Homeowners Friendly Society Group annual report & accounts for the year ended 31 December 2008

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

Deloitte LLP
Registered Auditors

solicitors

Addleshaw Goddard LLP

bankers

Barclays Bank Plc

board of directors

Raymond F Pierce BA FRSA
David G Hargrave B Com MSc FIA
Andrew S Haigh BSc
Rt. Hon. Lord Clark of Windermere BA MSc PhD (retires 21 May 2009)
Karl J D Elliott BA
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)
David G Hargrave
Christina M McComb

finance

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 (retires 21 May 2009)
Raymond F Pierce

contents

who we are

engage Mutual Assurance is a trading style of Homeowners Friendly Society Limited. We are a mutual company based in Harrogate, North Yorkshire, providing simple, good value savings, life insurance and health products for 428,000 customers throughout the country.

Within the **engage** Mutual Group there are a number of subsidiary companies:

- **engage** Mutual Funds Limited is a leading provider of Child Trust Funds
- **engage** Mutual Insurance Limited is our Gibraltar-based health insurance company, which offers health cash plans in the UK
- **engage** Mutual Services Limited is our marketing services subsidiary
- **engage** Mutual Administration Limited is the principal employer, with over 160 staff providing administrative services to the other companies in the Group.

why we exist

our vision:
to be the best customer-owned business
our mission:
to work with families to help them secure their financial future

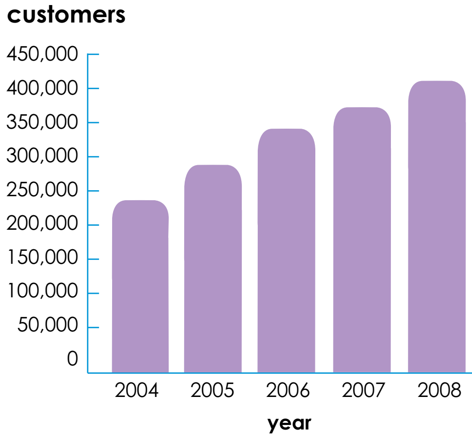
Our vision and mission define our purpose. As a mutual, our principal aim is to deliver our mission for our current and future members. **engage** is not simply a response to market opportunity driven by the need to deliver shareholder return. Instead, we operate as a commercial enterprise whose success is measured by the degree to which we deliver a thriving organisation, valued by its customers because it genuinely helps them secure their financial futures.

how we are doing

financial performance for the year ended 31 December 2008

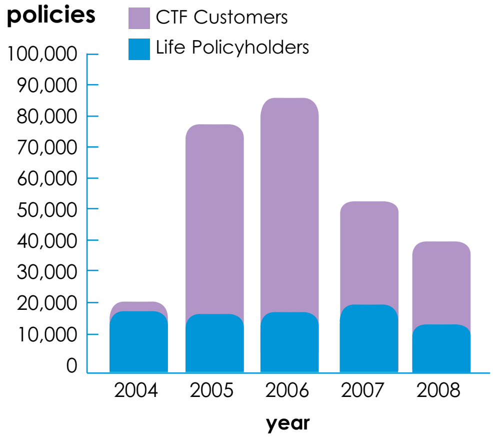
The following graphs are the main Key Performance Indicators (KPIs) used to manage the business.

group customers



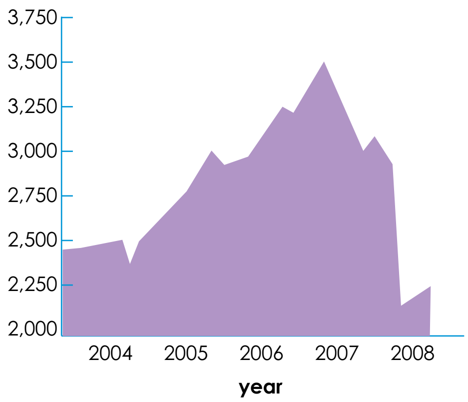
Group customers increased by over 18% during the year, including the addition of over 30,000 health cash plan policyholders.

new business volume



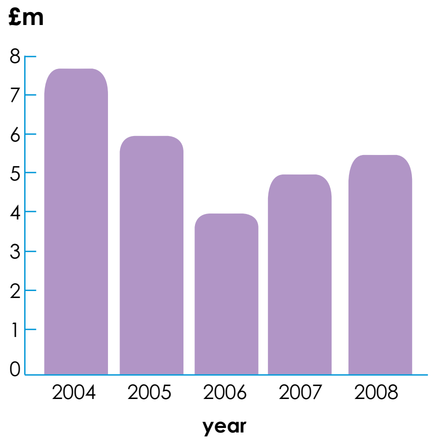
New life policy volumes fell by 16% while the associated new annualised premiums increased slightly. New CTF volumes also decreased in the period.

FTSE® all share index



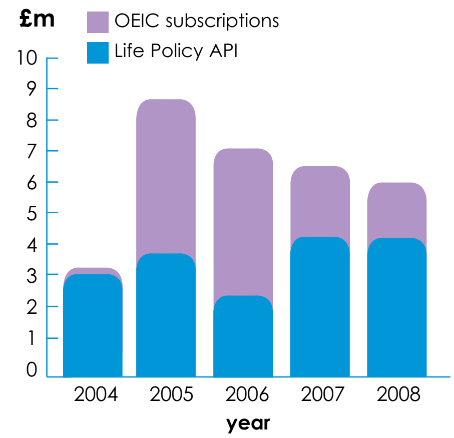
Equity performance proved to be more volatile in 2008 than in recent years reflecting the significant impact of the economic difficulties.

society administration expenses



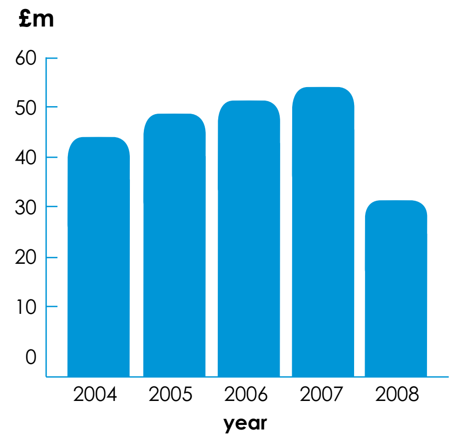
Administration expenses reflect our focus on tight control over ongoing expenses, while continuing to invest in infrastructure and business development.

new business performance



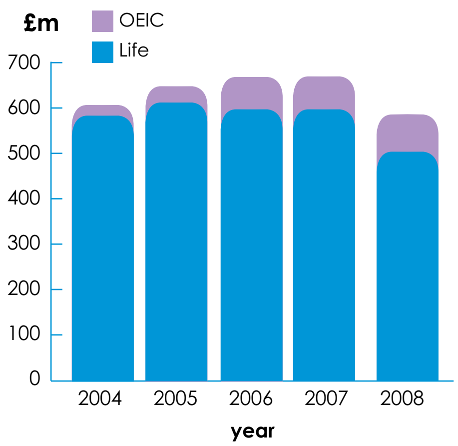
New annualised premiums for life funds increased by 2% over the year. New OEIC subscriptions were reduced in line with the lower volumes received. For further information on Annualised Premium Income see Note 2 on page 41.

group fund for future appropriations



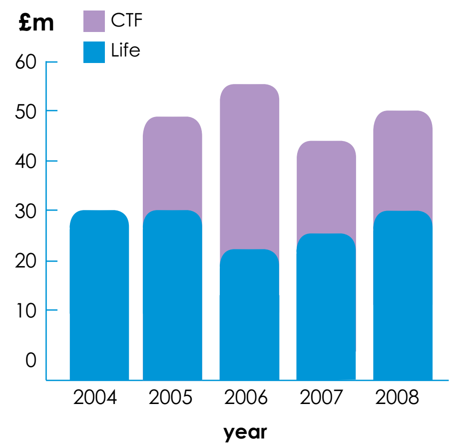
Our Fund for Future Appropriations demonstrates satisfactory capital support for our operations, despite the impact of financial markets in 2008.

assets under group management



The total assets under management for the Group reduced due to the impact of financial markets on funds held on behalf of our customers.

premiums from policyholders



Earned premiums, net of reinsurance for the life funds, increased by 21% in 2008. Contributions to CTF funds fell by 6% in the same period.

chairman's report

The extraordinary market events of 2008 and the onset of a sustained economic downturn set the context for most companies' performance last year. While **engage** Mutual was certainly not insulated from these market effects, we were well prepared and have taken necessary action throughout 2008 to ensure that we remain in a strong position strategically, with a sound capital base.

As always, our main focus is on our customers. The FTSE® All Share index has fallen by more than 30%, its biggest ever annual decline. Customers whose policies are invested in funds which are linked directly to the performance of this, or other market indices, will have seen a corresponding fall in the value of their policies.

Clearly we share customers' concerns in these circumstances and suggest that they consider the current status of their specific policy carefully before taking any action. For those customers who are making regular investments into their policy, the positive effect of a fall in equity values is that the number of units purchased for every pound invested increases as the unit price falls. Historically, markets have always recovered over the longer term, therefore, there is potential for these lower priced units to increase in value. Similarly, for customers who have policies which are closer to the end of their initial term, or single premium investments, it may be that time will see recovery of the current losses. However, there is no way of being certain whether markets will rise or fall and if customers are unsure of what action to take, we would always encourage them to seek professional, independent advice.

Customers who are invested in our With Profits Fund continue to benefit from a guarantee which, depending on the specific policy, protects their initial investment and/or their bonuses to date. Details of the dates at which policy guarantees apply are stated in the policy documents and maturity notices we issue. However, I would urge customers who are in any way uncertain of the terms of their policy to contact us for more information.

A detailed account of the business performance is set out in the Chief Executive's Operating and Financial Review. Despite the turbulent market conditions, we have continued to be successful in the implementation of our strategy. Careful expense control, risk management and efficient new business operations have meant we are well placed to address the inevitable challenges we, and the financial services industry at large will face in 2009.

One of our key priorities in 2008 was to launch a new subsidiary to provide health cash plans. This was successfully completed, with the addition of over 30,000 new health cash plan customers during the year and with an expectation of further growth in new business in 2009.

As a mutual, membership is at the heart of the organisation – enabling customers of the Society to participate in the election of the Board and other strategic decisions we may choose to make. However, as the organisation has developed, we have had to launch a number of subsidiaries to offer new types of products, such as child trust funds and health cash plans. This has presented a challenge with regard to membership, as our current rules do not allow customers of subsidiaries to be members of the Society, even if we choose to treat them as such in every other respect. This year we plan to address this by introducing new rules which will make a discretionary benefit fund available to all of our customers, including those of our subsidiaries.

This innovation will bring two advantages:

First, the discretionary fund will be a tangible expression of our mutuality, whereby members can apply to receive benefit beyond the letter of their contract, subject to specific criteria and independent oversight. Initially the level of benefits will be modest, but over time we hope to build up the discretionary fund. We will report progress, assuming the rule change is approved, in next year's report.

Second, because the fund will be a benefit paid from the Society and all customers could potentially benefit from it, it will enable us to include all customers as members. We see this as a significant step forward for the organisation, which will increase our membership and remove any confusion over the status of different customer groups.

In May this year Lord Clark will retire from the Board after many years of service to the Society. He was appointed as a consultant in 1982, followed by two periods as a Director, first between 1989 and 1997 and returning in 1999 through to 2009. We thank Lord Clark for his contribution over the years and wish him well for the future.

In my report last year, I reflected on the fact that despite the uncertain economic outlook, the Society was well placed for progress. Having achieved our goal of launching a health subsidiary, while maintaining control of expenses, capital and risk, I believe the same applies as we look forward to 2009. Without doubt, there will be significant challenges ahead for all financial services businesses, however, I fully expect the organisation to continue to grow and help families protect their financial futures in 2009 and beyond. As always I would like to thank all our customers for their continued support and wish the executive, management and staff well for the year ahead.

Raymond F Pierce
Chairman

26 March 2009

chief executive's operating and financial review

We were pleased with the strategic progress the Society made last year and, under difficult trading conditions, our continued growth.

- net premiums written for life funds increased by more than 21%, following a 9% increase in 2007, and on an annualised basis, new business premiums increased by 2%. This represents a particularly strong performance in new single premium business in 2008
- with on average 3,500 new customers each month, our total customer base increased by over 18% to over 428,000. Membership of the Society in the same period fell slightly, by 2%
- policyholders received in excess of £54m in claims paid during 2008
- additional contributions into the child trust fund and Open Ended Investment Company (OEIC) were reduced by 6% to £16.8m
- we launched a new general insurance subsidiary, **engage** Mutual Insurance Limited, to provide health insurance products. The new company was immediately boosted with over 30,000 new customers following an acquisition. **engage** Mutual Insurance received over £730,000 in premiums in its first five months of business
- the total funds we manage fell by 13% to over £590m (total assets under management for life funds and our OEIC subsidiary). This reflects the effect of stock market performance for the year, offset by new contributions.

future plans and strategy

As we now appear to have entered the greatest global financial crisis since the Great Depression, it has been essential that we review our strategy. The global economy was in freefall in the latter part of 2008 and we expect this economic turbulence to continue well into 2009. In many ways, our strategy to date has prepared us well for this environment, with increasing diversity of product, distribution and assets, coupled with a strong handle on cost control and efficiency improvements being central to our activities.

Looking forward, our strategic approach is consistent with last year, although tactically, we will take steps to reduce risk, particularly with regard to capital spend on higher risk marketing campaigns. Our strategy can be expressed as follows:

- developing a commercially strong mutual that is increasingly valued by customers and partners
- meeting customers' needs to provide for their families' welfare through a range of simple, good value savings, health and insurance products
- underpinning our commitment to service and product value with modern, efficient systems and processes which will help to make **engage** more accessible, in particular via the internet
- 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.

In August 2008 we successfully completed the acquisition of the Premier Health Benefits health cash plan. The policies of 30,000 new customers are now operated under the **engage** brand. We have taken steps to dramatically improve service standards, particularly in claims processing. We see this as an important first step in developing a significant health business as part of the **engage** Group.

We believe that the current economic climate may lead a number of mutual organisations to review their options for the future and consider merger with a mutual group such as **engage**. Our experience is that, with the right partners, this can lead to a very successful outcome, enabling both parties to pursue their goals and overcome barriers through the combined strength of the new organisation. We would be keen to explore any such opportunities for merger, with the sole purpose of developing a combined organisation that would be greater than the sum of its parts and more effective for all concerned.

We continue to distribute our products through a range of direct marketing initiatives, with customers increasingly choosing to deal with us online.

In addition, we work with partners such as National Australia Group (Yorkshire Bank and Clydesdale Bank) and Yorkshire Building Society to introduce our products directly to their customers.

Over 50% of new business came to us through online applications, as for many customers, the internet has become the channel of choice. In response to customers' demands, 2009 will see us launch online servicing and further enhancements to the quality and accessibility of information at our website, **engagemutual.com**

In view of the current downturn, we have reduced our planned marketing spend in 2009, cutting back on those activities which we feel are least likely to deliver a positive return. We continue to make a strategic investment in the **engage** brand. In 2008 we confirmed a two year extension of our sponsorship of rugby league's premier competition, the **engage** Super League. Super League has enjoyed growing TV audiences and match attendances year-on-year throughout our sponsorship, delivering significant growth in awareness of the **engage** brand. We hope for another successful season in 2009.

investment performance

The overall decline of the stock market saw the FTSE® 100 Index fall by 32% in 2008.

As noted in the Chairman's Report, we share the disappointment of customers who have policies directly invested in the stock market and have experienced significant falls in their policy values this year. For those customers, we hope that the anticipated stock market recovery will, in the medium term, see their policy values restored, although there can be no certainty as to when or to what degree this might happen. As always, if customers are concerned or unsure what to do, we recommend that they seek independent financial advice.

Our With Profits assets were invested in a combination of Government Gilts, equities, other assets including fixed income, and cash during 2008. These investments were managed by our fund managers, Insight Investment, in funds which aim to give positive equity style returns with a lower propensity for the downside risks of equity investment. The extreme nature of market turbulence experienced in 2008 meant that these investments were not entirely immune from some downside impact, with an asset return of -8.8% over the year. As we experienced reductions in the value of the fund, we took action to protect the capital, ensuring at all times that those members with maturing policies will receive their guaranteed benefits in full. As a result, the fund was invested in cash and Government Gilts as a temporary measure at the end of 2008. However, we will seek to re-introduce growth assets in a controlled manner during 2009, such that the fund can benefit from any market recovery in the longer term.

Customers who have policies which are invested in deposits may have been concerned about the possible impact of the crisis in the banking industry, and falling interest rates. In my report last year, I referred to a new approach to deposit investments which would enable us to effectively spread customers' investments across a large number of financial institutions. This strategy was implemented in 2008 and served us well, avoiding any issues associated with specific institutions. I can also confirm that the Society had no exposure to Icelandic investments during 2008.

We have worked hard to try and maximise returns on deposit funds against falling interest rates across the market, while taking a cautious view with regard to risk. Our average return, before charges, for deposit-based investments in 2008 was 5.38% compared with a bank base rate of 4.68%. With the outlook for interest rates remaining low, we are well placed to maintain competitve deposit rates in 2009.

In a further effort to protect members' investments from downturns in the market, those customers taking out Easy Save, the new tax exempt, regular savings products with **engage,** benefit from a capital guarantee. This ensures that they will receive at least their premiums back at the tenth anniversary of the policy.

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 returns on these two funds were -31.21% and 11.73% respectively, before charges, again reflecting recent stock market turbulence and the returns on Gilts respectively.

The capital position for the Group is set out in Note 15 to this report. The fall in equity values and ongoing policy maturities over the course of the year have served to reduce the With Profits capital to an excess of £9.1m over the regulatory minimum. The non-profit capital was reduced to £9.9m over the minimum requirement, bringing the total to more than £19m which is a multiple of four times the minimum regulatory requirement. The capital position is measured according to rules set down by the Financial Services Authority. The view of surplus capital presented in the accounts is the fund for future appropriations. At the end of 2008 this stood at over £30m.

As I explained in last year's report, in addition to calculating how much capital we hold above the regulatory minimum reserves, we also consider whether we hold sufficient economic capital to manage under a number of "stress scenarios" which reflect the risks that the Society faces. This informs a regulatory process called the "Individual Capital Assessment" and I can confirm that we continue to maintain a substantial excess over the minimum requirement when we assess capital on this basis.

social, community and environmental issues

By the very nature of the business, **engage** does not have a significant impact on the environment. However, we do seek to operate in an environmentally conscious manner wherever we can.

We continue to have strong links with our local hospice, Saint Michael's, supporting them in many ways, from sponsoring the "Midnight Walk", to providing practical help with car parking and access to our grounds, through to numerous staff fundraising events throughout the year.

We also continued our support of the Rugby League Benevolent Fund which provides support to people who suffer life altering injuries whilst playing the sport, and Carers Resource, which supports carers in the local area. In total our efforts and donations in 2008 raised in excess of £23,300 for excellent and much valued causes.

We operate a staff forum to maintain a formal, consultative dialogue between the organisation and the staff, which is supplemented with a range of communication events including informal feedback sessions, bi-weekly briefings and quarterly meetings.

Our customer panel goes from strength-to-strength and provides an invaluable interface between the organisation and our customers. In the past year, customers have provided essential input to our product development and literature design, and through an informal meeting with Board members, gave feedback across a wide range of subjects.

As set out in the Chairman's Report, we propose to introduce rules in 2009 which will enable all direct customers to become members of **engage**. These customers will be able to participate fully in the governance of the organisation, while potentially benefiting from discretionary benefits in times of hardship.

future outlook

There is no doubt that we are now entering a period of sustained difficult trading and economic challenges for business and consumers alike. We believe we have done much in recent years to leave us well placed to handle the current environment. Our new health cash plan product is ideal for families who are concerned about budgeting for essentials such as dental and optical expenses. We have successful web and partner distribution for our savings and insurance products. Expenses are well controlled and we will continue to invest in efficiency. The Society is growing in customer numbers which will help offset the overheads of running a regulated, financial services organisation.

Research and customer feedback tells us that people are increasingly motivated to become part of a mutual. We actively seek and encourage our members' involvement in **engage** and we look forward to a challenging, but nonetheless successful 2009. I thank the Board, staff and customers of **engage** for their support and commitment last year and in anticipation, for the year to come.

Andrew Haigh
Chief Executive

26 March 2009

your board of directors

Ray Pierce

BA FRSA (63)
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 Bluefin Group, Chairman of Guinness Flight Venture Capital Trust Plc, Chairman of Parasol Group Limited and Chairman of Credit Solutions Holdings Limited. Ray is also Chairman of the Board of Trustees of the National Motor Museum.

David Hargrave

B Com MSc FIA (58)
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' 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 (46)
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.

Karl Elliott

BA (36)
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 Children's Savings Council.

Graham Henderson

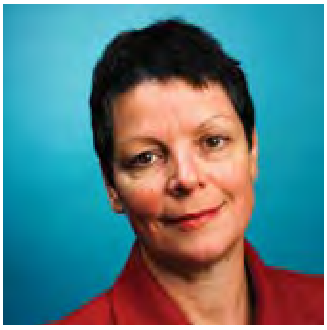
B Comm CA FRSA (54)
Finance Director

Graham joined the Board in February 2006 as Finance Director. He is a Chartered Accountant with 26 years of executive experience in UK blue chip financial services companies. His career to date includes considerable experience in business change, investment policy, financial reporting and in business and financial systems implementation.

Peter Mason

BSc FIA (58)
Senior Independent Director

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



Christina McComb

BA MBA (52)
Non-Executive Director

Chris 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, Chris became a Director of the Shareholder Executive, managing the Government's shareholder interests in a number of public-owned enterprises. Chris 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.

how we manage the business

The Directors present their annual report, together with the financial statements for the year ended 31 December 2008.

business objectives

Our subsidiary companies are playing an important role in meeting our 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 and its operating subsidiaries
- **engage** Mutual Services Limited, our marketing services subsidiary, is a non-regulated (as defined by the Financial Services & Markets Act 2000) introducer of third party products and services and provides marketing services to the Society and its operating subsidiaries
- **engage** Mutual Insurance Limited is the provider of our health cash plan.

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 financial 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 Operating and Financial Review on pages 10 to 13 and the Key Performance indicators (KPIs) on pages 6 to 7.

principal risks and uncertainties facing the business

A description of the principal risks and uncertainties facing the business of the Society and its subsidiaries is detailed in the Controls and Risk Management section on page 25.

board of directors

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

Lord Clark retires as a member of the Board at the Annual General Meeting in 2009.

Peter Mason, Christina McComb and Andrew Haigh retire in accordance with the Society's rules and the Friendly Societies Act 1992 and, being eligible, offer themselves for re-election. In addition, the Board has resolved that any Non-Executive Director who has served the Society for longer than nine years will be subject to annual re-election. As a result Ray Pierce 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 and going concern

As at 31 December 2008, the Society's capital resources for each class of relevant business exceeded the minimum capital resources requirements prescribed by the Financial Services Authority.

The Directors have reviewed the basis for presenting the 2008 accounts in line with best practice and concluded that the accounts should be presented on a going concern basis.

membership

Membership of the Society as at 31 December 2008 stood at 217,430 (2007: 222,636). The total number of customers was 428,343.

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 review the number and type of complaints received in order to monitor that complaints are properly dealt with and corrective action is 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 163. The aggregate remuneration paid to Directors and staff employed by the Group, during the year, amounted to £6,882,000. All of the staff are employed by our Group administration services subsidiary, **engage** Mutual Administration Limited.

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 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 Group's policy to settle invoices in accordance with our standard terms, unless specifically agreed otherwise in advance with suppliers.

pensions arrangements

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

The Directors are working with the Trustees to manage the pension scheme investment policy and to build on the current relative strength of the fund. This ensures 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 Group.

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

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 Operating and Financial Review on page 13.

In 2008 we donated in excess of £23,300 to charities, which included donations to local charity, Saint Michael's Hospice as well as donations to SmartRisk and the Rugby League Benevolent Fund. We met all the costs of maintaining the grounds that we share with our local hospice.

Our staff fully support charities and have donated to Children in Need, Cancer Research, Guide Dogs for the Blind and the Rugby League Benevolent Fund as well as donations to a local charity, Saint Michael's Hospice.

appointment of auditors

On 1 December 2008 the company's Auditors changed their name from Deloitte & Touche LLP to Deloitte LLP. A resolution to re-appoint Deloitte 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

26 March 2009

corporate governance

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 Group's strategy
- the Board's principal role is to focus on the Group'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

Board Meetings	Ray Pierce	David Hargrave	Andrew Haigh	Graham Henderson	Lord Clark	Karl Elliott	Peter Mason	Christina McComb
HFSL (9)†	9	9	8	9	9	9	9	9
eMFL (3)*	3	3	2	3	3	2 of 2	3	3
eMAL (3)**	3	3	2	3	3	2 of 2	3	3
eMSL (3)***	3	3	2	3	3	2 of 2	3	3
eMIL (3)****	3	N/A	2	N/A	N/A	N/A	N/A	N/A
Committee Meetings								
Audit (4)	N/A	4	N/A	N/A	N/A	N/A	4	4
Finance (6)	N/A	6	5	6	N/A	N/A	6	N/A
Nominations (0)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Remuneration (4)	4	N/A	N/A	N/A	4	N/A	N/A	4

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

non-executive directors

In the opinion of the Board, each Non-Executive Director, including the Chairman, is independent in character and judgement. The Chairman has served the Society since his first election by members in 2000. The Vice Chairman, David Hargrave has served the Society since his first election by members in 1982. The Board is unanimously of the view that the knowledge and experience of Ray Pierce and David Hargrave 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 Non-Executive Director who has served the Society for longer than 9 years will be subject to annual re-election. As a result Ray Pierce and David Hargrave will stand for re-election at this year's Annual General Meeting (AGM).

The Society has appointed Peter Mason as Senior Independent Director. 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 2008, 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 2008 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 22) 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 Ray Pierce, David Hargrave, Andrew Haigh, Peter Mason and Christina McComb 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 2008, are set out opposite.

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 2008 the Committee met four 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 and compliance functions and the external Auditors. The Chairman of the Audit Committee meets regularly with the internal audit manager 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 2008.

finance committee

The Finance Committee consists of Peter Mason, Andrew Haigh and Graham Henderson, under the Chairmanship of David Hargrave. The Committee met six times during 2008 to review key aspects of Group financial management 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; reviewing the principles underlying capital management of the Group; product pricing for all Group products; expense analysis; and FSA returns.

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 2008. 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 their subsequent 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 Group'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 How We Are Remunerated section on pages 26 to 27.

Where the Group appoints remuneration consultants they are independent of the Group.

The full terms of reference of the Audit, Finance, 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.

In 2009, a number of the Executive Sub-Committees will be replaced by entity Sub-Committees representing the With Profits Fund, the Non Profit Fund and each of our subsidiary companies. The Entity Sub-Committees will operate in a similar way to the Executive Sub-Committees, but will be able to concentrate on issues at a legal entity level. The Unit Pricing and Capital, Investment and Risk Sub-Committees will remain in place.

relations with customers

The customers of the **engage** Group are currently made up of the friendly society's life fund members, and non-life customers of its open ended investment subsidiary company and health cash plan 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.

In view of the increasing reliance on customers of our subsidiary companies going forward and the legal structure of a friendly society, which involves the Society operating through a series of subsidiary companies, your Board feels that it would be fairer to the customer base as a whole for subsidiary company customers to be allowed to become full members of the friendly society.

We will be putting a resolution to the AGM in 2009 to propose the admission of customers of our open ended investment and health cash plan subsidiary companies to full membership of the friendly society.

The **engage** Group has established a customer panel, consisting of over 1,500 customers, who are invited to comment on a variety of issues. Members of the Board attend meetings of the panel and use this as an opportunity to understand customers' issues and concerns.

Examples of assistance provided during 2008 by the customer panel include: insights into consumers' attitudes to long term saving; new product development leading to the introduction of two independent services to complement Over 50s Life Cover; informal discussion about how **engage** can build up trust and loyalty; and many other areas besides.

All members of the friendly society who are eligible to vote are encouraged to exercise their vote at the 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 2008 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 2008 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 Group, 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 2008, 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.

controls and risk management

Risk Management has been a key area of development for us in recent years, as we develop processes to support our growth plans and improve the effectiveness of our management and control.

Risk Management is delivered through a framework of policies, procedures and internal controls which involve the whole organisation. This includes regular review by the Board, a number of management committees, which meet on a regular basis, 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 the Internal Audit function.

The Audit Committee is responsible for satisfying itself that a proper internal control framework exists to manage financial risks and that controls operate effectively. The Board uses the information gathered from across the risk management processes 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. We have scaled back our marketing activity for 2009 to reduce the risk of financial loss due to unsuccessful marketing activity and we have taken steps to reduce our operating expenses to preserve capital.

There were two developments in 2008 which significantly reduced the risks the Group was facing and enabled us to reduce the operational Risk Capital within our Individual Capital Assessment accordingly. The first was outsourcing our fund accounting operations to BNY Mellon, which ensures we can continue to follow industry best practice. The second was the diversification of assets held on deposit for some of our members' funds. Historically, we had concentrated member deposits with just a small number of financial institutions. In the light of the market experience in 2007, we decided that this was no longer appropriate and amended our approach to ensure that these funds were spread across a large number of different institutions to minimize the exposure to any given one.

how we are remunerated

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	2008 Total £'000	2007 Total £'000
Andrew Haigh (Chief Executive)	204	53	1	38	**296**	325
Graham Henderson	147	18	-	14	**179**	188
Karl Elliott (appointed 4 Dec '07)*	107	13	1	20	**141**	12
Total	**458**	**84**	**2**	**72**	**616**	525

Non-Executive Directors						
Ray Pierce (Chairman)	60	-	-	-	**60**	60
Lord Clark of Windermere	26	-	1	-	**27**	27
David Hargrave	36	-	-	-	**36**	36
Peter Mason	29	-	-	-	**29**	29
Christina McComb	27	-	-	-	**27**	27
Total	**178**	**-**	**1**	**-**	**179**	179

*Karl Elliott was appointed to the Board in December 2007, as such the 2007 total remuneration relates to one month of service.
+Payments in respect of company car allowances are included in salary.

long-term benefits

The Executive Directors participate in a long-term bonus scheme, based on the long-term performance of the Group.

Payments are provided for in the financial statements of **engage** Mutual Administration Limited, but were not payable until January 2009 for Andrew Haigh and June 2009 for Graham Henderson. Andrew Haigh's and Karl Elliott's long-term bonuses as at 31 December 2008 were £Nil (£Nil in 2007) and Graham Henderson's long-term bonus as at 31 December 2008 was £71,052 (£15,000 in 2007).

directors' pension entitlement

The Society operates a defined benefit pension scheme for its employees. This scheme was closed to new entrants in 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 pensions at 31 December 2008 are shown in the table opposite. Graham Henderson participated in a defined contribution scheme.

other benefits

There were no payments made directly by the Society in respect of pensions in 2008 for former Directors or their spouses (2007: £Nil).

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

Executive Directors	Accrued benefit as at 31 December 2008 £	Increase in accrued benefit over 2008 (excluding inflation) £	Increase in accrued benefit over 2008 (including inflation) £	Transfer value of increase in accrued pension less member contributions £	Transfer value as at 31 December 2007 £	Transfer value as at 31 December 2008 £	Increase in transfer value over 2008 £	Increase in transfer value less member contributions £
Andrew Haigh	27,658	2,435	3,636	33,993	283,892	258,592	(25,300)	(34,800)
Karl Elliott	15,279	987	1,668	10,843	103,891	99,347	(4,544)	(9,544)

un-audited information

The composition and responsibilities of the Society's Remuneration Committee are set out on page 23. 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 Group'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 Group is taken into consideration. In this respect the Committee receives information inter alia from a leading firm of remuneration consultants, Watson Wyatt, 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 Group 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 and Karl Elliott have service contracts with a twelve month notice period. Graham Henderson has a service contract 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 2008 which comprises the Group and Society Income and Expenditure Account, the Group and Society Balance Sheets and the related notes 1 to 25. 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 2008.

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 opposite in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992. 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 Operating and Financial Review and Controls and Risk management section, that is cross referred from 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 judgements 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 2008 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 LLP
Chartered Accountants and Registered Auditors
Leeds, United Kingdom

26 March 2009

our 2008 financial statements

group income and expenditure

for the year ended 31 December 2008

Technical Account Long-Term Business

		notes	2008 £'000	2007 £'000
	Continuing Operations			
	Earned premiums, net of reinsurance	2	**34,527**	28,601
Share dividends, interest on deposits held and realised gains on investments	Investment income	3	**9,410**	30,893
Movements in value of investments held	Unrealised losses on investments	3	**(56,791)**	(558)
	Other technical income	13	**137**	246
	Claims incurred, net of reinsurance	4	**(50,283)**	(70,866)
	Change in long-term business provision, net of reinsurance	14	**5,176**	10,484
Change in value of linked policyholders' benefits	Change in technical provisions for linked liabilities	14	**54,201**	19,754
	Net operating expenses	5	**(16,836)**	(16,197)
Fund managers' charges	Investment expenses and charges		**(242)**	(341)
Group charge to corporation tax	Taxation	21	**-**	(4)
	(Deficit) / surplus transferred (to) / from Non-technical account		**(3,210)**	919
	Transfer from / (to) fund for future appropriations	9	**23,911**	(2,931)
	Balance on the long-term business technical account		**-**	-

group income and expenditure (cont.)

for the year ended 31 December 2008

Non-technical Account

Income earned in non-life subsidiaries

Expenses incurred in non-life subsidiaries

	notes	2008 £'000	2007 £'000
Continuing Operations			
Other income		**1,368**	1,378
Net operating expenses	5	**(4,763)**	(2,343)
General insurance gross profit		**160**	-
Pension finance income	19	**175**	312
Actuarial (loss) / gain on pension scheme	19	**(150)**	1,572
Deferred taxation		-	-
Transfer from / (to) technical account		**3,210**	(919)
Balance on the Non-technical account		**-**	**-**

The general insurance gross profit relates to the activities of **engage** Mutual Insurance Limited, the Group health insurance subsidiary. It represents the premium income, net of insurance premium tax, less claims incurred during the period.

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

for the year ended 31 December 2008

Assets

Harrogate head office and Kew Gardens property

Value of linked investments

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

	notes	2008 £'000	2007 £'000
Investments			
Investment in land and buildings	10	**6,316**	6,850
Financial Investments	10	**94,543**	121,017
Assets held to cover linked liabilities	11	**373,663**	427,864
Reinsurers' share of technical provisions			
Long-term business provision	14	**30,429**	12,549
Other assets			
Other debtors	8	**482**	621
Tangible assets	12	**185**	370
Cash at bank		**4,706**	5,007
Deferred taxation	25	**893**	949
Prepayments and accrued income			
Accrued interest and rent		**492**	657
Deferred acquisition costs		**988**	459
Other prepayments and accrued income		**1,822**	3,616
Total assets excluding the pension asset		**514,519**	579,959
Net pension asset	19	**2,296**	2,440
Total assets including the pension asset		**516,815**	582,399

group balance sheet (cont.)

for the year ended 31 December 2008

Liabilities

	notes	2008 £'000	2007 £'000
Fund for future appropriations	9	**30,616**	54,527
Technical provisions			
Long-term business provision	14	**97,589**	84,885
Claims outstanding	14	**6,253**	6,683
Technical provisions for linked liabilities	14	**373,663**	427,864
Provisions for other risks and charges	16	**1,848**	-
Creditors			
Creditors arising out of insurance operations	17	**1,233**	3,833
Other creditors including taxation and social security	18	**2,860**	2,360
Accruals and deferred income		**2,753**	2,247
Total Liabilities		**516,815**	582,399

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

Provision for with profits policies and other known contingencies

Maturities, surrenders and death claims awaiting processing and payment

Value of linked policyholders' benefits

Expenses due in the period yet to be processed

Approved at a meeting of the Board of Directors on 26 March 2009 and signed on its behalf by:

A S Haigh
Chief Executive

R F Pierce
Chairman

A J Horsley
Secretary

society income and expenditure

for the year ended 31 December 2008

Technical Account Long-Term Business

		notes	**2008 £'000**	2007 £'000
	Continuing operations			
	Earned premiums, net of reinsurance	2	**34,527**	28,601
Share dividends, interest on deposits held and realised gains on investments	Investment income	3	**9,410**	30,893
Movements in value of investments held	Unrealised losses on investments	3	**(56,791)**	(558)
	Other technical income	13	**645**	794
	Claims incurred, net of reinsurance	4	**(50,283)**	(70,866)
	Change in long-term business provision, net of reinsurance	14	**5,176**	10,484
Change in value of linked policyholders' benefits	Change in technical provisions for linked liabilities	14	**54,201**	19,754
	Net operating expenses	5	**(17,551)**	(16,197)
Fund managers' charges	Investment expenses and charges		**(242)**	(341)
Society charge to corporation tax	Taxation	21	**-**	(4)
	Transfer from / (to) fund for future appropriations	9	**20,908**	(2,560)
	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

for the year ended 31 December 2008

Assets

Harrogate head office and Kew Gardens property

With profits fund and surplus investments

Value of linked investments

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

	notes	2008 £'000	2007 £'000
Investment			
Investment in land and buildings	10	**6,316**	6,850
Investment in subsidiaries	10	**12,300**	7,300
Financial Investments	10	**92,109**	121,017
Assets held to cover linked liabilities	11	**373,663**	427,864
Reinsurers' share of technical provisions			
Long-term business provision	14	**30,429**	12,549
Other assets			
Other debtors	8	**6,057**	5,836
Cash at bank		**2,447**	4,082
Prepayments and accrued income			
Accrued interest and rent		**492**	657
Deferred acquisition costs		**988**	459
Other prepayments and accrued income		**1,239**	3,169
Total assets		**526,040**	589,783

society balance sheet (cont.)

for the year ended 31 December 2008

Liabilities

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

Provision for with profits policies and other known contingencies

Maturities, surrenders and death claims awaiting processing and payment

Value of linked policyholders' benefits

Expenses due in the period yet to be processed

	notes	2008 £'000	2007 £'000
Fund for future appropriations	9	**42,485**	63,393
Technical provisions			
Long-term business provision	14	**97,589**	84,885
Claims outstanding	14	**6,253**	6,683
Technical provisions for linked liabilities	14	**373,663**	427,864
Provisions for other risks and charges	16	**1,848**	-
Creditors			
Creditors arising out of insurance operations	17	**1,233**	3,833
Other creditors including taxation and social security	18	**1,013**	1,685
Accruals and deferred income		**1,956**	1,440
Total Liabilities		**526,040**	589,783

Approved at a meeting of the Board of Directors on 26 March 2009 and signed on its behalf by:

A S Haigh
Chief Executive

R F Pierce
Chairman

A J Horsley
Secretary

notes to the accounts

at 31 December 2008

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.

The Directors have reviewed the business and confirmed that the accounts should be prepared on a going concern basis.

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.

The general insurance results of **engage** Mutual Insurance Limited are also consolidated into the Non-technical account. The Directors are of the opinion that this is appropriate as, in the current year, the general insurance business is not considered to be material.

Premiums
Long-term business premiums are credited when they become due. New business premiums, including single premiums, are recognised when the policy goes on risk and receipt is considered certain. Reinsurance premiums are charged when they become payable.

General business premiums comprise the total premiums due for the whole period of cover excluding insurance premium tax. Unearned premiums are calculated as the unexpired element of risk spread on a straight line basis across the period of the policy. New business premiums are recognised at the point the policy goes on risk.

Claims
For long-term business death claims are accounted for when notified to the Society. 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.

General business claims incurred comprise claims paid during the financial year together with the movement in the provision for outstanding claims, including claims incurred but not reported. Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not. Provisions for claims outstanding are based on information available and the eventual outcome may vary from the original assessment.

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.

Investment expenses and charges include amounts payable to fund managers by invoice. Some investment expenses and charges are taken directly out of the Investment funds we own, and accordngly, investment expenses and charges are included in realised and unrealised gains.

1. accounting policies (continued)

Non-technical account – other income
Revenue 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.

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 Source book 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.

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.

notes to the accounts
at 31 December 2008

1. accounting policies (continued)

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.

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 6 April 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 expenditure 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.

2. earned premiums, net of reinsurance

a. **Gross premiums**

Society and Group Life Assurance Business	**2008 £'000**	2007 £'000
Linked contracts:		
- periodic premium	9,123	11,207
- single premium	11,978	4,353
Non-linked contracts:		
- periodic premium	18,426	16,607
- with profits periodic premium	5,246	5,374
- with profits single premium	102	486
Total gross premiums written	**44,875**	38,027
Reinsurance ceded	(10,348)	(9,426)
Total earned premiums, net of reinsurance	**34,527**	28,601

b. **Gross new annualised premiums**

Society and Group Life Assurance Business	**2008 £'000**	2007 £'000
Linked contracts	1,391	815
Non-linked contracts	3,398	3,888
Total new annualised premiums	**4,789**	4,703

c. **Contributions received for Child Trust Fund and OEIC investments**

	2008 £'000	2007 £'000
Regular contributions	6,740	5,802
Single contributions	10,018	12,014
Total contributions	**16,758**	17,816

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 eMFL as at the 31 December 2008 was £78.3m (31 December 2007 £88.9m). The income and expenditure from this subsidiary is included in the Non-technical Account.

3. investment income

Society and Group	2008 £'000	2007 £'000
Income from listed investments	6,744	11,920
Income from other investments	9,444	11,318
Realised (losses) / gains on investments	(6,778)	7,655
Total investment income	**9,410**	30,893
Unrealised losses on investments	(56,791)	(558)
Net investment return	**(47,381)**	30,335

4. claims incurred, net of reinsurance

Society and Group	2008 £'000	2007 £'000
Gross claims paid	54,179	72,226
Outward claims reinsurance	(3,466)	(2,798)
Net claims incurred	**50,713**	69,428
Change in provision for claims outstanding at year end	(430)	1,438
Claims incurred, net of reinsurance	**50,283**	70,866

5. net operating expenses

a. **Technical account**

	Group 2008 £'000	Group 2007 £'000	**Society 2008 £'000**	Society 2007 £'000
Acquisition costs	13,358	16,351	13,623	16,351
Exceptional costs associated with onerous contracts	2,400	-	2,400	-
Change in deferred acquisition costs	(529)	(459)	(529)	(459)
Administrative expenses	5,332	4,929	5,782	4,929
Reinsurance commissions and profit participation	(3,725)	(4,624)	(3,725)	(4,624)
Total net operating expenses	**16,836**	16,197	**17,551**	16,197
Commissions paid	**1,837**	1,796	**1,837**	1,796

b. **Non-technical account**

	Group 2008 £'000	Group 2007 £'000	**Society 2008 £'000**	Society 2007 £'000
Net operating expenses	**4,763**	2,343	-	-

Expenses incurred in the subsidiary companies are included in Net operating expenses in the Non-technical Account.

Also included in Net operating expenses are amounts paid to the Society's auditor, Deloitte LLP, as illustrated below, exclusive of value added tax:

	2008 £'000	2007 £'000
Fees payable to the Society's auditor and its associates for the audit of the Society's annual accounts	86	80
Fees payable to the Society's auditor and its associates for other services:		
Audit of the Society's subsidiaries, pursuant to legislation	33	12
Other services pursuant to legislation	12	12
Tax services	43	-
Other services - due diligence	-	80
Total	**174**	184

notes to the accounts

at 31 December 2008

6. staff costs

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

Society and Group	**2008 £'000**	2007 £'000
Wages and salaries	5,562	5,375
Social security costs	563	517
Other pension costs	757	767
Total staff costs	**6,882**	6,659

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

	2008 No.	2007 No.
Administration	116	110
Management	21	22
Marketing	26	24
Total number of staff	**163**	156

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 How We Are Remunerated section (Report of the Directors on Remuneration) on pages 26 to 27.

8. debtors

	Group 2008 £'000	Group 2007 £'000	**Society 2008 £'000**	Society 2007 £'000
Other debtors	137	172	-	-
Debtors arising out of insurance operations	345	449	345	449
Amounts owed from group undertakings	-	-	5,712	5,387
Balance at 31 December	**482**	621	**6,057**	5,836

9. fund for future appropriations

	Group 2008 £'000	Group 2007 £'000	**Society 2008 £'000**	Society 2007 £'000
Balance at 1 January	54,527	51,596	63,393	60,833
Transfer (to) / from income and expenditure account - Long-Term Business - Technical Account	(23,911)	2,931	(20,908)	2,560
Balance at 31 December	**30,616**	54,527	**42,485**	63,393

The fund for future appropriations (FFA) excluding the pension asset as required by FRS 17 is:

	Group 2008 £'000	Group 2007 £'000	**Society 2008 £'000**	Society 2007 £'000
FFA at 31 December	30,616	54,527	42,485	63,393
Less FRS 17 net pension asset	(2,296)	(2,440)	-	-
FFA excluding pension asset at 31 December	**28,320**	52,087	**42,485**	63,393

10. investments

a. **Property**

Society and Group	**Current value**		**Historical cost**	
	2008 £'000	2007 £'000	**2008 £'000**	2007 £'000
Land and buildings				
- Property occupied by the Society	5,500	6,100	8,147	8,147
- Property in Kew Gardens	816	750	625	625
Balance at 31 December	**6,316**	6,850	**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.

At 31 December 2008 the valuation of the Society Head Office was assessed by the Directors and reduced in line with independent advice on falling property prices.

The property in Kew Gardens was valued on an 'open market value' basis as at 31 December 2008, 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 (eMFL)	Authorised Corporate Director (ACD) of an OEIC
engage Mutual Administration Limited (eMAL)	Group service company and third party administrator
engage Mutual Services Limited (eMSL)	Insurance and non-regulated financial product intermediary
engage Mutual Insurance Limited (eMIL)	General insurance company insuring health cash plans

eMFL, eMAL and eMSL are registered in England and Wales. eMIL is registered in Gibraltar. The investment in the subsidiaries can be analysed as follows:

Society	2008 £'000	2007 £'000
Cost at 1 January	9,850	9,850
Additions	5,000	-
Write off	-	-
Cost at 31 December	**14,850**	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	**12,300**	7,300

On 27 March 2008, the Society subscribed for 1,000,000 ordinary £1 shares in eMFL for a consideration of £1,000,000. The Society subscribed for a further 1,500,000 ordinary shares in eMFL on 17 July 2008 for a consideration of £1,500,000.

On 25 June 2008, the Society subscribed for 2,500,000 ordinary £1 shares in eMIL for a consideration of £2,500,000.

On 1 August 2008, eMSL introduced the health cash plan business, formerly insured with Wakefield & District Hospitals' Contributory Scheme Limited (WDHCS), to eMIL. eMSL paid £0.4m in commission to WDHCS in 2008 in respect of this transaction.

10. investments (continued)

c. **Financial investments**

Society and Group	**Current value**		**Historical cost**	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Other financial investments:				
Shares, other variable yield securities and unit trusts:				
- UK	492	63,972	985	56,765
- Overseas	-	770	-	719
Debt securities and other fixed income securities	90,672	55,545	87,057	56,800
Mortgage loans	49	76	49	76
Deposits with credit institutions	-	593	-	593
Accrued income and receivables	896	61	895	61
Total financial investments held by the Society	**92,109**	121,017	**88,986**	115,014
Debt securities and other fixed income securities	2,434	-	2,434	-
Total financial investments held by the Group	**94,543**	121,017	**91,420**	115,014

11. assets held to cover linked liabilities

Society and Group	**Current value**		**Historical cost**	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Assets held to cover linked liabilities	**373,663**	427,864	**372,416**	413,639
These assets are analysed as follows:				
Shares, other variable yield securities and unit trusts	130,206	191,169	142,299	186,373
Debt securities and other fixed income securities	182,996	49,570	169,656	40,141
Deposits with credit institutions	60,000	181,702	60,000	181,702
Net current assets	461	5,423	461	5,423
Total	**373,663**	427,864	**372,416**	413,639

Net current assets consist of investment income receivable, cash held by the custodian and rebates receivable from fund managers, offset by tax and annual management charges payable.

12. tangible assets

Group	Computer equipment £'000	Fixtures fittings and office equipment £'000	Total £'000
Cost:			
At 1 January 2008	982	676	1,658
Additions	12	13	25
Disposals	(291)	-	(291)
At 31 December 2008	703	689	**1,392**
Depreciation:			
At 1 January 2008	815	474	1,289
Provided in the year	114	90	204
On disposals	(291)	5	(286)
At 31 December 2008	638	569	**1,207**
Net book value:			
At 31 December 2008	65	120	**185**
At 31 December 2007	169	201	370

The charge for depreciation for the Group in the year ended 31 December 2007 was £238,000.

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 2008	**84,885**	**(12,549)**	**6,683**	**427,864**
Change in other technical provisions	-	-	-	(54,201)
Movement in provision for outstanding claims	-	-	(430)	-
Transfer to Technical Account	12,704	(17,880)	-	-
Balance at 31 December 2008	**97,589**	**(30,429)**	**6,253**	**373,663**

The reinsurers' share of technical provisions increased substantially during 2008 due to a reduction in the valuation rate of interest. Conversely, the long-term business provision also increased substantially for the same business which is reinsured.

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 principle 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.

14. technical provisions (continued)

The Long-Term Business Provision has been calculated on the basis of the following principal interest assumptions for 2008:

Class of business	Interest
Linked assurance tax exempt / taxable	2.5% gross / 2.0% net
Term assurance / whole of life	2.0%
With profits tax exempt / taxable	2.5% gross / 2.0% net

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

With profits bonuses
The long-term business provision includes £Nil (2007: £682,000) 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 2008:	**Non profit £'000**	**With profits £'000**	**Total £'000**
Fund for future appropriations	**29,871**	**12,614**	**42,485**
Adjustments in respect of subsidiary undertakings	(12,406)	-	(12,406)
Adjustment to assets onto regulatory basis	(703)	(109)	(812)
Adjustment to liabilities onto regulatory basis	(1,710)	(600)	(2,310)
Total available capital resources	**15,052**	**11,905**	**26,957**
Capital requirements	(5,134)	(2,818)	(7,952)
Excess capital over regulatory requirements	**9,918**	**9,087**	**19,005**

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**

15. capital positions 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 above are:

Technical provisions	**2008 £'000**	2007 £'000
Unit linked		
- Unit insurance contracts	373,355	427,449
- Non unit insurance contracts	597	514
Non participating insurance contracts	2,243	7,094
Participating insurance contracts	66,454	70,571
Total technical provisions	**442,649**	505,628

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 19 to 24.

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 2008 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; and
- 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; and
- 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 Operating and Financial Review and the Corporate Governance section.

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

Funding of Subsidiary Undertakings
engage Mutual Funds Limited is a wholly owned subsidiary of Homeowners Friendly Society Limited and is a company regulated by the FSA. **engage** Mutual Insurance Limited is a wholly owned subsidiary of Homeowners Friendly Society Limited and is a company regulated by the Financial Services Commission Gibraltar (FSCG). eMFL and eMIL are required to hold sufficient capital to meet regulatory capital requirements in their own right. eMFL along with eMIL are funded by share capital issued to the Society.

engage Mutual Administration Limited and **engage** Mutual Services Limited are funded by inter-company loans for ongoing financing purposes.

The value of assets held to meet the Society and its regulated subsidiaries is determined in accordance with FSA and FSCG 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 and FSCG minimum capital requirements. Account is also taken of the Individual Capital Assessment which considers the risks the business faces on an economic basis rather than the more prescriptive tests within the statutory basis.

The Society's total available capital resources are £27.0m (2007: £46.3m) of which £11.9m (2007: £31.6m) is held in the with profits fund and £15.1m (2007: £14.7m) is held in the non profit fund.

The available capital resources held in the with profits fund are normally only available 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 and FSCG regulations.

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

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 policies 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.

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 four 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 was 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 was 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.

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

Analysis of movement

The table below shows how the excess capital over regulatory requirements has changed during 2008:

	Non Profit 2008 £'000	With profits 2008 £'000	Total 2008 £'000
Opening excess capital at 1 January	12,295	28,610	40,905
Investment returns	797	(11,730)	(10,933)
Life assurance new business costs	(12,008)	(835)	(12,843)
Reinsurance commissions on new business	3,720	-	3,720
Subsidiary new business costs	(1,678)	-	(1,678)
Other	6,792	(6,958)	(166)
Closing excess capital at 31 December	**9,918**	**9,087**	**19,005**

16. provisions for other risks and charges

At the balance sheet date we have set up a provision of £1,848k (2007:nil) in relation to obligations to external companies under various long-term contracts. The Directors approved a business plan which reflects the current economic environment whereby we have significantly reduced the planned volume of direct marketing activity. This action has the effect of making a number of long-term contracts which support our sales and distribution activities onerous as we may not recover the expected benefits as anticipated. We have therefore provided for the net unavoidable loss associated with these commitments. We will review the ongoing requirement and value of this provision as part of our business plan process.

17. creditors arising out of insurance operations

All creditors relate to the insurance business carried on and are payable within 5 years. This includes amounts owed under reinsurance treaties.

18. other creditors including taxation and social security

	Group 2008 £'000	Group 2007 £'000	**Society 2008 £'000**	Society 2007 £'000
Other taxes and social security costs	216	160	40	-
Other creditors	2,644	2,200	973	1,685
Total	**2,860**	2,360	**1,013**	1,685

19. pension commitments

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 £268,357 (2007: £228,000).

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 2008 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 2007.

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 2008. 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 2008.

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:

	2008 % per annum	2007 % per annum	2006 % per annum
Long term salary progression	**4.50**	4.90	4.60
Rate of increase in pension payments guaranteed	**3.00**	3.40	3.10
Discretionary rate of increase in pensions payment	**-**	-	-
Rate of price inflation and deferred pension revaluation	**3.00**	3.40	3.10
Discount rate	**5.80**	5.80	5.10

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 December		
	2008 %	2007 %	2006 %	**2008 £'000**	2007 £'000	2006 £'000
Equities	**7.50 pa**	7.50 pa	7.50 pa	**3,473**	6,261	10,760
Bonds	**3.80 pa**	4.50 pa	4.50 pa	**11,811**	10,190	4,208
Other	**3.00 pa**	6.00 pa	5.00 pa	**678**	83	310
Total market value of schemes assets				**15,962**	16,534	15,278
Present value of scheme liabilities				**(12,773)**	(13,145)	(13,729)
Surplus in scheme				**3,189**	3,389	1,549
Related deferred tax liability				**(893)**	(949)	(465)
Net pension asset				**2,296**	2,440	1,084

19. pension commitments (continued)

a. **Movement in surplus during the year**

	2008 £'000	2007 £'000
Surplus in scheme at 1 January	3,389	1,549
Current service cost	(417)	(442)
Contributions	269	495
Past service cost	(77)	(97)
Pension finance income	175	312
Actuarial (loss) / profit	(150)	1,572
Surplus in scheme at 31 December	**3,189**	3,389

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

	2008 £'000	2007 £'000
Expected return on pension scheme assets	929	1,018
Interest on pension scheme liabilities	(754)	(706)
Net return	**175**	312

The amounts above are included in Pension finance income in the Group Non-technical Account on page 32.

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

	2008 £'000	2007 £'000
Current service cost	417	442
Past service cost	77	97
Total charge	**494**	539

The amounts above are included in Net operating expenses in the Group Non-technical Account on page 32.

d. **Analysis of actuarial gains and losses**

	2008 £'000	2007 £'000
Actual return less expected return on pension scheme assets	(1,349)	114
Experience gains and losses arising on the scheme liabilities	460	38
Changes in assumptions underlying the present value of the scheme liabilities	739	1,420
Actuarial (loss) / gain in pension scheme	**(150)**	1,572

The amounts above are included in Actuarial gains on pension scheme in the Group Non-technical Account on page 32.

19. pension commitments (continued)

e. **Reconciliation to the Balance Sheet**

	2008 £'000	2007 £'000
Total market value of assets	15,962	16,534
Present value of scheme liabilities	(12,773)	(13,145)
Surplus in scheme	**3,189**	3,389

f. **History of experience gains and losses**

	2008	2007	2006	2005	2004
Difference between the expected and actual return on scheme assets (£'000)	**1,349**	114	612	1,178	340
Percentage of scheme assets (%)	**8.5**	0.7	4.0	8.5	2.8
Experience gains / (losses) on scheme liabilities (£'000)	**460**	38	(92)	(446)	234
Percentage of present value of scheme liabilities (%)	**3.6**	0.3	0.7	3.4	2.0
Total amount recognised in the Non-technical account (£'000)	**150**	1,572	841	(738)	(45)
Percentage of present value of scheme liabilities (%)	**1.2**	12.0	6.1	5.5	0.4

20. operating leases

Annual commitments under non-cancellable leases are as follows:

Group	**2008 £'000**	2007 £'000
Operating leases which expire		
- within one year	8	11
- between two and five years	132	127
Total	**140**	138

notes to the accounts

at 31 December 2008

21. current taxation

	Group 2008 £'000	Group 2007 £'000	Society 2008 £'000	Society 2007 £'000
Corporation tax at 20% and 22% (Society), at 28% (Group Subsidiaries)	-	4	-	4
Adjustment to corporation tax and income tax payable and recoverable relating to prior year	-	-	-	-
Tax credits recoverable on dividends	-	-	-	-
Total	-	4	-	4

22. commitments

There was no capital expenditure contracted but not provided for in the financial statements (2007: £nil).

23. 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 2008
- no other member of his family was a member of the Society during 2008
- Mr T M Batten is a member of the Homeowners Friendly Society Pension Scheme
- the aggregate rate of the remuneration and benefits (excluding pension contributions) of Mr T M Batten for 2008 amounted to £103,356.

24. 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 2008, five members of the Board of Directors together with their connected parties held policies on an arms length basis. There were no other transactions during the year.

25. 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 forwards have been recognised as below:

	Group 2008 £'000	Group 2007 £'000	Society 2008 £'000	Society 2007 £'000
Recognised deferred tax assets	893	949	-	-
Unrecognised deferred tax assets	15,884	9,768	12,085	6,780
Total	**16,777**	10,717	**12,085**	6,780

notes

any questions

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