Homeowners Friendly Society Group

annual report & accounts

for the year ended 31 December 2004

engage
Mutual Assurance

society information

engage Mutual Assurance is a trading name of Homeowners Friendly Society Limited. More Information about **engage** Mutual Assurance is available in the Chairman's Report and the Chief Executive's Operational Report.

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www.homeowners.co.uk
www.theukgroup.com
www.childtrustfund.com

Homeowners Friendly Society Limited is registered and Incorporated under the Friendly Societies Act 1992. Registered No: 964F. Authorised and regulated by the Financial Services Authority.

board of directors

Raymond F Pierce BA FRSA

David G Hargrave BCom MSc FIA

Andrew S Haigh BSc

Kevin D Chidwick BSc FCCA MBA

Rt. Hon. Lord Clark of Windermere
BA MSc PhD

Penny Hemming
(appointed 19 October 2004)

C Christopher F Lazenby BSc(Eng) CEng
MBCS (appointed 6 January 2004)

Gordon A Murison MBE

Peter N Sparling LLB (retired 13 May 2004)

secretary
Andrew J Horsley MSI FCIS

actuarial function holder
Trevor M Batten FIA

auditors
KPMG Audit Plc
Registered Auditor

solicitors
Addleshaw Goddard

bankers
Barclays Bank plc

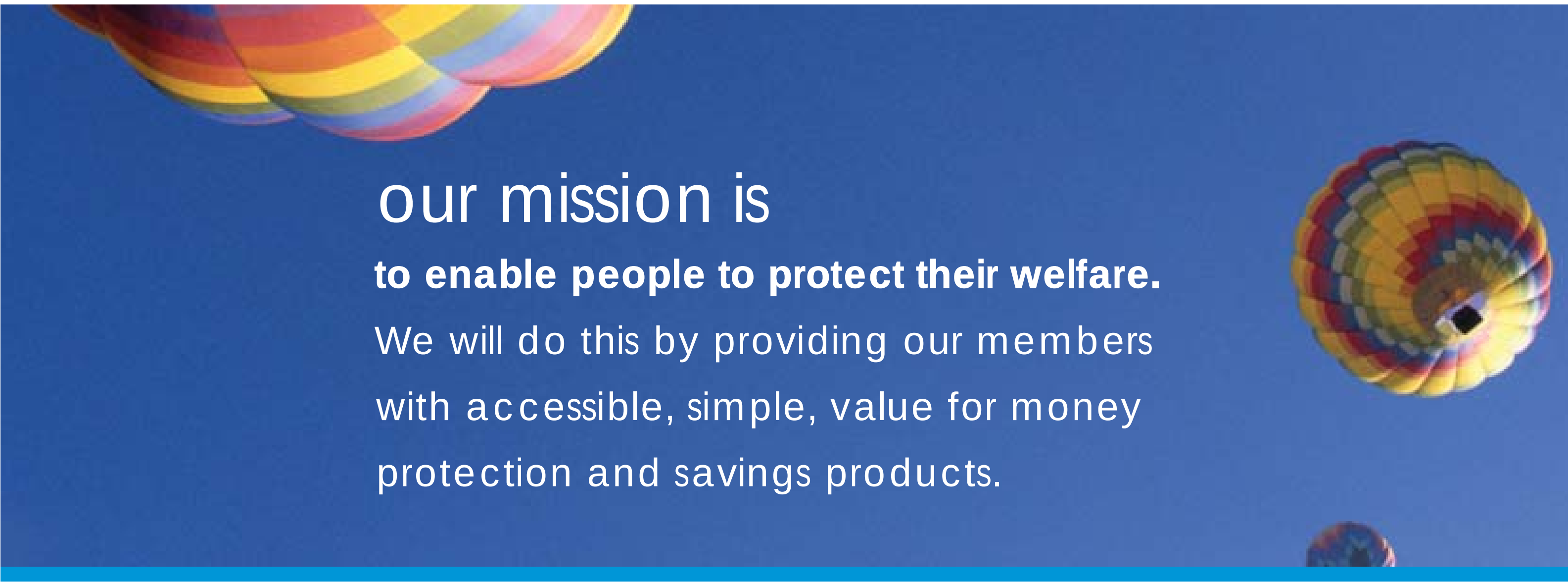
board committees

audit
David G Hargrave (Chairman)
Rt. Hon. Lord Clark of Windermere
Gordon A Murison

finance
David G Hargrave (Chairman)
Trevor M Batten
Kevin D Chidwick
Peter W Mason

nominations
Raymond F Pierce (Chairman)
Andrew S Haigh

remuneration
Raymond F Pierce (Chairman)
Rt. Hon. Lord Clark of Windermere
Gordon A Murison



our mission is

to enable people to protect their welfare.

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

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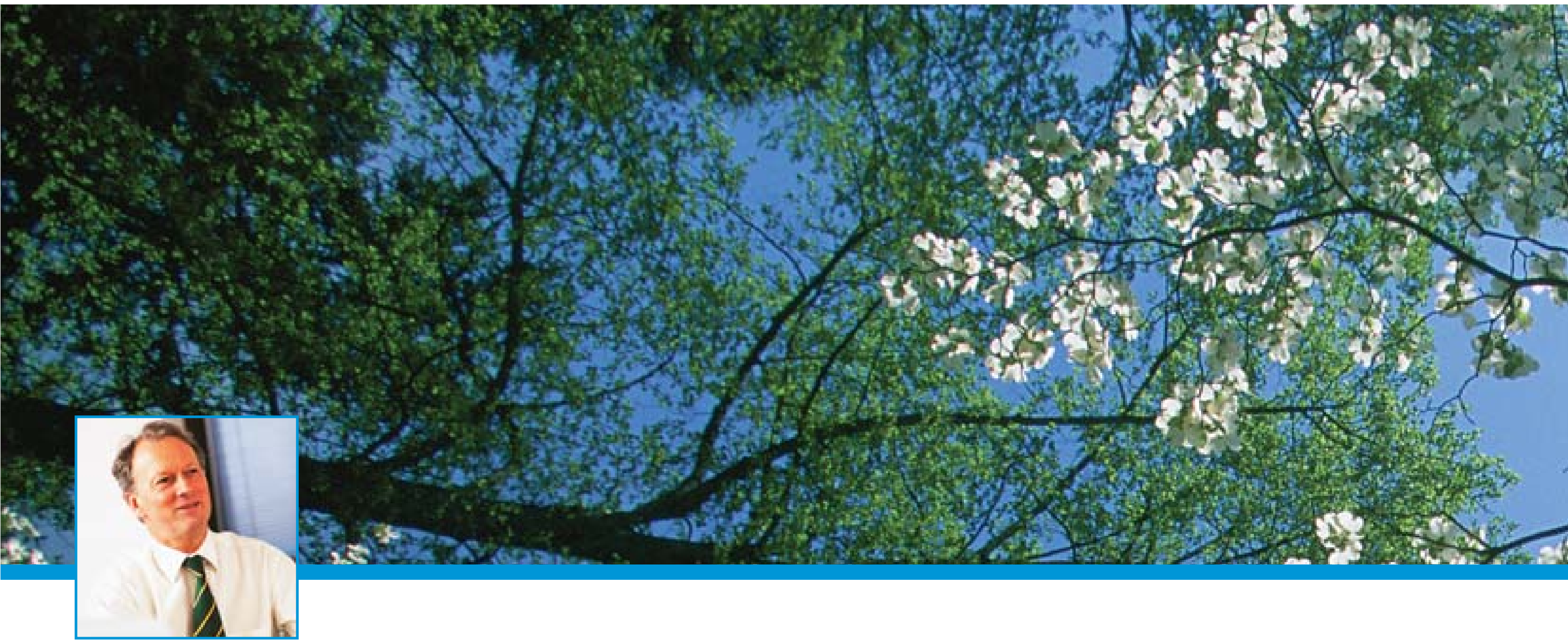
chairman's report for the year ended 31 December 2004



dear member

The impact of stock market performance on members' investments has been one of our main concerns in recent years. I am pleased to be able to open this year's report with news that the growth pattern in equities established in 2003 continued through 2004, albeit at a lower rate, helping markets to recover and start the process of rebuilding confidence in equity investments. Although the level of growth was relatively modest, we remain hopeful the trend will continue through 2005 to offer potential for further recovery and growth.

2005 will be Homeowners Friendly Society's 25th anniversary. While 25 years is a relatively young age for a friendly society, it is an excellent moment at which to pause and reflect on a quarter of a century of service and commitment to our members.

We have changed a great deal since our launch in 1980. In recent years we have, where possible, simplified and reduced charges, designed our products to be straightforward and clarified our communications. We have forged partnerships with organisations, thereby extending our reach to new audiences, some of which have not dealt with the financial services sector before. For example, our partnership with NAAFI Financial enables us to provide savings plans to members of the British Armed Forces, many of whom are young recruits earning a salary for the first time.

Homeowners Friendly Society has broadened its product range to include protection policies and has growing numbers of members in both young families and from the over 50s age group.

During the past two years we have been working with the Government, helping to develop one of the most significant new financial products for many years – the Child Trust Fund. There is a growing list of distributors choosing to work with us, which will help us become a major provider of Child Trust Funds.

In the period since our launch, the financial services industry in general has also changed beyond recognition. There have been times the industry has suffered severe reputational blows but it has also done much to improve practices that caused them. From Homeowners' perspective, we feel strongly that the industry must focus on rebuilding its reputation. We will always ensure that our decisions are made in our members' best interests and our practices exemplify behaviour that warrants our members' support and justifies their confidence in this organisation.

In December we were pleased to see the HM Treasury commissioned review by Paul Myners on "The Governance of Life Mutuals", which we hope will help build further people's confidence in the mutual sector. In his report, Mr Myners suggests areas for improvement in governance, the majority of which Homeowners already adheres to. We will review the detail of the report with interest and seek to make further refinement of our governance processes as appropriate.

As we look to the future, we know there are significant challenges ahead of us. Our 2004 results showed that the year proved somewhat difficult in terms of winning new business and was, in many ways, more of a year of consolidation and preparation. We continue to invest in the resources to enable the Society's long term development, mindful of the need to make progress in both organic growth through initiatives such as Child Trust Fund, and through our continued operations in third party administration. Where another organisation chooses to have a much closer relationship with us, we will happily discuss the benefits of transferring their engagements, as was so successfully completed with the UK Civil Service Benefit Society last year. The Chief Executive refers to progress in these areas in his report.

One major step we will take in 2005 involves the Society's name. The title "Homeowners" served us well in our early years. However, when it comes to attracting new business, we know from member feedback and research that our name is a source of significant confusion. We will therefore transition many of our operations to a new brand name during 2005 – **engage** Mutual Assurance. Again, this is covered in greater detail in the Chief Executive's report, but please be assured these changes are intended to strengthen the future prospects of the Society and better represent the organisation in a modern and relevant way. We look forward to building a strong reputation for **engage** Mutual Assurance in the years to come.

As I wrote in last year's report, our Operations Director Chris Lazenby was appointed to the Board in January 2004 and we were sad to see Peter Sparling step down as a Director at the AGM. Peter served the Society well over many years and we are all grateful for his service.

I am pleased to report we appointed a new Non Executive in October 2004. Penny Hemming is Regional Director of the CBI and brings a wealth of business experience.

I am sure 2005 will be an important year for the Society as we see the outcome of several years preparation to help the concept of the Child Trust Fund and establish ourselves as a significant provider. I hope 2005 will be a year when we take another significant step in our growth and in demonstrating the value of a modern mutual through the strength of the member relationships we build and the quality of the products and service we provide. Thank you for your continued membership and support.

R.F. Pierce

Ray Pierce
Chairman
17 February 2005

chief executive's operational report

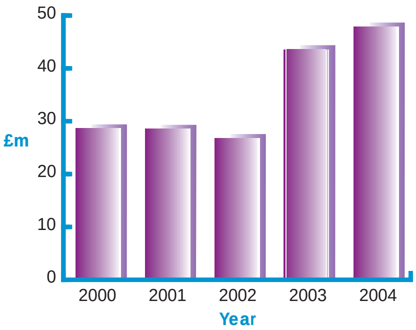
results for 2004

This year I have changed the format of my report. There is more information to tell you about the progress of the organisation and to highlight both our successes and, most importantly, the challenges we face. I hope it gives you a better understanding of our priorities for the ongoing development of the Society in the year to come.

2004 was an important year for the Society, with consolidation of the previous year's merger with UK Civil Service Benefit Society (UKCSBS), preparation for a number of initiatives in 2005 and the launch of the Child Trust Fund.

The Society remains financially strong, as indicated by the steady growth in our Fund for Future Appropriations (FFA) as seen on our Balance Sheet (Page 27):

fund for future appropriations (FFA)

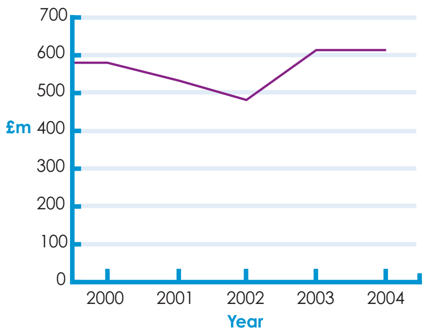


The FFA is a measure of the Society's surplus assets over liabilities, using accounting conventions for life companies. This improved position means we have flexibility to invest in our continued growth in coming years.

The nature of long term, low charge life insurance and investment business is such that it will usually take several years to recover the initial costs of selling and setting up a policy. We therefore expect, with growth in Child Trust Funds, that our FFA will fall over the next few years, as we absorb the initial "strain" of those sales and then gradually increase again. One of our priorities therefore, will be to manage the mix of new business and keep careful control of operating expenses to keep any strain impact as low as possible and ensure that our medium term plans can be delivered.

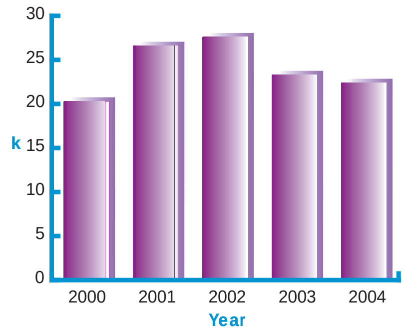
The Society's assets under management stabilised over the year, which was a positive result as we managed significant levels of maturing policies, particularly in the UK with profits fund. It is worth noting that members received payments from the Society totalling more than £63million in 2004, an increase of nearly £20million on the previous year.

funds under management



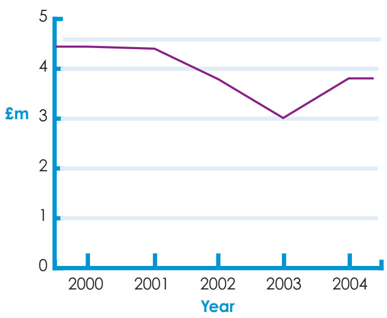
Last year, our new policy sales volumes suffered from a difficult start, with stock market performance which was not sufficiently robust to reverse the generally low level of consumer confidence, and increased competition in the Over 50s protection market. The outcome was, as is shown in the chart below, a lower number of new policy sales than the previous year.

new business volume



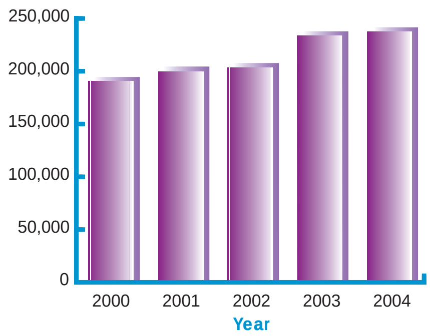
However, despite the lower number of policies, the premium income from new business increased, showing a higher premium level per policy written. It is also pleasing to report that there was an improving trend in our marketing efficiencies in the last three months of 2004 and the outlook for 2005 is far more positive.

annualised new business premiums



Despite the low sales performance, our membership levels were stable, with an increase to 239,000 in the year. This represented a decrease in the savings policyholders as significant numbers of 10 year contracts matured and a general increase in membership across other areas. In 2005, we fully expect to continue the long term trend of growth established in the 5 years up to 2004.

society membership



This was our first full year of operations with the UK Civil Service Benefit Society (UK). The former UK members are now fully integrated into the Society and were able to vote at the 2004 AGM. One of the promises we made when taking on the UK was to make every effort to keep the UK name alive for future years.

A significant step towards this goal was made when we launched a new sub brand of the UK, the “UK Armed Forces Benefit Society”. Working closely with NAAFI Financial, we are now able to offer a range of tax efficient savings products to members of the Armed Forces. The scheme was successfully launched in September last year and quickly brought more than a thousand new members to the Society. We expect to welcome several thousand additional new members from the Armed Forces during 2005.

achieving our long term objectives

Our primary concern is to develop the Society in such a way as it can continue to provide simple, value for money savings and protection products and excellent service to a growing membership base. There are two key aspects of our long term plans – to increase the scale of the Society and thereby improve its efficiency, and to increase the volumes of new business we write to maintain that scale.

increase in scale

Our merger with the UK was a helpful start in developing scale and we will be pleased to enter into discussions with other organisations should they wish to explore the benefits of a similar partnership with us. We will approach any such discussions with the view that the outcome must be positive for all the sets of members involved and we will always be delighted to welcome any transferring members as full members of Homeowners, where possible.

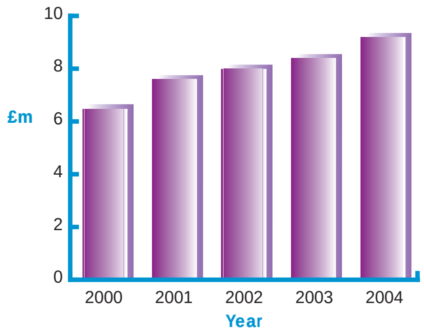
Increasing scale alone doesn’t guarantee efficiency, we also need to keep the operating expenses of the Society as low as possible, while making appropriate investment for the future.

chief executive's operational report (cont.)

increase in scale (cont.)

Putting aside any exceptional items, our operating expenses have increased over the last five years. This reflects a sustained investment in infrastructure and people.

operating expenses



As a result of that investment, we have excellent, modern systems and administration capabilities combined with a well trained and capable customer service team. We have opened a small office in London to further our business development activities in building new distribution partnerships and third party administration.

We have also strengthened the quality of our management team, with recent appointments in Information Technology, Human Resources, Marketing, Customer Service and Business Development. Our priority now is to ensure we deploy this resource most effectively to achieve our growth plans. We will continue to take great care that we balance the need for further investment with the realisation of results.

A supplementary approach to achieving scale is through third party administration, using Homeowners' systems to administer policies for other organisations. Our administration subsidiary, HFA, further proved its potential in 2004, with the smooth development of a new computer system, specifically to manage the with profits products transferred from the UK. The system was built in-house and is now live and fully integrated with Homeowners' systems.

In addition to administering all Homeowners policies, HFA continues to support Pension Annuity Friendly Society and is actively developing additional business opportunities.

new business partnerships

I have already referred to the successful launch of the UK Armed Forces Benefit Society in partnership with NAAFI Financial. This was the first new partnership in the area of worksite marketing, which, we believe, holds significant potential for the future, and we aim to develop further in 2005. We continued to maintain strong relationships with our existing partners – Medicash, Candis Club and Mecca Bingo in 2004. In last year's report I also referred to 'rekindling our long tradition of working with building societies'. The launch of the Child Trust Fund has indeed proved to be an excellent opportunity to build on that tradition.

new business - child trust fund

As I have reported for several years now, Homeowners has been involved from the very earliest stages in the development of the Child Trust Fund. We were delighted to be one of the first formally accredited as a Child Trust Fund provider in 2004 and expect to be one of the main providers when the Trust Funds are live in April 2005.

The Child Trust Fund initiative will provide every child born after 1 September 2002 with either £250 or, for lower income families, £500 paid into a Child Trust Fund account.

A further top up of £250 or £500 is expected to be provided at age 7. Families and friends will be encouraged to make additional contributions of up to £1,200 per year, with no tax to pay on the income or gains arising from the account.

There are two routes by which people can apply for a Homeowners Child Trust Fund. They can contact us via our dedicated web site at **childtrustfund.com** or, alternatively, they may reach us via one of our distribution partners. Arrangements are in place for Homeowners to be the equity Child Trust Fund provider for Yorkshire Building Society, Skipton Building Society, NAAFI Financial, National Childbirth Trust and a number of friendly societies. At the time of writing this report, we are in detailed discussions with additional potential distributors, so we expect to announce further significant partners over the course of 2005.

Our support for the Child Trust Fund provides the Society with an excellent opportunity to fulfil a key part of our mission – providing families with simple, accessible and good value savings products – and to significantly increase the volume of new business we write. Child Trust Fund is therefore a key part of our future strategy.

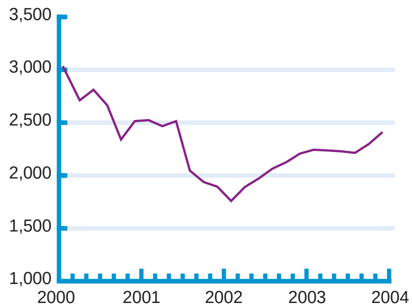
product range

Unlike some friendly societies, we have been keen not to limit our activities to a single product or group of products. In 1997, we wrote only unit linked, life based savings plans. We have been working hard since then to diversify our product base, with some success. Our members now hold a spread of products which include OEICS, ISAs, unit linked and with profits savings plans, term assurance and over 50s protection plans. We believe it is important to maintain this complementary mix of products and to offer members a range of different product solutions.

investment performance

Stock market performance has been front of mind in recent years, as members have seen a direct impact of market decline on their own investments. We were encouraged to see, following on from the growth achieved in 2003, a second positive year of performance from the UK equities market in 2004. Last year, the FTSE All-Share grew by 9.4% (19.8% in 2003) bringing a further and welcome recovery for many of our members' funds.

FTSE All-Share index



We remain hopeful that this recovery will continue in 2005, as the global economy looks set to consolidate itself. However, forecasting this outlook is never certain and the volatility of oil prices, the slow down in the UK housing market and the weakness of the US dollar will all have an impact. Stock market based investments are of course not intended to produce short-term results. They should be regarded with a medium to long-term time frame, i.e. five to ten years. You should also be aware that the value of stock market based investments can fall or rise and investors may not get back all they have invested.

Many of Homeowners' members have their policies invested in deposits. The increase in the Bank of England base rate has resulted in an increase of the average tax-free return for our deposit-based policies in 2004 to 4.52% before charges.

chief executive’s operational report (cont.)

a new look and a new name

In this report I have explained the need to grow the organisation and set out the nature of some of our plans to achieve that growth. We have, for some time, been very conscious that one of the main barriers to growth lies in the confusion and lack of awareness around the Homeowners name. After a period of extensive research in 2004, through which we consulted with current members, potential members and staff, we have concluded that a new name and image is required if we are to make the most of the many opportunities before us.

The feedback we received was clear: people like the Society, what we stand for, our products and the way we serve our members. However, awareness is low and when we start to tell people about the Society, there is immediate doubt and confusion over our name – particularly amongst those who do not own their own home. The concept of mutuality was clearly understood. People were generally very positive about the benefits of a modern mutual and were keen to build a relationship with an organisation they felt that they could trust.

As a result of this feedback, we have decided to move much of our 2005 marketing activity to a new, more modern brand name, **engage** Mutual Assurance.

In the first instance the name will be used as our primary source of new members, with new advertising and partnerships operating under the name. Once this has been proven successful, we plan to operate all existing Homeowners branded accounts under the new name, with a view to ultimately changing the name of the Society at a future date. We will, of course, miss the old Homeowners brand and friendly logo but it is clear that action is required if we are to deliver our future plans. We will keep members informed as our plans progress and I am sure the initial results will feature strongly in next year’s operational report. More information is available at **engagemutual.com**.

Of course, it is also necessary to promote a new brand if it is to have any effect. We have been pleased to secure a high impact but cost effective sports sponsorship arrangement which will give very broad exposure to the **engage** Mutual Assurance brand across a range of media including satellite and terrestrial TV and press. **engage** Mutual Assurance will be the official sponsor of the 2005 Rugby Super League, as part of a two year deal. Super League is a true family sport, with fans across the generations. Despite its northern heartland, it has a fan base across the country with an extensive TV following. We look forward to working with Super League to build awareness of the **engage** Mutual Assurance name and thereby deliver valuable improvements in our marketing efficiency.

thanks

2004 was a year of hard work for the Society as we prepared for the opportunities that will arise in 2005, starting with January’s launch of the Child Trust Fund. As always, I am grateful to the staff of the organisation for their continued commitment and most importantly, our members for their ongoing support. There is no doubt that 2005 will be an important year for us. We are well prepared and look forward to meeting the many challenges with enthusiasm.

Andrew Haigh
Chief Executive
17 February 2005

our products

Homeowners has a simple mission, "to enable people to protect their welfare". We will do this by providing our members with accessible, simple, value for money protection and savings products.

Our products are deliberately simple too – designed so that members can easily understand them and make their decisions without the need for complicated financial advice. Families are our most important member group – but not just children, their parents and grandparents as well. Our products include traditional friendly society tax exempt savings plans, equity ISAs and, from 2005, Child Trust Funds. We also provide, guaranteed acceptance life cover for the Over 50s, Term Assurance and family income protection.

Following our merger last year, we offer products to public sector employees under the UK Civil Service Benefit Society brand, which has a great heritage, built up over more than 100 years. In 2004, we were pleased to extend the UK brand with the launch of the UK Armed Forces Benefit Society, which, in partnership with NAAFI Financial, offers savings products to Armed Forces and Defence personnel and their families.

Our aim is to provide all our members with the best service and value we possibly can. As a mutual, we have no shareholders to complicate matters or take value out of the organisation. We aim to be inclusive, and we set out to draw our membership from a very broad cross section of society, through a variety of ways of reaching people, including direct contact and a growing range of partnerships, particularly with other mutuals. We hope that our no nonsense, direct approach means that the Society can offer a simple, good value and accessible savings and protection alternative, for all.

UK brands

The UK Civil Service Benefit Society merged with Homeowners Friendly Society in October 2003. The 'UK' is well known and respected amongst civil service and public sector employees, with a great heritage, built up over more than 100 years. It is already well represented in the Inland Revenue, Royal Mail, the Prison Service and Government Ministries and its name lives on as a trading style of Homeowners, with a range of with profits, unit linked and protection products available under the 'UKCSBS' brand.

We made further, significant progress with the 'UK' brand in 2004, launching a new partnership with NAAFI Financial under the UK Armed Forces Benefit Society brand. This relationship allows us to promote simple, good value savings products to all our armed forces personnel, based both in the UK and beyond.

UK

ArmedForces|Benefit|Society

NAAFI financial

We are also keen to extend our worksite marketing activities under the 'UK' brand to new opportunities outside the public sector and continue to progress with a number of employers and unions in identifying appropriate and cost-effective means of distributing relevant good value products in the work place.

other services

hfa homeowners financial administration

Homeowners Financial Administration Limited (HFA) is our third party administration subsidiary. HFA provides all product and customer administration service to the customers of Homeowners companies.

Our modern, customer centric systems and highly efficient staff provide a cost-effective foundation for administering unit-linked investment, with profits and protection products.

HFA also offers these services to external organisations, so allowing other companies to benefit from our investment in staff and technology. Outsourcing product administration to HFA enables our clients to increase their business without increasing their own resources and can provide a means to improve the efficiency, effectiveness and economy of their business processes. HFA has proven experience in both the development of new products to client's specific requirements and the transfer of existing books of life and investment business from legacy systems.

services include:

product servicing

policy administration
premium collection
claim payment
transfers & surrenders
statements & valuations
maturity & retention
customer enquiries

sales processing

quotations & illustrations
application processing
underwriting
telephone follow-up calls
commission payment

marketing

direct marketing
response handling
literature fulfilment

partnerships

Homeowners is committed to working with partners, especially mutual and not-for-profit organisations. We see partner based distribution, providing mutual benefit for all, as a key channel to delivering simple, good value savings and protection products to the wider market.

In the run up to the launch of Child Trust Funds in April 2005, we have developed a number of relationships with relevant, like minded partners, including Yorkshire and Skipton building societies, NAAFI Financial and National Childbirth Trust. All of our partners are working closely with us to successfully deliver this new and exciting product to our new audience.

Following our merger with the UK Civil Service Benefit Society and the launch of the UK Armed Forces Benefit Society, we continue to seek out new relationships with organisations that serve people in their workplace.

The success of our current partnership programme has enabled many thousands of new members to take out good value savings and protection products with Homeowners. We have further developed our relationships with National Childbirth Trust, the UK's biggest parenting support charity and Candis Club, associated with Candis magazine, the UK's largest selling monthly women's lifestyle magazine and major donor to medical charities. We have also continued to work closely with the hospital cashplan provider, Medicash and Mecca Bingo.

Homeowners offers a mutually beneficial alternative to other financial services providers. Our modern, customer focused IT infrastructure enables us to deliver efficient product administration and new business processing. Supported by our highly trained telephone team, we are able to provide high levels of customer service, personalised as required by the partner.

your board of directors

Ray Pierce *BA FRSA (59)* — *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 Group Marketing Director on the main board of Guardian Royal Exchange plc and has also held senior positions at The Mortgage Corporation and American Express. He is Chairman of Crown Sports plc, Chairman of Sense International, an international development charity and Chairman of Elevation Events Plc. Ray is also a Trustee of the National Motor Museum at Beaulieu.

David Hargrave *BCom MSc FIA (54)* — *Vice Chairman*

David joined the Homeowners Board in 1981 and was re-appointed as Vice Chairman in 2004 having served in this position during 1998/1999. David is an Actuary and in 1995 formed David Hargrave Limited, an independent company specialising in project-based financial consultancy. He is also Non-Executive Chairman of Deutsche Asset Management Life and Pensions Limited and the independent trustee of a number of pension funds.

Andrew Haigh *BSc (42)* — *Chief Executive*

Andrew became Chief Executive of Homeowners in March 2002.
He joined the Society in 1998 and was appointed to the Board as Sales and Marketing Director in 1999. He is a marketing professional with over 20 years' experience. Prior to joining Homeowners, Andrew held senior positions with NCR Corporation and National & Provincial Building Society. His early career was with Barclays Bank, British Airways and Volvo. He is also a member of the Executive Committee of the Association of Friendly Societies.

Kevin Chidwick *BSc FCCA MBA (41)* — *Finance Director*

Kevin joined Homeowners as Finance Director in July 2001. He has over 20 years experience in UK financial services and has held a number of senior roles in other insurance organisations. Immediately prior to joining Homeowners, Kevin was Finance Director of Cigna UK and before that was Finance and Actuarial Director in a team that launched National Australia Life a new bank assurance operation for National Australia Bank in the UK. Kevin is a Fellow of the Association of Certified Accountants and an MBA graduate from London Business School. He is also a member of the Taxation sub-committee of the Association of Friendly Societies. Kevin is married with two teenage children and lives in West Yorkshire.

Rt. Hon. Lord Clark of Windermere *BA MSc PhD (65)* *Non-Executive Director*

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

Penny Hemming *(57)* *Non-Executive Director*

Penny joined the Homeowners Board in October 2004 having served as CBI Regional Director for Yorkshire and the Humber since 1995, giving her a wide understanding of all issues confronting businesses today. She also spent 16 years in the city as a stockbroker and currency broker. Penny is a Trustee of Eureka, the Museum for Children, a member of the Advisory Board of the University of Bradford School of Management and was appointed a Deputy Lieutenant of West Yorkshire in 2000.

Chris Lazenby *BSc(Eng) CEng MBCS (54)* *Operations Director*

Chris joined Homeowners in August 2003 and was appointed to the Board as Operations Director in January 2004. He has extensive experience of leading business-wide change having been responsible for projects as diverse as developing strategy, setting up a customer contact centre, cost reduction and many technology-based initiatives. Chris's previous roles have included Head of Business Improvement in the mutual sector with Britannia Building Society, IT Director for Lunn Poly as well as senior positions at Ladbrokes and Massey Ferguson.

Gordon Murison *MBE (62)* *Non-Executive Director*

Gordon joined the Homeowners Board in 2003 having served on the Board of UKCSBS Limited for 27 years, the last four and a half years as Chairman. Gordon is a retired Civil Servant having worked for the Department for National Savings for 34 years in both London and Glasgow. He spent the major part of his career in Staff Training and Personnel Management. Over the past few years since his retirement he has been involved in a number of voluntary positions with the Church of Scotland and the West of Scotland Post Office Advisory Board.

directors' report for the year ended 31 December 2004

The Directors present their annual report, together with the financial statements and auditor's report for the year ended 31 December 2004.

business objectives

The mission of the Society is to enable people to protect their welfare. We will do this by providing our members with accessible, simple, value for money protection and savings products.

The Society's subsidiaries are starting to play an increasingly important role in meeting the mission:

- Homeowners Investment Fund Managers Limited, the provider of our equity ISA product is also playing the central role in meeting the Society's aspirations of being a Child Trust Fund provider.
- Homeowners Financial Administration Limited (HFA), the Society's third party administration subsidiary, offers chargeable services to other organisations, creating an income which can be used to offset the Society's operating expenses.

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

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

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

attendance of directors at board and committee meetings

Board Meetings	Ray Pierce	David Hargrave	Andrew Haigh	Kevin Chidwick	Lord Clark	Penny Hemming	Chris Lazenby	Gordon Murison	Peter Sparling
HFS (16)	16	15	16	16	14	3 of 7	15	14	4 of 4
HIFML (3)	3	N/A	3	3	N/A	N/A	3	N/A	2 of 2
HMS (1)	1	1	1	1	0	N/A	1	1	1
HFA (2)	2	2	2	2	1	N/A	2	2	2
UKF (1)	1	1	1	1	0	N/A	1	1	1

board of directors

A list of Directors who held office during the year appears within the 'society information' on page 2. As at the year end, no Director of the Society had any interest in the shares of the Society's subsidiary companies. The Society does not have a Senior Independent Director, as we regard the appointment of a Senior Independent Director as inappropriate to an organisation of our size and structure.

With the recent appointments of Gordon Murison and Penny Hemming we do now have a majority of independent Non-Executive Directors, in line with best practice. We remain committed to a balanced Board with appropriate skills and experience and our approach to succession planning is designed to meet this objective.

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.

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

Committee Meetings	Ray Pierce	David Hargrave	Andrew Haigh	Kevin Chidwick	Lord Clark	Penny Hemming	Chris Lazenby	Gordon Murison	Peter Sparling
Audit (5)	N/A	5	N/A	N/A	4	N/A	N/A	2 of 3	2 of 2
Finance (9)	N/A	9	N/A	9	N/A	N/A	N/A	N/A	N/A
Nominations (1)	1	N/A	1	N/A	N/A	N/A	N/A	N/A	N/A
Remuneration (3)	3	N/A	N/A	N/A	3	N/A	N/A	3	2 of 2

directors' report for the year ended 31 December 2004

board committees

The Audit Committee consists of three Non-Executive Directors, under the Chairmanship of David Hargrave. The Committee currently meets four times a year to review systems of internal control and risk management; to receive external audit reports and to review annual financial statements before submission to the Board. The Audit Committee also meets annually with the external auditors, without management, to discuss issues arising from the audit. In addition, the Chairman of the Audit Committee meets regularly with the Internal Auditor to discuss issues of internal control.

The Finance Committee consists of the Finance Director, the Actuarial Function Holder, and an independent member, who is a qualified actuary, under the Chairmanship of David Hargrave. The Committee met nine times during 2004 to review the Group's financial management in greater detail than is possible at regular Board meetings.

In particular, the Board has charged the Committee with providing direction and recommending strategy in the areas of management of the Society's with profit business, management of the Group's investment strategy and monitoring of the Group's investment performance.

The Nominations Committee consists of the Chairman and the Chief Executive. It 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.

The Remuneration Committee currently consists of three Non-Executive Directors, under the Chairmanship of Ray Pierce. It meets as appropriate to determine the policy for Executive remuneration. The objective of the Committee is to give Executive Directors encouragement to enhance the Society's performance by ensuring that they are fairly and responsibly rewarded for their individual and collective contributions.

advisory board

Following the Society's merger with the United Kingdom Civil Service Benefit Society Limited (UKCSBS), the Society formed an Advisory Board. The Advisory Board consisted of the former Non-Executive Directors of UKCSBS, under the Chairmanship of Gordon Murison. At its meeting in October 2004, the Advisory Board concluded that in view of the progress made by the Society in developing the with profits capability and particularly with the robust controls in place going forward, that the interests of the members would be better served if the Advisory Board members stepped down at the end of 2004 and the costs to the UK with profit sub fund were no longer incurred. The views of the Advisory Board were communicated to, and agreed by the Board of the Society by the Advisory Board Chairman at its meeting in November.

statement of solvency

As at 31 December 2004, the Society's margin of solvency for each class of relevant business exceeded the minimum requirements prescribed by the Financial Services Authority's 'Integrated Prudential Sourcebook'.

membership

Membership of the Society as at 31 December 2004 stood at 239,056 (2003: 236,538).

member complaints policy

The Society aims to deliver the highest possible level of service to our members. If any member believes that the Society has failed in this aim, the member has recourse to the Society's complaints procedures.

The Society has documented procedures for the handling and recording of complaints. We deal with all complaints with due care, ensuring that they are thoroughly investigated. The Board of Directors regularly reviews the number and type of complaints received to monitor that complaints are properly dealt with and corrective action has been taken to prevent recurrence.

Senior management deals with serious complaints. In the unlikely event that a complaint cannot be resolved to the member's satisfaction, the member 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 143. The aggregate remuneration paid to Directors and staff employed by the Group, during the year, amounted to £4,902,000. All of the staff are employed by the Society's third party administration subsidiary, HFA.

Homeowners has an equal opportunities policy for recruitment and continues to be committed to the ongoing development of its staff. The Society received a renewal of its 'Investors in People' award in 2003.

charitable donations

In 2004 we donated £10,423 to charities, which included donations to our local St Michael's Hospice, as well as national charities Macmillans Cancer Relief, Alzheimers Society, British Heart Foundation, Children in Need and Cancer Research UK. We met all the costs of maintaining the grounds that we share with our local Hospice. We also sponsored local junior football clubs.

Our staff fully support charities and have raised over £6,000 through participating in sponsored cycle rides, tombolas, quizzes, all day breakfast and doughnut day in aid of Macmillans Cancer Relief, Children in Need, Candlelighters as well as local charities.

re-appointment of auditors

A resolution to re-appoint KPMG Audit Plc as auditors will be proposed at the forthcoming Annual General Meeting. Auditors are rotated at least once every seven years with a full review process being conducted every three years.

By Order of the Board
Andrew Horsley
Secretary
17 February 2005

statement of the directors' responsibilities

The Friendly Societies Act 1992 requires the Board of Directors to prepare financial statements which give a true and fair view of the state of affairs of the Society and Group as at the end of the financial year and of the income and expenditure for the year then ended. In preparing those financial statements, the Board of Directors is required to:

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

The Directors are also responsible for ensuring that the Society and Group keep proper accounting records which disclose, with reasonable accuracy, at any time the financial position of both the Society and the Group, and for ensuring that the Society and Group establishes and maintains systems of control of its business and records and of inspection and report in accordance with the Friendly Societies Act 1992. The Directors also have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

report of the directors on remuneration

The composition and responsibilities of the Society's Remuneration Committee are set out on page 2 and 18 respectively. The Remuneration Committee is responsible for the Group's Executive remuneration policy. The objective of the committee is to give Executive Directors encouragement to enhance the Society's performance by ensuring that they are fairly and responsibly rewarded for their individual contributions. Where possible the Committee seeks to meet the standards set out in the Combined Code applicable to listed companies.

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

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

The remuneration of our Non-Executive Directors is recommended by the Chairman and the Chief Executive for the Remuneration Committee to agree annually at the year end. The remuneration is calculated on the basis of an agreed minimum number of days committed to Society business, and is paid at a rate, which has been confirmed as competitive, when compared with other similar sized financial services organisations.

service contracts

Andrew Haigh, Kevin Chidwick and Chris Lazenby have service contracts with a twelve-month notice period. The standard terms for Executive Directors include a contractual notice period of 12 months.

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.

report of the directors on remuneration (cont.)

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 Operations Director are awarded a maximum of 15% of basic salary for the achievement of individual objectives with a further maximum of 15% awarded for the achievement of Society objectives.

long-term benefits

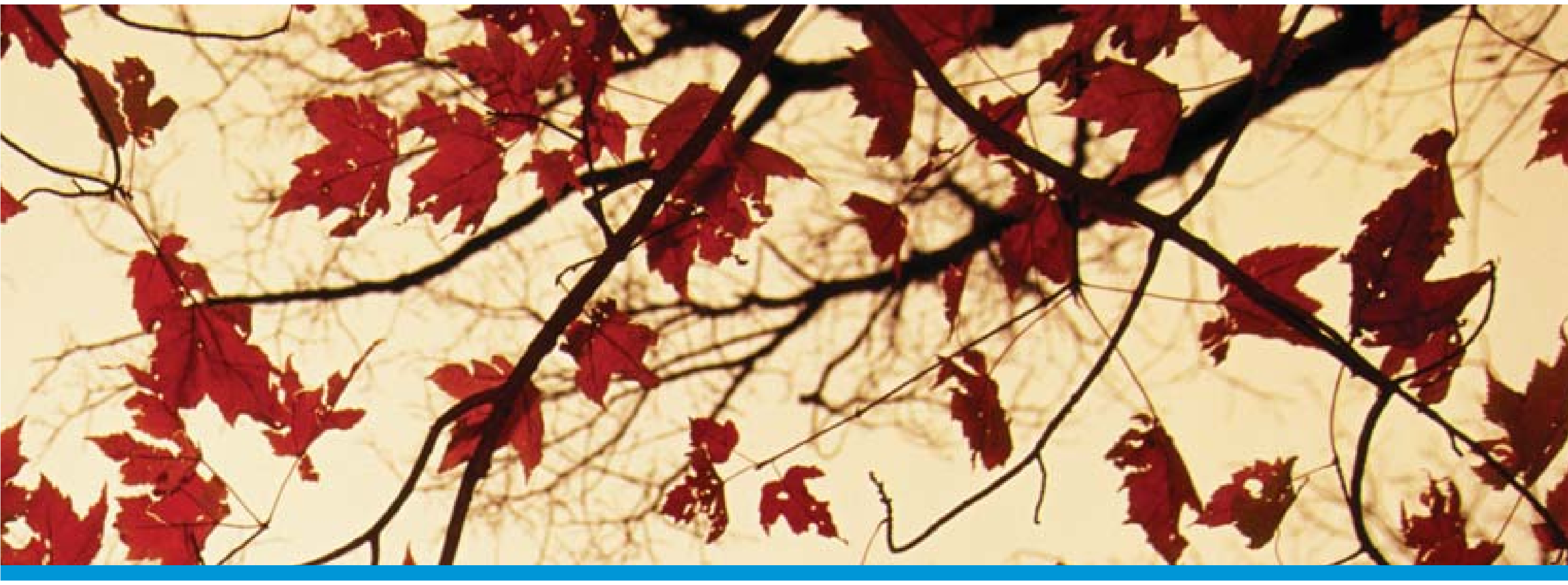
The Directors participate in a long-term bonus scheme, based on the long-term performance of the Group. This has been provided for in the financial statements of Homeowners Financial Administration Limited, but is not due to the Directors until January 2006.

directors' pension entitlement

The Group operates a defined benefit pension scheme for its employees. This Scheme was closed to new entrants on 29 March 2001. A stakeholder pension scheme is in place for all new employees. Of the three Executive Directors Kevin Chidwick and Chris Lazenby are members of the stakeholder pension scheme and Andrew Haigh is a member of the defined benefit pension scheme. The transfer value of Andrew Haigh's pension at 31 December 2004 was £115,113 (2003 £82,912).

other benefits

Also paid for 2004 in respect of former Directors and their spouses were £nil benefits (2003: £323) and £3,000 pension (2003: £4,000). There were no payments relating to loss of office in 2004 (2003: £Nil).



the total emoluments of the directors, comprise:

	salary £'000	bonus £'000	benefits £'000	**sub-total £'000**	Society's pension contributions £'000	**2004 total £'000**	2003 total £'000
Executive Directors							
Andrew Haigh (Chief Executive)	150	26	9	**185**	15	**200**	233
Kevin Chidwick	109	16	6	**131**	10	**141**	152
Chris Lazenby (appointed 06/01/04)	102	16	-	**118**	9	**127**	-
Total	361	58	15	**434**	34	**468**	385
Non-Executive Directors							
Ray Pierce (Chairman)	58	-	-	**58**	-	**58**	50
Lord Clark of Windermere	18	-	-	**18**	-	**18**	18
David Hargrave	49	-	1	**50**	-	**50**	40
Penny Hemming (appointed 19/10/04)	5	-	-	**5**	-	**5**	-
Peter Sparling (retired 13/05/04)	10	-	1	**11**	-	**11**	25
Gordon Murison	24	-	-	**24**	-	**24**	4
Total	164	-	2	**166**	-	**166**	137

long term bonus scheme:

	interest brought forward £'000	awarded in the year £'000	vested in the year £'000	**interest carried forward £'000**	end date for conclusion of incentive
Executive Directors					
Andrew Haigh	79	-	-	**79**	31 Dec 2005
Kevin Chidwick	45	-	-	**45**	31 Dec 2005
Chris Lazenby (appointed 06/01/04)	-	-	-	-	31 Dec 2005
Total	**124**	**-**	**-**	**124**	

independent auditor's report

Independent auditor's report to the members of Homeowners Friendly Society Limited.

We have audited the financial statements on pages 25 to 46.

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 directors and auditors

The Directors are responsible for preparing the financial statements. As described on page 20, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. We also report to you our opinion as to whether the Directors' Report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and as to whether the information given therein is consistent with the accounting records and the financial statements.

We also report to you, if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents we require for our audit.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

basis of audit opinion

We conducted our audit in accordance with Auditing Standards 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 Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Society and the Group as at 31 December 2004 and of the income and expenditure of the Society and the Group for the year then ended and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

In our opinion the Directors' Report on pages 16 to 19 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.

KPMG Audit Plc
Registered Auditor
Chartered Accountants
Leeds
17 February 2005

society income and expenditure

for the year ended 31 december 2004

Technical Account - Long Term Business

Premiums from the acquired UKCSBS business

Share dividends and interest on deposits held

Increased value of investments held

Policy surrender, maturity and death payments

Change in value of linked policyholders benefits

Fund managers' charges

Reclaimed tax credits from dividends on tax exempt policies

	notes	2004 £'000	2003 £'000
Continuing Operations			
Earned premiums			
- Gross premiums written : continuing operations	2	36,620	28,585
- Gross premiums written : acquisitions	2	-	1,325
- Outward reinsurance premiums		(4,650)	(2,790)
Total earned premiums		**31,970**	27,120
Investment income	3	**20,168**	16,499
Unrealised gains on investments	3	**22,013**	27,994
Other technical income	13	**695**	509
Total Technical Income		**74,846**	72,122
Claims incurred			
- Gross claims incurred	4	63,565	44,778
- Outward claims reinsurance		(1,204)	(1,083)
Total claims incurred		**62,361**	43,695
Change in other technical provisions			
- Change in Long term business provision (net of reinsurance)		(9,123)	(1,392)
- Change in technical provisions for linked liabilities		2,611	12,953
- Net operating expenses (Including exceptional charges)	5	14,917	11,415
- Write down of investment in subsidiaries	10	-	2,550
- Investment expenses and charges		193	262
- Tax attributable to the long term & linked business	8	(399)	(293)
- Transfer to fund for future appropriations	9		
- continuing operations		4,286	2,216
- acquisitions		-	716
Total change in other technical provisions		**12,485**	28,427
Total Technical Charges		**74,846**	72,122
Balance on the Long Term Business - Technical Account		**-**	-

All recognised gains and losses in relation to long term business and subsidiaries are dealt with in the Society Income and Expenditure – Long Term Business – Technical Account.

society balance sheet as at 31 december 2004

Assets

Harrogate head office and Kew Gardens property

With profits fund and surplus investments

Value of unit linked investments

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

	notes	2004 £'000	2003 £'000
Investments			
- Investment in land and buildings	*10*	6,175	5,800
- Other financial investments	*10*	134,975	141,437
Total investments		**141,150**	147,237
Assets held to cover linked liabilities	*11*	**446,270**	443,659
Reinsurers' share of technical provisions			
- Long term business provision		**2,795**	1,507
Debtors			
- Other debtors		**4,072**	3,262
Other assets			
- Cash at bank		**669**	2,821
Prepayments and accrued income			
- Accrued interest and rent		5,934	1,066
- Deferred acquisition costs		2,371	4,548
- Other prepayments and accrued income		1,494	715
Total prepayments and accrued income		**9,799**	6,329
Total assets		**604,755**	604,815

society balance sheet as at 31 december 2004

Liabilities

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

Provision for with profits policies and other known contingencies

Maturities, surrenders and death claims awaiting processing and payment

Value of unit linked policyholders benefits

Expenses due in the period yet to be processed

	notes	2004 £'000	2003 £'000
Fund for future appropriations	*9*	**47,913**	43,627
Technical provisions			
- Long term business provision	*14*	103,927	111,762
- Claims outstanding	*14*	4,170	4,206
Total technical provisions		**108,097**	115,968
Technical provisions for linked liabilities	*14*	**446,270**	443,659
Creditors			
- Creditors arising out of insurance operations	*15*	818	64
- Other creditors including taxation and social security	*16*	763	543
Total creditors		**1,581**	607
Accruals and deferred income		**894**	954
Total Liabilities		**604,755**	604,815

Approved at a meeting at the Board of Directors on 17 February 2005 and signed on its behalf by:

R F Pierce - Chairman

A Haigh - Chief Executive

A J Horsley - Secretary

group income and expenditure

for the year ended 31 december 2004

Technical Account - Long Term Business

Premiums from the acquired UKCSBS business

Share dividends and interest on deposits held

Increased value of investments held

Policy surrender, maturity and death payments

Change in value of linked policyholders benefits

Fund managers' charges

Reclaimed tax credits from dividends on tax exempt policies

	notes	2004 £'000	2003 £'000
Continuing Operations			
Earned premiums			
- Gross premiums written : continuing operations	*2*	36,620	28,585
- Gross premiums written : acquisitions	*2*	-	1,325
- Outward reinsurance premiums		(4,650)	(2,790)
Total earned premiums		**31,970**	27,120
Investment income	*3*	**20,168**	16,499
Unrealised gains on investments	*3*	**22,013**	27,994
Other technical income	*13*	**445**	334
Total Technical Income		**74,596**	71,947
Claims incurred			
- Gross claims incurred	*4*	63,565	44,778
- Outward claims reinsurance		(1,204)	(1,083)
Total claims incurred		**62,361**	43,695
Change in other technical provisions			
- Change in Long term business provision (net of reinsurance)		(9,123)	(1,392)
- Change in technical provisions for linked liabilities		2,611	12,953
- Net operating expenses (Including exceptional charges)	*5*	14,917	12,760
- Investment expenses and charges		193	262
- Other Technical Charges	*13*	569	558
- Tax attributable to the long term & linked business	*8*	(397)	(293)
- Transfer to fund for future appropriations	*9*		
- continuing operations		3,465	2,688
- acquisitions		-	716
Total change in other technical provisions		**12,235**	28,252
Total Technical Charges		**74,596**	71,947
Balance on the Long Term Business - Technical Account		**-**	-

All recognised gains and losses in relation to long term business and subsidiaries are dealt with in the Group Income and Expenditure – Long Term Business – Technical Account.

group balance sheet as at 31 december 2004

Assets

Harrogate head office and Kew Gardens property

With profits fund and surplus investments

Value of unit linked investments

Fixtures, fittings and computer hardware

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

	notes	2004 £'000	2003 £'000
Investments			
- Investment in land and buildings	*10*	6,175	5,800
- Other financial investments	*10*	134,975	141,437
Total investments		**141,150**	147,237
Assets held to cover linked liabilities	*11*	**446,270**	443,659
Reinsurers' share of technical provisions			
- Long term business provision		**2,795**	1,507
Debtors			
- Other debtors		**453**	686
Other assets			
- Tangible assets	*12*	689	408
- Cash at bank		1,332	3,387
Total other assets		**2,021**	3,795
Prepayments and accrued income			
- Accrued interest and rent		5,934	1,066
- Deferred acquisition costs		2,371	4,548
- Other prepayments and accrued income		2,850	1,740
Total prepayments and accrued income		**11,155**	7,354
Total assets		**603,844**	604,238

group balance sheet as at 31 december 2004

Liabilities

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

Provision for with profits policies and other known contingencies

Maturities, surrenders and death claims awaiting processing and payment

Value of unit linked policyholders benefits

Expenses due in the period yet to be processed

	notes	2004 £'000	2003 £'000
Fund for future appropriations	9	**45,416**	41,951
Technical provisions			
- Long term business provision	14	103,927	111,762
- Claims outstanding	14	4,170	4,206
Total technical provisions		**108,097**	115,968
Technical provisions for linked liabilities	14	**446,270**	443,659
Creditors			
- Creditors arising out of insurance operations	15	818	64
- Other creditors including taxation and social security	16	1,456	882
Total creditors		**2,274**	946
Accruals and deferred income		**1,787**	1,714
Total Liabilities		**603,844**	604,238

Approved at a meeting at the Board of Directors on 17 February 2005 and signed on its behalf by:

R F Pierce - Chairman

A Haigh - Chief Executive

AJ Horsley - Secretary

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 November 2003. In implementing the requirements of these regulations, the Society has adopted a modified statutory solvency basis for determining technical provisions. The true and fair override provisions of the Companies Act 1985 have been invoked in relation to investment properties (see accounting policies on Investments below).

The accounts comply with applicable accounting standards.

Basis of Consolidation

The Group Accounts comprise the assets, liabilities, and income and expenditure account transactions of the Society and its subsidiary undertakings. The ongoing results of subsidiary undertakings are included within Other Technical Income and Other Technical Charges. 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 – Technical Account.

Premiums

Premiums are credited when they become due. Reinsurance premiums are charged when they become payable.

Claims

Death claims are recorded on the basis of notifications received. Annuity payments are recorded when due. Maturities and surrenders are recorded on the earlier of the date when paid or when the policy ceases to be included within the long-term business provision and / or the technical provision for linked liabilities. Reinsurance recoveries are credited to match the relevant gross amounts.

Investment income and expenses

Investment income and expenses include dividends, interest, rents, 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, rents 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.

1. Accounting Policies (continued)

Investments

Investments consist of land and buildings, listed investments, loans secured on house purchases, 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. Units in unit trusts are included at published bid prices. OEICs are included at the published price. Subsidiary companies are valued at the cost of share capital. Deposits are included at current value. Mortgage loans are included at amount outstanding less any provision for unrecoverable amounts.

The Freehold property investments are valued at open market value. In accordance with SSAP 19, no depreciation is provided in respect of freehold investment properties. This is a departure from the requirements of the Regulations, which require all properties to be depreciated. Depreciation is only one amongst many factors reflected in the valuation of properties and accordingly the amount of depreciation, which might otherwise have been charged, cannot be separately identified or quantified. The Directors consider that this policy results in the accounts giving a true and fair view.

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 a prudent 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 Integrated Prudential Sourcebook. 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.

The technical provision for linked liabilities is based on the actuarial valuation of the related assets.

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.

1. Accounting Policies (continued)

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.

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.

Deferred taxation

Deferred tax assets and liabilities are recognised in accordance with the provisions of FRS19, issued in December 2000. The Society has chosen not to apply the option available under FRS19 of discounting such assets and liabilities to reflect the time value of money. Except as set out in FRS19, 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.

Allowance is made in the long term business provision for deferred taxation at appropriate discounted rates in respect of the unrealised gains on investments, unrelieved management expenses and other timing differences.

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
Motor vehicles	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.

Cash Flow Statement

The Society, being a mutual life assurance company, is exempt from the requirement under Financial Reporting Standard 1 (FRS1) to produce a cash flow statement.

1. Accounting Policies (continued)

Foreign currencies

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

Financial derivatives

The Society's fund managers use derivative financial instruments for efficient portfolio management. The profits or losses arising on these contracts are recognised in the Long Term Business - Technical Account, as they arise. The Society monitors exposure to such instruments on a weekly basis. The fund managers must justify and obtain prior approval from the Society for any exposure in excess of 5% of the underlying fund.

Pensions

The Group operates a defined benefit pension scheme for staff whose employment commenced before 6 April 2001, and a defined contribution pension scheme for those whose employment commenced on or after 6 April 2001. The defined benefit scheme requires contributions to be made to a separately administered fund. Contributions to the fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives with the Group.

The regular cost of the defined benefit scheme is attributed to individual years, using the projected unit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected remaining working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

The Group also administered a pension scheme on behalf of the former UK Civil Service Benefit Society (UKCSBS). The UKCSBS operated a defined benefit scheme, which was closed in July 2002 with staff becoming deferred members of the scheme. The UKCSBS then operated a defined contribution scheme. On 1 September 2004 the UKCSBS scheme was merged with the Homeowners pension scheme.

2. Premium analysis

All business is written in the UK in respect of continuing operations and relates exclusively to individual policyholders and life assurance business.

	2004 £'000	2003 £'000
a. Gross premiums written		
Society and Group Life Assurance Business		
Linked contracts:		
- periodic premium	**18,011**	19,542
- single premium	**468**	347
Non-linked contracts:		
- periodic premium	**10,792**	8,696
- with profits periodic premium	**7,349**	1,325
Total premiums written	**36,620**	29,910
b. Gross new annualised periodic premiums		
Society and Group Life Assurance Business		
Linked contracts	**293**	320
Non-linked contracts	**3,257**	2,666
Total new annualised periodic premiums	**3,550**	2,986

3. Investment income

	2004 £'000	2003 £'000
Society and Group		
- Income from listed investments	10,326	6,894
- Income from other investments	10,521	10,850
- Realised losses on investments	(679)	(1,245)
Total investment income	**20,168**	16,499
Unrealised gains on investments	**22,013**	27,994
Net investment return	**42,181**	44,493

4. Claims incurred

	2004 £'000	2003 £'000
Society and Group		
Gross claims paid	**63,529**	45,019
Change in provision for claims outstanding at year end	**36**	(241)
Gross claims incurred	**63,565**	44,778

5. Net operating expenses

	Society 2004 £'000	Society 2003 £'000	Group 2004 £'000	Group 2003 £'000
Acquisition costs	**9,609**	7,158	**9,609**	7,158
Change in deferred acquisition costs	**2,177**	2,104	**2,177**	2,104
Administrative expenses - ongoing	**7,780**	6,305	**7,780**	6,305
- exceptional	-	-	-	1,345
Reinsurance commissions and profit participation	**(4,649)**	(4,152)	**(4,649)**	(4,152)
Total net operating expenses	**14,917**	11,415	**14,917**	12,760

As previously reported, during 2003 the Group incurred exceptional expenditure of £1.3m on a project to effect the transfer of engagements of the UK Civil Service Benefits Society Ltd to Homeowners Friendly Society Limited.

Also included in Net Operating Expenses are auditor's fees as illustrated below:

	KPMG Audit Plc 2004 £'000	KPMG Audit Plc 2003 £'000	KPMG LLP 2004 £'000	KPMG LLP 2003 £'000
Society				
Audit services				
- statutory audit	**115**	97	-	-
Further assurance services				
- further assurance services	-	-	**212**	-
Tax services				
- advisory services	-	-	**29**	-
Total	**115**	97	**241**	-
Group				
Audit services				
- statutory audit	**125**	109	-	-
- audit-related regulatory reporting	**9**	-	-	-
Further assurance services				
- further assurance services	-	99	**217**	27
Tax services				
- compliance services	-	-	-	25
- advisory services	-	-	**37**	1
Other services				
- internal audit	**1**	-	-	-
Total	**135**	208	**254**	53

Further assurance services provided by KPMG Audit Plc and KPMG LLP in 2003 and 2004 were in relation to due diligence work undertaken by the Group.

6. Staff costs

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

	2004 £'000	2003 £'000
Wages and salaries	**4,217**	4,051
Social security costs	**477**	439
Other pension costs	**208**	184
Total	**4,902**	4,674

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

	2004 No.	2003 No.
Administration	**102**	98
Management	**26**	22
Marketing	**15**	16
Total	**143**	136

7. Directors' emoluments

Directors' emoluments are shown as part of the Report on the Directors Remuneration on pages 21 to 23.

8. Taxation

	Society 2004 £'000	Society 2003 £'000	Group 2004 £'000	Group 2003 £'000
Corporation tax at 20% and 22% (Society), at 30% (Group Subsidiaries)	-	-	**2**	-
Adjustment for corporation tax and income tax payable relating to prior year	**15**	-	**15**	-
Tax credits recoverable on dividends	**(414)**	(293)	**(414)**	(293)
Total	**(399)**	(293)	**(397)**	(293)

9. Fund for future appropriations

	Society 2004 £'000	Society 2003 £'000	Group 2004 £'000	Group 2003 £'000
Balance at 1 January	**43,627**	26,815	**41,951**	24,667
Transfer from profit and loss account	**4,286**	2,932	**3,465**	3,404
Transfer from UKCSBS	-	13,880	-	13,880
Balance at 31 December	**47,913**	43,627	**45,416**	41,951

10. Investments

Property

	Current Value		Historical cost	
	2004	2003	**2004**	2003
Society and Group	**£'000**	£'000	**£'000**	£'000
Land and buildings:				
- Property occupied by the Society	**5,550**	5,175	**8,147**	8,147
- Property in Kew Gardens	**625**	625	**625**	625
Total	**6,175**	5,800	**8,772**	8,772

Land and buildings are freehold. The Society's Head Office was valued on an 'open market with vacant possession' basis as at 22 September 2004, by independent valuers Eddisons Commercial - FRICS, Chartered Surveyors, Leeds in accordance with the RICS Appraisal and Valuation Manual.

The property in Kew Gardens was valued on an 'open market value' basis as at 31 December 2003, by independent valuers Drivers Jonas - FRICS, Chartered Surveyors, London in accordance with the Statement of Asset Valuation Practice and Guidance Notes published by the Royal Institution of Chartered Surveyors.

Subsidiaries

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

Name of subsidiary undertaking	Nature of Business
Homeowners Investment Fund Managers Limited	Authorised Corporate Director (ACD) of an OEIC
Homeowners Financial Administration Limited	Third Party Administrator
UK Friendly Insurance Services Limited	Insurance and non-regulated financial product intermediary
Homeowners Membership Services Limited	Insurance and non-regulated financial product intermediary

On 31 October 2004 the Board made the decision to transfer the ongoing business of its subsidiary, Homeowners Membership Services Limited, to another subsidiary, UK Friendly Insurance Services Limited.

10. Investments (continued)

All four Companies are registered in England and Wales. The investment in subsidiaries can be analysed as follows:

	Shares in subsidiary undertakings
	£'000
Society	
Cost at 1 January 2004	**2,550**
Write off	-
Cost at 31 December 2004	**2,550**
Provision at 1 January 2004	**(2,550)**
Write down	-
Provision at 31 December 2004	**(2,550)**

Financial investments

	Current Value		Historical cost	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Society and Group				
Other financial investments:				
Shares, other variable yield securities and units trusts:				
- UK	**51,785**	43,745	**47,816**	42,209
- Overseas	**423**	414	**404**	509
Debt securities and other fixed income securities	**62,965**	68,579	**62,899**	68,517
Mortgage loans	**134**	169	**134**	169
Deposits with credit institutions	**19,668**	28,530	**19,668**	28,530
Total	**134,975**	141,437	**130,921**	139,934

11. Assets held to cover linked liabilities

	Current Value		Historical cost	
	2004	2003	**2004**	2003
	£'000	£'000	**£'000**	£'000
Society and Group				
Assets held to cover linked liabilities	**446,270**	443,659	**440,103**	455,487
These assets are analysed as follows:				
Shares, other variable yield securities and unit trusts	**176,850**	163,485	**175,891**	177,801
Debt securities and other fixed income securities	**61,132**	64,125	**55,924**	61,637
Deposits with credit institutions	**207,727**	215,218	**207,727**	215,218
Accrued income and receivables	**561**	831	**561**	831
Total	**446,270**	443,659	**440,103**	455,487

12. Tangible assets

	Office and computer equipment	Motor vehicles	Total
	£'000	£'000	£'000
Group			
Cost:			
At 1 January 2004	**569**	**39**	**608**
Additions	**552**	-	**552**
Disposals	-	**(39)**	**(39)**
At 31 December 2004	**1,121**	-	**1,121**
Depreciation:			
At 1 January 2004	**178**	**22**	**200**
Provided in the year	**254**	**11**	**265**
On disposals	-	**(33)**	**(33)**
At 31 December 2004	**432**	-	**432**
Net book value:			
At 31 December 2004	**689**	-	**689**
At 31 December 2003	391	17	408

The charge for depreciation for the Group in the year ended 31 December 2003 was £200,000.

13. Other technical income and other technical charges

Other technical income in the Society is in relation to rental charged to its subsidiary, Homeowners Financial Administration Ltd, for the use of Gardner House. Other technical income in the Group figures refers to income that is wholly earned in the subsidiaries of the Society. Other technical charges in the Group figures refer to expenses that are wholly incurred in the subsidiaries of the Society.

14. Technical provisions

The movements on funds and technical provisions during the year are as follows:

	Long term business provision £'000	Provision for Outstanding Claims £'000	Technical provision for linked liabilities £'000
Society and Group			
At 1 January 2004	**111,762**	**4,206**	**443,659**
Change in other technical provisions	-	-	2,611
Movement in Provision for outstanding claims	-	(36)	-
Transfer (to)/from Technical Account	(7,835)	-	-
At 31 December 2004	**103,927**	**4,170**	**446,270**

Included within the Long Term Business Provision is a deferred tax liability of £450,000 (£900,000 in 2003) relating to deferred acquisition costs. The long term business provision has been calculated on the basis of the following principal interest assumptions for 2004:

Class of business	Interest
Linked assurance tax exempt / taxable	3.5% gross / 2.8% net
Life annuities in payment	3.07%
Term assurance / whole of life	2.8%
With profit tax exempt / taxable	3.0% gross / 2.5% net

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

15. Creditors arising out of insurance operations

All creditors are payable within a period of five years.

16. Other creditors including taxation and social security

	Society 2004 £'000	Society 2003 £'000	Group 2004 £'000	Group 2003 £'000
Other taxes and social security costs	**25**	46	**165**	46
Other creditors	**738**	497	**1,291**	836
Total	**763**	543	**1,456**	882

17. Pension commitments

The Group operates a defined benefit pension scheme for its employees. This Scheme was closed to new entrants on 29 March 2001. A stakeholder pension scheme is in place for all new employees.

The assets of the defined benefit scheme are held separate from those of the Group in an independently administered fund. The pension cost charged in the accounts in relation to the scheme in 2004 is £63,000 (2003 £78,000) and is based on the advice of the Actuary to the fund. The current pension cost, under SSAP 24, may increase in 2005, when the next formal triennial valuation is performed, as a result of the recent deterioration in stock market conditions. In addition the Group incurred costs amounting to £66,223 in respect of the administration of the pension fund.

The recommended level of contribution was based on the triennial Actuarial Review of the pension scheme as at 31 December 2001, which was based on the following information and assumptions:

• The valuation uses the 'projected unit' method.

• Investment return of 6% per annum.

• Long term salary progression of 4% per annum.

• Guaranteed pension increases of 2.5% per annum.

• Discretionary pension increases of 1.25% per annum.

• Market value for assets of £9,265,000.

The valuation showed a surplus of £1,798,000 and a funding ratio of 124%, and the Actuary recommended a funding rate for future service benefits of 20% of pensionable salary (including 5% member's contribution).

Homeowners Pensions Limited is also the Corporate Trustee of the UK Civil Service Benefit Society Retirement Benefits Scheme. This is a defined benefit scheme, which was closed in July 2002 with staff becoming deferred members of the scheme. The assets of the defined benefit scheme are held separately from those of the Group, being invested with an insurance company. On 1 September 2004 the UKCSBS scheme was merged with the Homeowners pension scheme to form a single combined pension scheme; at the same time a special contribution of £908,000 was transferred into the former scheme.

The Group's actual pension scheme contributions for the year exceeded the pension cost charged in the accounts, increasing the prepayment included in the Balance Sheet to £1,475,000.

17. Pension commitments (continued)

FRS17 Reporting Requirements

Whilst the Group continues to account for pension costs in accordance with SSAP 24, under FRS 17 the following transitional disclosures are required.

A full actuarial valuation of both the Homeowners Friendly Society Pension Scheme and the UK Civil Service Benefit Society Retirement Benefits Scheme was carried out as at 31 December 2001. An independent qualified actuary has updated this valuation to 31 December 2004. Scheme assets are stated at their market value at 31 December 2004. The liabilities of the scheme are calculated using the 'projected unit' method. The major assumptions by the actuary at 31 December 2004 were:

	2004 % per annum	*2003 % per annum	*2002 % per annum	*2001 % per annum
Long term salary progression	**4.40**	4.30	3.80	4.00
Rate of increase in pensions payment guaranteed	**2.70**	2.70	2.40	2.50
Discretionary rate of increase in pension payments	**1.35**	1.35	1.20	1.25
Rate of price inflation and deferred pension revaluation	**2.90**	2.80	2.30	2.50
Discount rates	**5.30**	5.60	5.70	6.00

*Rates quoted are for the HFS Pension Scheme, and are not a combination of the HFS and UKCSBS schemes.

The following information in respect of the potential impact of FRS17 is for disclosure only and amounts have not been included in the Income and Expenditure or the Balance Sheet. The total assets and liabilities in the HFS scheme and the expected rates of return are:

	Long-term rate of return expected at 31 December			Value at 31 December		
	2004 %	**2003 %	**2002 %	**2004 £'000**	*2003 £'000	*2002 £'000
Equities	**7.50 pa**	7.75 pa	8.0 pa	**8,118**	6,912	5,268
Bonds	**4.50 pa**	4.75 pa	4.5 pa	**3,390**	2,677	2,653
Other	**4.90 pa**	4.0 pa	4.0 pa	**454**	446	832
Total market value of scheme assets				**11,962**	10,035	8,753
Present value of scheme liabilities				**(11,549)**	(10,561)	(9,190)
Surplus/(deficit) in scheme				**413**	(526)	(437)
Related deferred tax (liability)/asset(at an assumed rate 20%)				**(83)**	105	87
Net pension asset/(liability)				**330**	(421)	(350)

*2003 & 2002 figures have been restated to provide a combined figure for the UKCSBS and HFS pension schemes for comparative purposes.
**Rates quoted are for the HFS Pension Scheme, and are not a combination of the HFS and UKCSBS schemes.

17. Pension commitments (continued)

	2004 £'000	*2003 £'000	*2002 £'000
Analysis of amount charged to technical charges			
Current service costs	**269**	233	304
Past service costs	-	16	-
Total charge	**269**	249	304
Analysis of amount credited to technical income			
Expected return on pension scheme assets	**711**	579	697
Interest on pension scheme liabilities	**(591)**	(521)	(487)
Net return	**120**	58	210
Analysis of actuarial gains and losses (STRGL)			
Actual return less expected return on pension scheme assets	**340**	624	(1,837)
Experience gains and losses arising on the scheme liabilities	**234**	(26)	104
Changes in assumptions underlying the present value of the scheme liabilities	**(619)**	(801)	(637)
Actuarial loss	**(45)**	(203)	(2,370)
Reconciliation to the balance sheet			
Total market value of assets	**11,962**	10,035	8,753
Present value of scheme liabilities	**(11,549)**	(10,561)	(9,190)
Surplus/(deficit) in scheme	**413**	(526)	(437)
Analysis of movement in surplus/(deficit) during the year			
(Deficit)/surplus in scheme at 1 January	**(526)**	(437)	1,708
Current service cost	**(269)**	(233)	(304)
Contributions	**1,133**	305	319
Past service costs	-	(16)	-
Other finance income	**120**	58	210
Actuarial loss	**(45)**	(203)	(2,370)
Surplus/(deficit) in scheme at 31 December	**413**	(526)	(437)

* 2003 & 2002 figures have been restated to provide a combined figure for the UKCSBS and HFS pension schemes for comparative purposes.

17. Pension commitments (continued)

	2004 £'000	2004 %	*2003 £'000	*2003 %
History of experience gains and losses				
Difference between the expected and actual return on scheme assets	**340**	-	624	-
Percentage of scheme assets	-	**2.8**	-	6.0
Experience losses of scheme liabilities	**234**	-	(26)	-
Percentage of present value of scheme liabilities	-	**2.0**	-	(0.2)
Total amount recognised in STRGL	**(45)**	-	(203)	-
Percentage of present value of scheme liabilities	-	**(0.4)**	-	(1.9)

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

18. Operating leases

Annual commitments under non-cancellable leases for the Group are as follows:

	2004 £'000	2003 £'000
Operating leases which expire:		
- within one year	**13**	7
- between two and five years	**29**	47
Total	**42**	54

19. Commitments

There was no expenditure contracted but not provided for in the financial statements (2003 nil).

At 31 December 2004, the Society held FTSE Future contracts with a book value of £2,983,000 (2003 £10,127,000) and a market value of £3,022,000 (2003 £10,452,000). The unrealised gain on these contracts of £39,000 has been included in the Long Term Business - Technical Account. These contracts are only used for efficient portfolio management of the Society's funds invested in UK equities.

20. 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 2004;
- No other member of his family was a member of the Society during 2004;
- 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 2004 amounted to £87,089.

21. 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 FRS8.

During 2004, no members of the Board of Directors of Homeowners Friendly Society Limited and its key management had material transactions with any of the Group's related parties.

22. Deferred tax

In accordance with FRS19 the Group is required to disclose any deferred tax that has not been provided for in the balance sheet. The Group has an unprovided deferred tax asset of £7.8m (£6.6m in 2003) and the Society has £6.4m (£5.4m in 2003).

any questions

call free on 0500 848 262*

* Freephone applies to UK calls only. Calls may be recorded for security and training purposes.

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