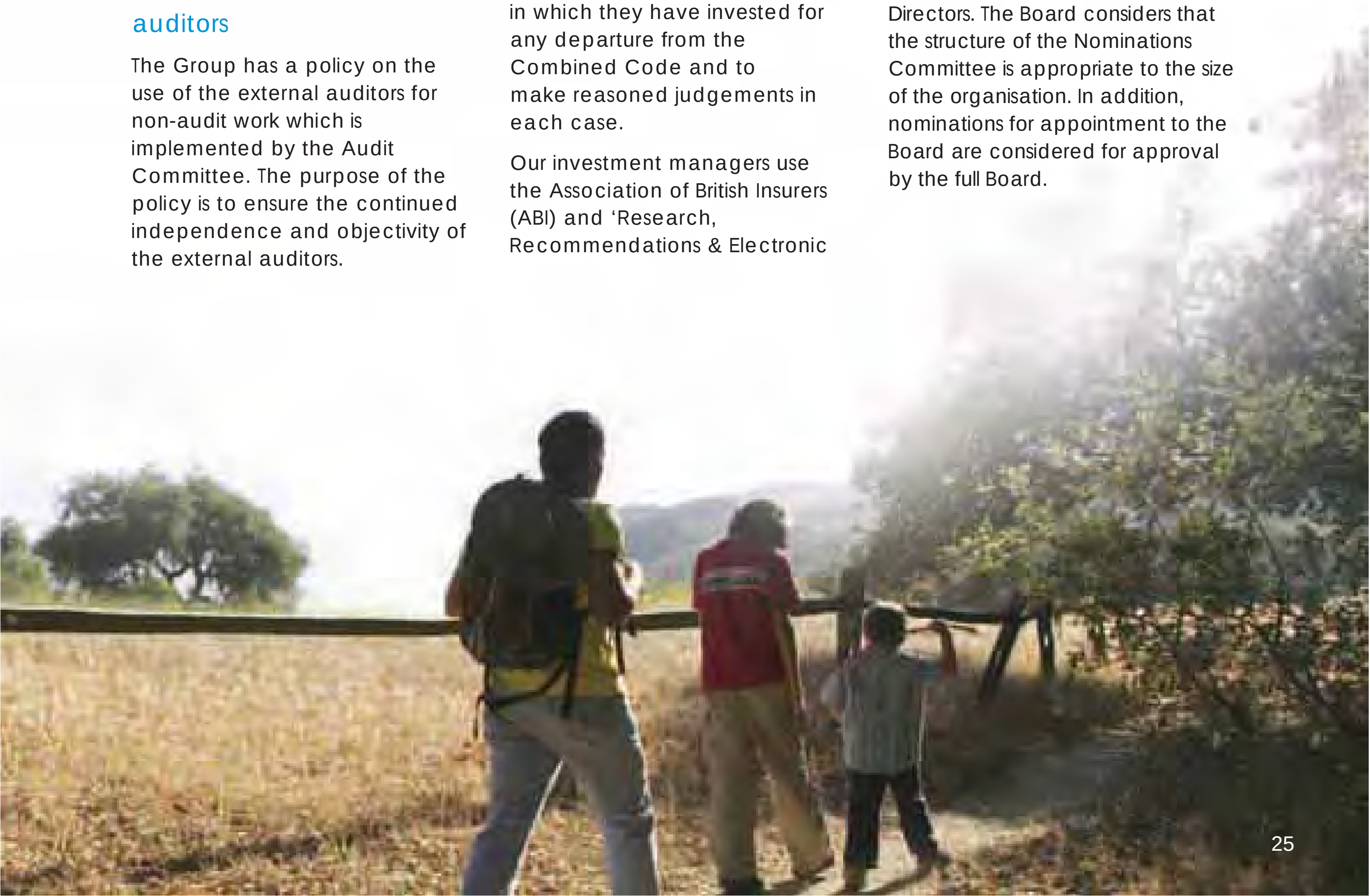
The investment managers comply with the principles set out in "The responsibilities of institutional shareholders and agents – statement of principles" published by the Institutional Shareholders Committee.

The Group has requested State Street, Legal & General and Insight, where appropriate, to consider carefully the explanations given by companies in which they have invested for any departure from the Combined Code and to make reasoned judgements in each case.

Our investment managers use the Association of British Insurers (ABI) and 'Research, Recommendations & Electronic Voting' (RREV) services, as appropriate, to analyse resolutions for compliance with the Combined Code. Where the investment manager does not accept the explanation for any major departure from the Combined Code, the investment manager will enter into dialogue directly with the company in question. Our investment managers also attend AGMs of companies in which they have invested, on behalf of the Society, where it is appropriate and practicable to do so.

statement of compliance with the combined code

The Board considers that throughout the year ended 31 December 2007, the Society has applied the relevant principles and complied with the relevant provisions of the Annotated Combined Code for Mutual Insurers issued by the Association of Mutual Insurers / Association of Friendly Societies. The exception is that the majority of members of the Nominations Committee are not independent Non-Executive Directors. The Board considers that the structure of the Nominations Committee is appropriate to the size of the organisation. In addition, nominations for appointment to the Board are considered for approval by the full Board.



report of the directors on remuneration

audited information

the total emoluments of the Directors comprise:

Executive Directors	Salary† £'000	Bonus £'000	Benefits £'000	Pension contributions £'000	2007 Total £'000	2006 Total £'000
Andrew Haigh (Chief Executive)	190	99	1	35	325	219
Graham Henderson	142	34	-	12	188	118
Karl Elliott (appointed 4 Dec '07)*	8	2	-	2	12	-
Total	340	135	1	49	525	337

*The total emoluments for Karl Elliott have been based on one month's service.
†Payment in respect of company car allowances are included in salary.

Non-Executive Directors	Salary† £'000	Bonus £'000	Benefits £'000	Pension contributions £'000	2007 Total £'000	2006 Total £'000
Ray Pierce (Chairman)	60	-	-	-	60	60
Lord Clark of Windermere	26	-	1	-	27	27
David Hargrave	36	-	-	-	36	36
Penny Hemming (resigned 30 Oct '07)	20	-	-	-	20	24
Peter Mason	29	-	-	-	29	29
Christina McComb	27	-	-	-	27	27
Total	198	-	1	-	199	203

long-term benefits

The Executive Directors participate in a long-term bonus scheme, based on the long-term performance of the Group. Graham Henderson and Karl Elliott joined the long-term bonus scheme in January 2007.

Payments are provided for in the financial statements of engage Mutual Administration Limited, but are not payable until January 2009 for Andrew Haigh and June 2009 for Graham Henderson. Andrew Haigh's and Karl Elliott's long-term bonus as at 31 December 2007 was £Nil (£Nil in 2006) and Graham Henderson's long-term bonus as at 31 December 2007 was £15,000 (£Nil in 2006).

directors' pension entitlement

The Society operates a defined benefit pension scheme for its employees. This scheme was closed to new entrants on 29 March 2001. A stakeholder pension scheme is in place for all new employees. Andrew Haigh and Karl Elliott are members of the defined benefit pension scheme. The details of Andrew Haigh's and Karl Elliott's pension at 31 December 2007 are shown in the table below. Graham Henderson participated in a defined contribution scheme.

other benefits

There were no payments in respect of pensions in 2007 for former Directors or their spouses (2006: £Nil).

the table below sets out the directors' pension cost information in respect of Andrew Haigh and Karl Elliott:

	Accrued benefit as at 31 December 2007	Increase in accrued benefit over 2007 (excluding inflation)	Increase in accrued benefit over 2007 (including inflation)	Transfer value of increase in accrued pension less member contributions	Transfer value as at 31 December 2006	Transfer value as at 31 December 2007	Increase in transfer value over 2007	Increase in transfer value less member contributions
Andrew Haigh	£24,022	£2,490	£3,308	£30,296	£233,682	£283,892	£50,210	£41,410
Karl Elliott	£13,611	£3,678	£4,055	£26,749	£69,716	£103,891	£34,175	£29,991

report of the directors on remuneration (cont.)

un-audited information

The composition and responsibilities of the Society's Remuneration Committee are set out on page 24. The Remuneration Committee is responsible for the Group's Executive remuneration policy.

The objective of the Committee is to give Executive Directors encouragement to enhance the Society's performance by ensuring that they are fairly and responsibly rewarded for their individual contributions. Where possible the Committee seeks to meet the standards set out in the Combined Code applicable to listed companies.

The level of remuneration is set by reference to jobs carrying similar responsibilities in similar organisations. There is a performance-related element within the remuneration, which is linked to the achievement of objectives.

Proper regard is paid to the need to retain good quality, highly motivated staff and the remuneration being paid by competitors of the Society is taken into consideration. In this respect the Committee receives information inter alia from a leading firm of remuneration consultants, Hay, and also receives bench-marking data where required.

The remuneration of our Non-Executive Directors is recommended by the Chairman and the Chief Executive for the Remuneration Committee to agree annually at the year end.

The remuneration is calculated on the basis of an agreed minimum number of days committed to Society business and is paid at a rate which has been confirmed as competitive when compared with other similar sized financial services organisations.

service contracts

Andrew Haigh has a service contract with a twelve month notice period. Graham Henderson and Karl Elliott have service contracts with a six month notice period.

No Non-Executive Director has a service contract.

non-executive directors' remuneration

Non-Executive Directors' remuneration comprises a specified fee, which includes extra amounts for specific additional responsibilities, as set out on page 2.

executive bonus entitlements

The Society operates an annual discretionary bonus scheme for Executive Directors. The Society's policy is to ensure that Executive Directors are appropriately incentivised to meet the objectives of the business.

The Chief Executive is awarded a maximum of 66% of basic salary for achievement of Society objectives. The Finance Director and the Marketing Director are awarded a maximum of 30% of basic salary for the achievement of individual objectives.

statement of directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Friendly Societies Act 1992 ('the act') requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Group and Society financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the Society as at the end of the financial year and of the income and expenditure of the Group and of the Society for the financial year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are reasonable and prudent
- state whether applicable United Kingdom Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Society will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and Society and enable them to ensure that the financial statements comply with the Act.

They are also responsible for safeguarding the assets of the Group and Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

independent auditors' report

to the members of Homeowners Friendly Society Limited

We have audited the Group and individual financial statements (the "financial statements") of Homeowners Friendly Society Limited ("the Society") for the year ended 31 December 2007 which comprise the Group and Society Income and Expenditure Account, the Group and Society Balance Sheets and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. We are also required to report on the Directors' Report for the year ended 31 December 2007.

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 directors and auditors

The Directors' responsibilities for preparing the Annual Report and the 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 Directors' Responsibilities on page 29.

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. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. (The information given in the Directors' Report includes that specific information presented in the Chief Executive's Business Review that is cross referred from the Business Review section of the Directors' Report).

In addition we report to you if, in our opinion, the Society has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding remuneration of the Directors and other transactions is not disclosed.

We review whether the Corporate Governance Report reflects the Society's compliance with the nine provisions of the Combined Code on Corporate Governance – An Annotated Version for Mutual Insurers recommended for our review by the Myners Review of the Governance of Life Mutuals, and we report if it does not. We are not required to consider whether the Directors' statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent mis-statements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Society and the Group, 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 mis-statement, 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 the Society's and the Group's affairs as at 31 December 2007 and of the income and expenditure of the Society and the Group for the year then ended
- the financial statements have been properly prepared in accordance with the Friendly Societies Act 1992
- the Directors' Report 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.

Deloitte & Touche LLP

Chartered Accountants and
Registered Auditors
Leeds, United Kingdom

27 March 2008

group income and expenditure

for the year ended 31 December 2007

Technical Account
Long-Term Business

		notes	2007 £'000	2006 £'000
	Continuing Operations			
	Earned premiums			
	Gross premiums written	2	38,027	34,335
	Outward reinsurance premiums		(9,426)	(8,002)
	Total earned premiums, net of reinsurance		28,601	26,333
Share dividends, interest on deposits held and realised gains on investments	Investment income	3	30,893	35,712
Movement in value of investments held	Unrealised (losses) / gains on investments	3	(558)	10,166
	Other technical income		246	216
	Total technical income		59,182	72,427
	Claims incurred			
Policy surrender, maturity and death payments	Gross claims incurred	4	73,664	78,255
	Outward claims reinsurance		(2,798)	(2,651)
	Total claims incurred, net of reinsurance		70,866	75,604
	Change in other technical provisions			
	Change in long-term business provision	14	(6,667)	(6,574)
	Change in long-term business provision, reinsurers' share	14	(3,817)	(4,128)
Change in value of linked policyholders' benefits	Change in technical provisions for linked liabilities	14	(19,754)	(8,943)
	Total change in other technical provisions		(30,238)	(19,645)
	Other charges			
	Net operating expenses	5	16,197	11,560
Fund managers' charges	Investment expenses and charges		341	416
Group charge to corporation tax	Tax attributable to the long-term and linked business	20	4	2
	Total other charges		16,542	11,978
	Total technical charges		57,170	67,937
	(Surplus) / deficit transferred (from) / to non-technical account		(919)	2,310
	Transfer to fund for future appropriations	9	2,931	2,180
	Balance on the long-term business technical account		-	-

group income and expenditure (cont.)

for the year ended 31 December 2007

Non-Technical Account

Income earned in non-life subsidiaries

Expenses incurred in non-life subsidiaries

	notes	2007 £'000	2006 £'000
Continuing Operations			
Other income		1,378	858
Net operating expenses	5	(2,343)	(4,244)
Pension finance income	18	312	235
Actuarial gain on pension scheme	18	1,572	841
Deferred taxation	-	-	-
Net surplus / (deficit) of income over expenses		919	(2,310)
(Surplus) / deficit transferred (to) / from the group technical account – long-term business		(919)	2,310
Balance on the non-technical account		-	-

All recognised gains and losses in relation to long-term business are dealt with in the Group income and expenditure – Long-Term Business – Technical account, and all recognised gains and losses in relation to subsidiaries are dealt with in the Group income and expenditure account – Non-Technical Account.

group balance sheet

as at 31 December 2007

Assets

Harrogate head office and Kew Gardens property → Investment in land and buildings

With Profits Fund and surplus capital investments → Financial investments

Value of unit-linked investments → Assets held to cover linked liabilities

Fixtures, fittings and computer hardware → Tangible assets

Accumulated sales costs that are associated with acquiring new policies and are spread over several years → Deferred acquisition costs

	notes	2007 £'000	2006 £'000
Investments			
Investment in land and buildings	10	6,850	6,300
Financial investments	10	121,017	122,703
Total investments		127,867	129,003
Assets held to cover linked liabilities	11	427,864	447,618
Reinsurers' share of technical provisions			
Long-term business provision	14	12,549	8,732
Other assets			
Debtors	8	621	572
Tangible assets	12	370	592
Cash at bank		5,007	4,881
Deferred taxation	24	949	-
Total other assets		6,947	6,045
Prepayments and accrued income			
Accrued interest and rent		657	5,691
Deferred acquisition costs		459	-
Other prepayments and accrued income		3,616	2,700
Total prepayments and accrued income		4,732	8,391
Total assets excluding the pension asset		579,010	599,789
Net pension asset	18	2,440	1,549
Total assets		582,399	601,338

group balance sheet

as at 31 December 2007

Liabilities

Money held for regulatory reserves and other surplus funds, including possible future with profits bonuses

Provision for with profits policies and other known contingencies

Maturities, surrenders and death claims awaiting processing and payment

Value of unit-linked policyholders' benefits

Reinsurance premiums to be paid and expenses due in the period yet to be processed

	notes	2007 £'000	2006 £'000
Fund for future appropriations	9	54,527	51,596
Technical provisions			
Long-term business provision	14	84,885	91,552
Claims outstanding	14	6,683	5,245
Total technical provisions		91,568	96,797
Technical provisions for linked liabilities	14	427,864	447,618
Creditors			
Creditors arising out of insurance operations	16	3,833	1,591
Other creditors including taxation and social security	17	2,360	1,416
Total creditors		6,193	3,007
Accruals and deferred income		2,247	2,320
Total liabilities		582,399	601,338

Approved at a meeting of the Board of Directors on 27 March 2008
and signed on its behalf by:

R F Pierce - Chairman

A S Haigh – Chief Executive

A J Horsley – Secretary

society income and expenditure

for the year ended 31 December 2007

Technical Account
Long-Term Business

		notes	2007 £'000	2006 £'000
	Continuing Operations			
	Earned premiums			
	Gross premiums written	2	38,027	34,335
	Outward reinsurance premiums		(9,426)	(8,002)
	Total earned premiums		28,601	26,333
Share dividends, interest on deposits held and realised gains on investments	Investment income	3	30,893	35,712
Movements in value of investments held	Unrealised (losses) / gains on investments	3	(558)	10,166
	Other technical income	13	794	747
	Total technical income		59,730	72,958
	Claims incurred			
Policy surrender, maturity and death payments	Gross claims incurred	4	73,664	78,255
	Outward claims reinsurance		(2,798)	(2,651)
	Total claims incurred, net of reinsurance		70,866	75,604
	Change in other technical provisions			
	Change in long-term business provision	14	(6,667)	(6,574)
	Change in long-term business provision, reinsurers' share	14	(3,817)	(4,128)
Change in value of linked policyholders' benefits	Change in technical provisions for linked liabilities	14	(19,754)	(8,943)
	Total change in other technical provisions		(30,238)	(19,645)
	Other charges			
	Net operating expenses	5	16,197	11,560
Fund managers' charges	Investment expenses and charges		341	416
Society charge to corporation tax	Tax attributable to the long-term and linked business	20	4	2
	Total other charges		16,542	11,978
	Total technical charges		57,170	67,937
	Transfer to fund for future appropriations	9	2,560	5,021
	Balance on the long-term business technical account		-	-

All recognised gains and losses in relation to long-term business are dealt with in the Society income and expenditure – Long-Term Business – Technical Account.

society balance sheet

as at 31 December 2007

Assets

Harrogate head office and Kew Gardens property

With Profits Fund and surplus capital investments

Value of unit-linked investments

Accumulated sales costs that are associated with acquiring new policies and are spread over several years

	notes	2007 £'000	2006 £'000
Investments			
Investment in land and buildings	10	6,850	6,300
Investment in subsidiaries	10	7,300	7,300
Financial investments	10	121,017	122,703
Total investments		135,167	136,303
Assets held to cover linked liabilities	11	427,864	447,618
Reinsurers' share of technical provisions			
Long-term business provision	14	12,549	8,732
Other assets			
Other debtors	8	5,836	7,048
Cash at bank		4,082	1,180
Total other assets		9,918	8,228
Prepayments and accrued income			
Accrued interest and rent		657	5,691
Deferred acquisition costs		459	-
Other prepayments and accrued income		3,169	2,353
Total prepayments and accrued income		4,285	8,044
Total assets		589,783	608,925

society balance sheet (cont.)

as at 31 December 2007

Liabilities

Money held for regulatory reserves and other surplus funds, including possible future with profits bonuses

Provision for with profits policies and other known contingencies

Maturities, surrenders and death claims awaiting processing and payment

Value of unit-linked policyholders' benefits

Reinsurance premiums to be paid and expenses due in the period yet to be processed

	notes	2007 £'000	2006 £'000
Fund for future appropriations	9	63,393	60,833
Technical provisions			
Long-term business provision	14	84,885	91,552
Claims outstanding	14	6,683	5,245
Total technical provisions		91,568	96,797
Technical provisions for linked liabilities	14	427,864	447,618
Creditors			
Creditors arising out of insurance operations	16	3,833	1,591
Other creditors including taxation and social security	17	1,685	588
Total creditors		5,518	2,179
Accruals and deferred income		1,440	1,498
Total liabilities		589,783	608,925

Approved at a meeting of the Board of Directors on 27 March 2008 and signed on its behalf by:

R F Pierce - Chairman

A S Haigh – Chief Executive

A J Horsley – Secretary

notes to the accounts

at 31 December 2007

1. accounting policies

Basis of presentation

The Accounts are prepared on the basis of the accounting policies set out below. The Accounts have been prepared in compliance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and with the Association of British Insurers' Statement of Recommended Practice on Accounting for Insurance Business ("ABI SORP"), dated December 2005 and revised in December 2006. In implementing the requirements of these regulations, the Society has adopted a modified statutory solvency basis for determining technical provisions.

The Accounts comply with applicable United Kingdom accounting standards.

Basis of consolidation

The Group Accounts comprise the assets, liabilities, and income and expenditure account transactions of the Society and its subsidiary undertakings. The ongoing results of subsidiary undertakings are included within the non-technical account. The net results are included in the Fund for Future Appropriations for the Group. The activities of the Society and Group are accounted for in the income and expenditure accounts.

Premiums

Premiums are credited when they become due. New business premiums, including single premiums, are recognised when they are received. Reinsurance premiums are charged when they become payable.

Claims

Death claims are recorded on the basis of notifications received. Annuity payments are recorded when due. Maturities and surrenders are recorded on the earlier of the date when paid or when the policy ceases to be included within the Long-Term Business Provision and / or the Technical Provision for Linked Liabilities. Reinsurance recoveries are credited to match the relevant gross amounts.

Investment income and expenses

Investment income and expenses include dividends, interest, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income on the date that shares become quoted ex-dividend. Interest and expenses are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their original purchase price, or if they have been previously valued, their valuation at the last balance sheet date.

The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier years in respect of investment disposals in the current period.

Non-Technical Account – other income

Income is recognised as follows:

Fee income paid to engage Mutual Administration Limited in relation to the provision of Third Party Administration services is recognised when the services are provided, to the extent the amounts are considered recoverable.

Annual Management Charges paid to engage Mutual Funds Limited, as the Authorised Corporate Director (ACD) of engage Mutual Investment Funds Limited, are recognised when deducted from the OEIC fund.

notes to the accounts

at 31 December 2007

1. accounting policies (continued)

Investments

Investments consist of land and buildings, listed investments, loans secured on residential properties, units in authorised unit trusts, shares in open ended investment companies (OEICs), subsidiary companies and deposits. Land and buildings are included on the basis of independent valuations. Listed investments are included at mid-market value. Shares in OEICs and units in unit trusts are included at the published price. Subsidiary companies are valued at the cost of share capital less any provisions. Deposits are included at current value. Mortgage loans are included at amount outstanding less any provision for unrecoverable amounts.

Land and buildings occupied by the Society are valued in accordance with generally recognised methods of valuation. The aggregate unrealised surplus or deficit is included in the Technical Account.

It is the Society's practice to maintain these assets in a continual state of repair and to extend and make improvement thereto from time to time; accordingly, the Directors consider that the lives of these assets are so long and residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are so high that any depreciation would be immaterial.

Deferred acquisition costs

The costs of acquiring new insurance contracts are deferred to the extent that they are recoverable out of future revenue margins. Such costs are disclosed as an asset in the balance sheet. The rate of amortisation of the deferred acquisition cost assets is consistent with an appropriate assessment of the pattern of receipt of future revenue margins over the period the relevant contracts are expected to remain in force.

Technical provisions

The Long-Term Business Provision is determined by the Society's Actuarial Function Holder following his annual investigation of the long-term business, which is based on methods and assumptions that have been approved by the Board of Directors. It is calculated initially to comply with the reporting requirements under the Prudential Sourcebook for Insurers. This statutory solvency basis of valuation is then adjusted by eliminating certain reserves required under Friendly Society Regulations. This adjusted basis is referred to as the modified statutory solvency basis. The Long-Term Business Provision includes the non-linked liabilities in respect of linked business.

No explicit provision is made for future Final (terminal) bonuses under this basis. Implicit provision for part of future Yearly (reversionary) bonuses is included in the long-term business provision.

The Technical Provision for Linked Liabilities is based on the actuarial valuation of the related assets.

notes to the accounts

at 31 December 2007

1. accounting policies (continued)

Fund for future appropriations

The Fund for Future Appropriations represents all funds, the allocation of which has not yet been determined by the end of the financial year. Any surplus or deficit arising on the Technical Account is transferred to or from the fund on an annual basis.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets and liabilities are recognised in accordance with the provisions of Financial Reporting Standard 19 ‘Deferred Taxation’ (‘FRS 19’). The Society has chosen not to apply the option available under FRS 19 of discounting such assets and liabilities to reflect the time value of money. Except as set out in FRS 19, deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they will be recovered.

Fixed assets

Depreciation is provided on the cost of assets in annual instalments over their estimated lives. The rates of depreciation applied per annum are as follows:

Fixtures, fittings and office equipment	20% straight line
Computer equipment	25% straight line

The cost of new computer software is depreciated in full in the year in which it is incurred and eliminated from the accounts after five years.

Operating leases

Operating lease payments are accounted for on a straight line basis over the term of the lease.

Cash flow statement

The Society, being a mutual life assurance company, is exempt from the requirement under Financial Reporting Standard 1 ‘Cash Flow Statements’ (‘FRS 1’) to produce a cash flow statement.

1. accounting policies
(continued)

Foreign currencies

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

Pensions

The Group operates a defined benefit pension scheme for staff whose employment commenced before 29 March 2001. The Group accounts for the defined benefit scheme under Financial Reporting Standard 17 'Retirement Benefits' ('FRS 17'). The cost of providing benefits is determined using the Projected Unit Method with actuarial valuations being carried out at each balance sheet date. The costs and returns on the pension scheme are taken through the income and expense account. Actuarial gains and losses are recognised in full in the period in which they occur.

The current service cost (the increase in the scheme liabilities arising from employee service in the current period) and any past service costs (the cost of improvements to benefits for service relating to prior periods) are included in Net Operating Expenses in the Non-Technical Account. Interest costs (the unwinding of the discount on scheme liabilities) net of the expected return on scheme assets are included in pension finance income in the Non-Technical Account. Actuarial gains and losses (changes in the surpluses or deficits due to experience of gains and losses) are charged to the Non-Technical Account.

The Group operates a defined contribution scheme for staff whose employment commenced after 6 April 2001. Payments to this scheme are treated as an expense when due. They are included in Net Operating Expenses in the Non-Technical Account.

notes to the accounts

at 31 December 2007

2. premium analysis

a. Gross premiums written

Society and Group Life Assurance Business	2007 £'000	2006 £'000
Linked contracts:		
Periodic premium	11,207	13,546
Single premium	4,353	483
Non-linked contracts:		
Periodic premium	16,607	14,184
With profits periodic premium	5,374	6,115
With profits single premium	486	7
Total gross premiums written	38,027	34,335
Reinsurance ceded	(9,426)	(8,002)
Total net premiums written	28,601	26,333

b. New annualised premiums

Society and Group Life Assurance Business	2007 £'000	2006 £'000
Linked contracts	815	254
Non-linked contracts	3,888	3,091
Total new annualised periodic premiums	4,703	3,345

c. Contributions received for Child Trust Fund and OEIC investments

	2007 £'000	2006 £'000
Regular contributions	5,802	4,369
Single contributions	12,014	27,627
Total contributions	17,816	31,996

Contributions relate to business conducted in engage Mutual Funds Limited (eMFL), a regulated subsidiary of the Society. This business is classified as retail investment business, and as such the contributions received are not included in the income and expenditure accounts, nor are the assets included in the Balance Sheet. The value of assets under management in engage Fund Managers Limited as at 31 December 2007 was £88.9m (31 December 2006 £68.8m). The income and expenditure from this subsidiary is included in the Non-Technical Account.

notes to the accounts

at 31 December 2007

3. investment income

Society and Group	2007 £'000	2006 £'000
Income from listed investments	11,920	10,974
Income from other investments	11,318	10,125
Realised gains on investments	7,655	14,613
Total investment income	30,893	35,712
Unrealised (losses) / gains on investments	(558)	10,166
Net investment return	30,335	45,878

4. claims incurred

Society and Group	2007 £'000	2006 £'000
Gross claims paid	72,226	79,778
Change in provision for claims outstanding at year end	1,438	(1,523)
Gross claims incurred	73,664	78,255

5. net operating expenses

a. Technical account	Group 2007 £'000	Group 2006 £'000	Society 2007 £'000	Society 2006 £'000
Acquisition costs	16,351	10,790	16,351	10,790
Change in deferred acquisition costs	(459)	859	(459)	859
Administrative expenses	4,929	4,333	4,929	4,333
Reinsurance commissions and profit participation	(4,624)	(4,422)	(4,624)	(4,422)
Total net operating expenses	16,197	11,560	16,197	11,560
Commissions paid	1,796	1,041	1,796	1,041

b. Non-technical account	Group 2007 £'000	Group 2006 £'000	Society 2007 £'000	Society 2006 £'000
Net operating expenses	2,343	4,244	-	-

Expenses incurred in the subsidiary companies are included in Net Operating Expenses in the Non-Technical Account.

5. net operating expenses (continued)

Also included in Net Operating Expenses are amounts paid to the Society's auditor, Deloitte & Touche LLP, as illustrated below, exclusive of Value Added Tax:

	2007 £'000	2006 £'000
Fees payable to the Society's auditors and their associates for the audit of the Society's annual accounts	80	-
Fees payable to the Society's auditors and their associates for other services:		
Audit of the Society's subsidiaries, pursuant to legislation	12	-
Other services pursuant to legislation	12	-
Tax services	-	-
Other services	80	-
Total	184	-

During 2007 KPMG resigned as the Society's auditors, amounts payable to KPMG are illustrated below:

	2007 £'000	2006 £'000
Fees payable to KPMG and its associates for the audit of the Society's annual accounts	-	79
Fees payable to KPMG and its associates for other services:		
Audit of the Society's subsidiaries, pursuant to legislation	-	27
Other services pursuant to legislation	10	11
Tax services	49	11
Other services	20	18
Total	79	146

The audit fees incurred in the subsidiaries are included in the Income and Expenditure – Non-Technical Account.

notes to the accounts

at 31 December 2007

6. staff costs

The total staff costs for the Group were comprised as follows:

	2007	2006
	£'000	£'000
Wages and salaries	5,375	5,147
Social security costs	517	534
Other pension costs	767	684
Total staff costs	6,659	6,365

The average weekly number of employees in the Group, including Directors, during the year was comprised as follows:

	2007	2006
	No.	No.
Administration	131	122
Management	26	29
Marketing	23	21
Total number of staff	180	172

All staff are employed and remunerated by engage Mutual Administration Limited, which administers the Society's policies. As such no staff are employed directly by the Society.

7. directors' emoluments

Directors' emoluments are shown as part of the Report of the Directors on Remuneration on pages (26 to 28).

8. debtors

	Group	Group	Society	Society
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Other debtors	621	572	449	333
Amounts owed from group undertakings	-	-	5,387	6,715
Balance at 31 December	621	572	5,836	7,048

9. fund for future appropriations

	Group 2007 £'000	Group 2006 £'000	Society 2007 £'000	Society 2006 £'000
Balance at 1 January	51,596	49,416	60,833	55,812
Transfer from income and expenditure account – Long-Term Business – Technical Account	2,931	2,180	2,560	5,021
Balance at 31 December	54,527	51,596	63,393	60,833

The Fund for Future Appropriations (FFA) excluding the pension asset as required by FRS 17 is:

	Group 2007 £'000	Group 2006 £'000	Society 2007 £'000	Society 2006 £'000
FFA at 31 December	54,427	51,596	63,393	60,833
Less FRS 17 net pension asset	(2,440)	(1,549)	-	-
FFA excluding pension asset at 31 December	51,987	50,047	63,393	60,833

10. investments

a. Property

Society and Group	Current value		Historical cost	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
Land and buildings				
Property occupied by the Society	6,100	5,550	8,147	8,147
Property in Kew Gardens	750	750	625	625
Balance at 31 December	6,850	6,300	8,772	8,772

Land and buildings are freehold. The Society's Head Office was valued on an 'open market value' basis as at 31 March 2007, by independent valuers King Sturge - RICS, Chartered Surveyors, Leeds in accordance with the current edition of The Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors.

The property in Kew Gardens was valued on an 'open market value' basis as at 31 December 2005, by independent valuers Drivers Jonas - RICS, Chartered Surveyors, London in accordance with the Statement of Asset Valuation Practice and Guidance Notes published by the Royal Institution of Chartered Surveyors.

10. investments (continued)

b. Subsidiaries

The Society owns 100% of the ordinary share capital of the following subsidiaries:

Name of Subsidiary Undertaking	Nature of Business
engage Mutual Funds Limited	Authorised Corporate Director (ACD) of an OEIC
engage Mutual Administration Limited	Group service company and third party administrator
engage Mutual Services Limited	Insurance and non-regulated financial product intermediary

All three companies are registered in England and Wales. The investment in the subsidiaries can be analysed as follows:

Society	2007 £'000	2006 £'000
Cost at 1 January	9,850	9,850
Additions	-	-
Write off	-	-
Cost at 31 December	9,850	9,850
Provision at 1 January	(2,550)	(2,550)
Write down	-	-
Provision at 31 December	(2,550)	(2,550)
Carrying value at 31 December	7,300	7,300

c. Financial investments

Society and Group	Current value		Historical cost	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Other financial investments:				
Shares, other variable yield securities and unit trusts:				
UK	63,972	37,380	56,765	25,826
Overseas	770	-	719	-
Sub total	64,742	37,380	57,484	25,826
Debt securities and other fixed income securities:	55,545	70,113	56,800	72,157
Mortgage loans	76	131	76	131
Deposits with credit institutions	593	15,074	593	15,074
Accrued income and receivables	61	5	61	5
Total	121,017	122,703	115,014	113,193

notes to the accounts

at 31 December 2007

11. assets held to cover linked liabilities

Society and Group	Current value		Historical cost	
	2007	2006	2007	2006
	£'000	£'000	£'000	£'000
Assets held to cover linked liabilities	427,864	447,618	413,639	397,017
These assets are analysed as follows:				
Shares, other variable yield securities and unit trusts	191,169	201,243	186,373	158,798
Debt securities and other fixed income securities	49,570	53,026	40,141	44,870
Deposits with credit institutions	181,702	193,275	181,702	193,275
Accrued income and receivables	5,423	74	5,423	74
Total	427,864	447,618	413,639	397,017

12. tangible assets

	Computer equipment	Fixtures, fittings & office equipment	Total
Group	£'000	£'000	£'000
Cost:			
At 1 January 2007	964	679	1,643
Additions	19	3	22
Disposals	-	(6)	(6)
At 31 December 2007	983	676	1,659
Depreciation:			
At 1 January 2007	680	371	1,051
Provided in the year	134	104	238
On disposals	-	-	-
At 31 December 2007	814	475	1,289
Net book value:			
At 31 December 2007	169	201	370
At 31 December 2006	284	308	592

The charge for depreciation for the Group in the year ended 31 December 2006 was £358,000.

13. other technical income

Other Technical Income in the Society is in relation to rental charged to its subsidiary engage Mutual Administration Limited, for the use of Gardner House.

14. technical provisions

Society and Group	Long-Term Business Provision (LTBP) £'000	Reinsurers' share of LTBP £'000	Provision for outstanding claims £'000	Technical provision for linked liabilities £'000
At 1 January 2007	91,552	(8,732)	5,245	447,618
Change in technical provisions for linked liabilities	-	-	-	(19,754)
Movement in provision for outstanding claims	-	-	1,438	-
Change in long-term business provision	(6,667)	(3,817)	-	-
Balance at 31 December 2007	84,885	(12,549)	6,683	427,864

Uncertainties and estimation techniques

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies and principally arises in respect of the technical provisions of the company.

As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Long-term business provisions are computed using statistical or mathematical techniques, which are expected to give approximately the same results as if an individual liability were calculated for each long-term contract. The computations are made by suitably qualified personnel (employed by the Group) on the basis of recognised actuarial methods. This methodology takes into account the risks and uncertainties of the particular classes of long-term business written and the results are certified by the professionals undertaking the valuations.

Process for determining assumptions

The process used to determine the assumptions is intended to result in conservative estimates of the most likely, or expected, outcome. The assumptions are checked to ensure they are consistent with observed market practice or other published information.

For insurance contracts the Group regularly considers whether the current liabilities are adequate. The assumptions that are considered include the expected number and timing of deaths, other claims and investment returns over the period of risk exposure. A reasonable allowance is made for the uncertainty within the contracts.

The principal level assumption underlying the calculation of the Long-Term Business Provision is:

Mortality – a base mortality table is selected which is most appropriate for each type of contract taking into account rates charged to the Society by reinsurers.

The Long-Term Business Provision has been calculated on the basis of the following principal interest assumptions for 2007:

Class of business	Interest
Linked assurance tax exempt/taxable	3.5% gross/2.8% net
Term assurance/whole of life	2.8%
With profits tax exempt/taxable	3.0% gross/2.5% net

The mortality assumptions have been based on actual experience with the addition of prudent margins.

14. technical provisions (continued)

With profits bonuses

The Long-Term Business Provision includes £682,000 (2006: £769,000) for reversionary bonuses to be declared. The cost of these bonuses is included in "Change in Long-Term Business Provision" in the income and expenditure account – Long-Term Business – Technical Account. The cost of terminal bonuses on with profits policies is included in "Gross claims incurred" in the income and expenditure account – Long-Term Business – Technical Account.

15. capital position statement & management of insurance risk

Available capital resources as at 31 December 2007:	Non-profit £'000	With profits £'000	Total £'000
Fund for future appropriations	31,365	32,028	63,393
Adjustments in respect of subsidiary undertakings	(10,668)	-	(10,668)
Adjustment to assets onto regulatory basis	(229)	(272)	(501)
Adjustment to liabilities onto regulatory basis	(5,791)	(110)	(5,901)
Total available capital resources	14,677	31,646	46,323
Capital requirements	(2,382)	(3,036)	(5,418)
Excess capital over regulatory requirements	12,295	28,610	40,905

Available capital resources as at 31 December 2006:	Non-profit £'000	With profits £'000	Total £'000
Fund for future appropriations	29,821	31,012	60,833
Adjustments in respect of subsidiary undertakings	(10,390)	-	(10,390)
Adjustment to assets onto regulatory basis	(4)	(71)	(75)
Adjustment to liabilities onto regulatory basis	(5,500)	(257)	(5,757)
Total available capital resources	13,927	30,684	44,611
Capital requirements	(2,703)	(3,423)	(6,126)
Excess capital over regulatory requirements	11,224	27,261	38,485

15. capital position statement & management of insurance risk (continued)

The technical provisions as set out in the Society's regulatory returns and used to determine the regulatory capital resources as set out on page 51 are:

Technical provisions	2007 £'000	2006 £'000
Unit-linked		
Unit insurance contracts	427,449	447,181
Non unit insurance contracts	514	1,629
Non participating insurance contracts	7,094	8,823
Participating insurance contracts	70,571	78,126
Total technical provisions	505,628	535,759

The Society and its regulated subsidiaries maintain sufficient capital, consistent with the Group's risk profile. Further information about the risk appetite and risk management framework can be found in the Corporate Governance Report on pages 20 to 25.

The Society is subject to a number of regulatory capital tests and also employs a number of market consistent tests to allocate capital and manage the Group's risks. Overall, the Society and its regulatory subsidiaries meet all of these requirements.

In reporting financial strength, capital resources and solvency are measured following the regulations prescribed by the Financial Services Authority (FSA). These regulatory capital tests are based upon solvency capital and a series of prudent assumptions in respect of the type of business written.

Homeowners Friendly Society Limited is a mutual organisation and there are no shareholders. As at 31 December 2007 the available capital resources were made up by the Fund for Future Appropriations (FFA). The FFA is the surplus accumulated that has not yet been allocated to policies. It forms the working capital of the Group and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise in the future.

Capital management objectives

The Group's objectives in managing capital are that:

- the aggregate risk exposure of the Group is to be managed to ensure that the capital resources available always meet the minimum capital requirements set out by the Financial Services Authority
- the Group will ensure that all risks are subject to structured analysis in accordance with the risk appetite agreed by the Board, and that the overall risks carry adequate potential rewards
- sufficient capital resources are available to fund the growth of the Society.

Details of how the capital objectives are managed are included in the Chief Executive's Business Review and the Corporate Governance sections.

15. capital position statement & management of insurance risk (continued)

Funding of subsidiary undertakings

engage Mutual Funds Limited (eMFL) is a wholly owned subsidiary of Homeowners Friendly Society Limited and is a company regulated by the FSA. eMFL is required to hold sufficient capital to meet regulatory capital requirements in its own right. eMFL along with engage Mutual Services Limited is funded by share capital issued to the Society.

engage Mutual Administration Limited is funded by an inter-company loan for ongoing financing purposes.

The value of assets held to meet the Society and its regulated subsidiaries is determined in accordance with FSA regulations. The value of the subsidiaries is restricted to amounts which are likely to be recovered.

Restrictions on available capital resources

The Society and its regulated subsidiaries are required to hold capital sufficient to meet the FSA's minimum capital requirements. Account is also taken of the Individual Capital Assessment which considers some of the risks the business faces not covered by the statutory basis.

The Society's total available capital resources are £46.3m (2006: £44.6m) of which £31.6m (2006: £30.7m) is held in the With Profits Fund and £14.7m (2006: £13.9m) is held in the non profit fund.

The available capital resources held in the With Profits Fund are normally available only to meet the capital requirements or be allocated to policyholders of the fund. There are no restrictions on the available capital held in the non profit fund.

The value of assets held to meet the Society and its regulated subsidiaries is determined in accordance with FSA regulations.

Value of financial guarantees and options

As Homeowners Friendly Society (HFS) has a With Profits Fund with liabilities less than £500m it is not within the FSA realistic reporting regime. The realistic reporting regime requires life insurers to measure liabilities on a market consistent basis which values options and guarantees at fair value.

The following guarantees which would have a material value to policyholders are:

- maturity values – on conventional and unitised with profits policies there is a guarantee that on the maturity date there will be a minimum payout of the sum assured plus any declared bonuses
- return of premium guarantees – on certain unitised with profits policies there is a guarantee that an amount not less than the initial premium will be paid out on the policy's 5th, 10th and each subsequent 10th anniversary. An explicit charge is made for this guarantee.

Whilst not specifically a guarantee or option, payouts on conventional and unitised with profits policies are smoothed over time to reduce the effect of short term fluctuations in investment returns. This primarily applies to payouts on maturities, however, it can apply to a lesser extent on early surrender of certain policies.

15. capital position statement & management of insurance risk (continued)

Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets as well as the effect these changes in market conditions would have on the value of the liabilities. It is also sensitive to the expense and persistency experience and to a lesser extent improvements in mortality.

The most significant sensitivities arise from the following five risks:

a) Market risk in relation to unit linked business and OEIC business, which would arise if there were adverse changes in the value of unit linked assets. The Society's most significant income stream is derived as a fixed percentage of the market value of unit linked assets

b) Market risk in relation to with profits business, which would arise if adverse changes in the value of the assets supporting the business could not be offset fully by reduced payouts to policyholders due to the effect of guarantees and options

c) Expense risk in relation to the costs of running the business, which would arise if there were an increase in expense inflation and / or the cost base of the Group

d) Persistency risk in relation to whole of life assurance and Child Trust Fund business, which would deprive the Group of the future income that this business is planned to provide

e) Mortality risk in relation to whole of life business, which would arise if mortality of the lives assured were heavier than that assumed, possibly due to an epidemic or catastrophe

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce future impact, then assumptions relating to future experience would be changed to reflect it. In this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on the capital position.

Analysis of movement

The table below shows how the excess capital over regulatory requirements has changed during 2007:

	Non Profit 2007 £'000	With Profits 2007 £'000	Total 2007 £'000
Opening excess capital at 1 January	11,224	27,261	38,485
Investment returns	1,414	5,083	6,497
Life assurance/new business costs	(9,777)	-	(9,777)
Reinsurance commissions on new business	4,623	-	4,623
Subsidiary new business costs	(3,425)	(2,518)	(5,943)
Other	8,236	(1,216)	7,020
Closing excess capital at 31 December	12,295	28,610	40,905

16. creditors arising out of insurance operations

All creditors are in relation to reinsurance contracts and are payable within a period of five years.

17. other creditors including taxation and social security

	Group 2007 £'000	Group 2006 £'000	Society 2007 £'000	Society 2006 £'000
Other taxes and social security costs	160	205	-	61
Other creditors	2,200	1,211	1,685	527
Total	2,360	1,416	1,685	588

18. pension commitments

The Group operates a defined benefit pension scheme for its employees, the scheme was closed to new entrants on 29 March 2001. The Group operates a defined contribution stakeholder pension scheme for all employees joining the Group after 5 April 2001. Total employer contributions under this scheme were £228,000 (2006: £223,000).

On 1 September 2004 the United Kingdom Civil Service Benefit Society (UKCSBS) scheme was merged with the Homeowners pension scheme to form a single combined pension scheme.

The assets of the defined benefit scheme are held separately from those of the Group in an independently administered fund. The contributions are determined by the Scheme Actuary on the basis of triennial valuations. During 2007 the company contributed into the scheme at a rate of 20% (15% ordinary and an additional 5% discretionary). Contributions were at the same rate in 2006.

A full actuarial valuation is performed every three years by the Scheme Actuary, and is updated annually to calculate the present value of scheme liabilities on the basis prescribed in FRS 17. A full actuarial valuation of the Homeowners Friendly Society Pension Scheme was carried out as at 1 January 2005. The scheme is closed to new entrants. This means that, under the Projected Unit Method, the service cost will increase as the remaining members reach retirement. Scheme assets are stated at their market value at 31 December 2007.

The mortality assumptions used are based on the '00 series' tables, with future improvements in line with the P92 Medium Cohort improvement factors, subject to a minimum level of improvement of 1% p.a. for males and 0.5% p.a. for females. Under these assumptions the average life expectancies for males and females currently aged 60 are 26.4 years and 28.5 years respectively.

The other major assumptions used by the Actuary to calculate scheme liabilities were:

	2007 % per annum	2006 % per annum	2005 % per annum
Long-term salary progression	4.90	4.60	4.40
Rate of increase in pension payments guaranteed	3.40	3.10	2.80
Discretionary rate of increase in pensions payment	-	-	-
Rate of price inflation and deferred pension revaluation	3.40	3.10	2.90
Discount rate	5.80	5.10	4.70

18. pension commitments (continued)

The total assets and liabilities in the HFS scheme and the expected rates of return were:

	Long-term rate of return expected at 31 December			Value at 31 December		
	2007	2006	2005	2007	2006	2005
	%	%	%	£'000	£'000	£'000
Equities	7.50 pa	7.50 pa	7.10 pa	6,261	10,760	9,768
Bonds	4.50 pa	4.50 pa	4.10 pa	10,190	4,208	3,767
Other	6.00 pa	5.00 pa	4.50 pa	83	310	333
Total market value of scheme assets				16,534	15,278	13,868
Present value of scheme liabilities				(13,145)	(13,729)	(13,322)
Surplus/(deficit) in scheme				3,389	1,549	546
Related deferred tax (liability)/asset				(949)	(465)	(164)
Net pension asset/(liability)				2,440	1,084	382

18. pension commitments (continued)

a. Movement in surplus during the year

	2007 £'000	2006 £'000
Surplus in scheme at 1 January	1,549	546
Current service cost	(442)	(384)
Contributions	495	388
Past service cost	(97)	(77)
Pension finance income	312	235
Actuarial gain	1,572	841
Surplus in scheme at 31 December	3,389	1,549

b. Analysis of net return on pension scheme under FRS 17

	2007 £'000	2006 £'000
Expected return on pension scheme assets	1,018	862
Interest on pension scheme liabilities	(706)	(627)
Net return	312	235

The amounts above are included in pension finance income in the Group Non-Technical Account on page 33.

c. Analysis of income and expenditure account charge under FRS 17

	2007 £'000	2006 £'000
Current service cost	442	384
Past service cost	97	77
Total charge	539	461

The amounts above are included in Net Operating Expenses in the Group Non-Technical Account on page 33.

d. Analysis of actuarial gains and losses

	2007 £'000	2006 £'000
Actual return less expected return on pension scheme assets	114	612
Experience gains and (losses) arising on the scheme liabilities	38	(92)
Changes in assumptions underlying the present value of the scheme liabilities	1,420	321
Actuarial gain on pension scheme	1,572	841

The amounts above are included in the Actuarial gain on pension scheme in the Group Non-Technical Account on page 33.

18. pension commitments (continued)

e. History of experience gains and losses

	2007	2006	2005	2004	*2003
Difference between the expected and actual return on scheme assets (£'000)	114	612	1,178	340	624
Percentage of scheme assets (%)	0.7	4.0	8.5	2.8	6.0
Experience losses on scheme liabilities (£'000)	38	(92)	(446)	234	(26)
Percentage of present value of scheme liabilities (%)	0.3	0.7	3.4	2.0	0.2
Total amount recognised in the Non-Technical Account (£'000)	1,572	841	(738)	(45)	(203)
Percentage of present value of scheme liabilities (%)	12	6.1	5.5	0.4	1.9

*2003 figures have been restated to provide a combined figure for the UKCSBS and HFS pension schemes for comparative purposes.

19. operating leases

Annual commitments under non-cancellable leases are as follows:

Group	2007 £'000	2006 £'000
Operating leases which expire:		
within one year	11	8
between two and five years	127	79
Total	138	87

20. current taxation

	Group 2007 £'000	Group 2006 £'000	Society 2007 £'000	Society 2006 £'000
Corporation tax at 20% and 22% (Society), at 30% (Group Subsidiaries)	4	2	4	2
Adjustment to corporation tax and income tax payable and recoverable relating to prior year	-	-	-	-
Tax credits recoverable on dividends	-	-	-	-
Total	4	2	4	2

21. commitments

There was no capital expenditure contracted but not provided for in the financial statements (2006: £nil).

22. statement of information relating to the actuarial function holder

The Actuarial Function Holder of the Society is Mr T M Batten, an employee of the Society. The following information has been provided, in accordance with Section 77 of the Friendly Societies Act 1992:

- Mr T M Batten was not a member of the Society at any time during 2007;
- no other member of his family was a member of the Society during 2007;
- Mr T M Batten is a member of the Homeowners Friendly Society Pension Scheme; and
- the aggregate rate of the remuneration and benefits (excluding pension contributions) of Mr T M Batten for 2007 amounted to £105,246.

23. related party transactions

Homeowners Friendly Society and its subsidiaries (the Group) have a number of transactions between themselves all of which are undertaken in the normal course of business. As these Accounts cover the Society and the Group, no transactions or balances between Group entities, which eliminate on consolidation, require disclosure in accordance with the exemption given in FRS 8 'Related Party Disclosures'.

During 2007, 5 members of the Board of Directors together with their connected parties held policies on an arm's length basis. There were no other transactions during the year.

24. deferred taxation

Tax assets are recognised to the extent there is sufficient evidence that the asset is recoverable. Deferred tax assets in respect of timing differences relating to trading losses carried forward have been recognised as below:

	Group 2007 £'000	Group 2006 £'000	Society 2007 £'000	Society 2006 £'000
Recognised deferred tax assets	949	-	-	-
Unrecognised deferred tax assets	9,768	8,366	6,780	5,055
Total	10,717	8,366	6,780	5,055

any questions

call free on 0800 028 1045*

*Calls may be recorded for security and training purposes. Calls are free from UK landlines only.

The paper used to produce this publication makes use of recycled fibres, which are bleached using a totally chlorine free process.

This publication can be recycled.

engage
Mutual Assurance

801115/001

INVESTOR IN PEOPLE