



Shepherds Friendly Society Limited
Shepherds House, Stockport Road, Cheadle, Cheshire SK8 2AA
Tel: 0161 428 1212 **Fax:** 0161 428 3666
Email: save@shepherdsfriendly.co.uk **Web:** www.shepherds.co.uk

The Shepherds Friendly Society is incorporated under the 1992 Friendly Societies Act No.240F.
AUTHORISED AND REGULATED BY THE FINANCIAL SERVICES AUTHORITY.



The Shepherds Friendly Society Limited

Report of the Board of Management and Financial Statements

31st December 2007

www.shepherds.co.uk



Contents

The Shepherds Friendly Society Limited

Board of Management: **David Somers** Chairman
Leslie Edwards Senior Independent Director
Kim Harris Vice Chairman
Roger Oakes
Dianne Payne Finance Director
Richard Sear (Resigned 30 September 2007)
Geoffrey Spencer Chief Executive Officer

Registered Office: Shepherds House
Stockport Road
Cheadle
Cheshire
SK8 2AA

Tel: **0161 428 1212**
Fax: **0161 428 3666**
Email: info@shepherds.co.uk
Website: www.shepherdsfriendly.co.uk

Actuarial Function Holder and With Profits Actuary: **Christopher Critchlow** BSc FIA
OAC plc

External Auditors: E.C. Brown & Batts
Chartered Accountants
Registered Auditors

Internal Auditors: PKF (UK) LLP

Bankers: The Royal Bank of Scotland Plc

Investment Managers: Barings Asset Management LTD
Legal and General Asset Management LTD

Property Managers: Atisreal (UK) Limited

Authorised and regulated by the Financial Services Authority
Incorporated under the Friendly Societies Act 1992
Registration No. 240F

■ Mission and Values	page 4
■ Your Board	page 5
■ Chairman's Statement	page 6 - 7
■ Chief Executive's Review	page 8
■ Corporate Governance Review	page 9 - 11
■ Directors' Report on Remuneration	page 12 - 13
■ Independent Auditors' Report	page 14 - 15
■ Society Income and Expenditure Account for the year ended 31 December 2007	page 16 - 17
■ Group Income and Expenditure Account for the year ended 31 December 2007	page 18 - 19
■ Society Balance Sheet as at 31 December 2007	page 20 - 21
■ Group Balance Sheet as at 31 December 2007	page 22 - 23
■ Notes to the Accounts	page 24 - 37
■ Notes	page 38 - 39



Mission and Values

Mission

Shepherds Friendly is a financial services organisation committed to providing straightforward, competitive products. We achieve this through our clear and friendly service combined with our fair principles of financial management.

Values

Clarity

- To ensure that all those who do business with us are completely aware of both costs and charges that will be applied and with the Society's Practices and Principles of Financial Management (PPFM).
- This will be done in a clear, precise, easy to understand manner.

Prudence

- To ensure that monies invested with the Society are treated in a careful and sensible manner and give as good as possible returns on investment.

Approachable

- To give you personal and courteous attention wherever possible – our customers will speak to people not to machines.
- We will communicate with you regularly and in doing so will ask for feedback, and therefore ensure a dialogue exists between Members and the Society.

Fairness

- To ensure that all those who do business with us are treated fairly.

Your Board



From left to right

Roger Oakes

Roger has run his own management consultancy in drug development for the Pharmaceutical Industry over the past 6 years. Prior to this his positions included being Founder and Managing Director of a Contract Research Organisation, and Executive and main board Director of a NASDAQ quoted Biotechnology Company.

Dianne Payne

Dianne was in banking for seventeen years before a career change took her into a number of industries as a qualified management accountant. These industries included Boots, a property development company and an American owned access equipment company.

Leslie Edwards - Senior Independent Director

Les is a Fellow of the Chartered Institute of Management Accountants and a Fellow of The Institute of Sales and Marketing Management. He holds a Diploma from the Institute of Marketing. Prior to setting up his own consultancy firm in 2002 he worked primarily in Textile related industries and fulfilled Director roles in Business Development and Exports. Les is also a Non Executive director and Financial Consultant to the Society of Homeopaths, a Director of the Chester Credit Union and a Board trustee of the Citizens Advice Bureau. He is currently a Society Pension Trustee. A member of the board from 2002 and former Chairman, Les will be stepping down from the board at the 2008 AGM under the Society age limitation rules.

David Somers - Chairman

David has over 25 years of experience at a senior level in investment management of pension funds and life assurance assets. He is currently an FSA registered Director of Allenbridge EPIC Investment Advisers; Non-Executive Director of Europe Arab Bank plc; Non-Executive Director of ACE Europe Life Group; Chairman of Trustees of the Doosan Babcock Energy Pension Scheme and an Independent Trustee of the Fujitsu Technologies Pension Scheme.

Kim Harris

Kim has 22 years experience at a senior level in financial services, sales and marketing with a major banking group. He is currently Sales Director of a financial services recruitment company. Kim is also a member of MENSAs and has significant involvement with both the Scout Association and the Duke of Edinburgh Award Scheme on a voluntary basis.

Richard Sear

For ten years Richard was Chief Executive of a Manchester based health insurance company transforming it from a moribund organisation into a highly profitable venture and organisation and quadrupling its size. In April 2005 the company merged with a larger organisation in the same healthcare industry. Richard resigned on 30th September 2007 to take up a position as CEO of National Deposit Friendly Society.

Geoffrey Spencer - Chief Executive

Geoff has 30 years experience in financial services, having worked for NatWest Bank, Legal and General Group and Royal and Sun Alliance Group.

Chairman's Statement

Incorporating the Report of the Board of Management



Review of 2007

In the penultimate paragraph of my 2006 statement, I mentioned that "we would not underestimate the risks posed by dramatic changes in investment markets of the type seen in 2000 to 2003". When the risks materialised in late 2007 they came from an unsuspected direction - the United States, and the financial damage caused by widespread defaults in the "sub-prime" mortgage market.

Our current strategy, which we have been implementing since July 2006, is to reduce the risks the Society was previously exposed to. In the context of our investment strategy we completed a number of actions in 2007 -

- We changed from a single manager of our stocks and shares to having two managers. Whilst doing this we also achieved a significant reduction in our investment management expenses.
- We divested some of our "bricks and mortars" property investments and held some of the proceeds in additional fixed interest funds and some in more liquid property funds.
- We placed a small proportion of the fund into an "Absolute Return Fund" to help reduce volatility.

The opening value of our investments at the start of the year was £62.9m and the closing value at year end £62.5m. A fall of just 0.6% over what was a difficult year for investments with the prolonged "bull market" ending.

Further steps to reduce risk have resulted in us diversifying our distribution channels, modernising our products and significantly improving our Information Technology systems.

We will continue this prudent approach going forward in the interests of protecting your funds and maintaining our strong solvency position.

The results achieved over the years have led to surplus assets emerging in our balance sheet and therefore the Board has decided to pay an additional special bonus for 2007 and you will be aware of this from your Bonus Statements.

There is no certainty that special bonuses may be paid in the future but the situation will be regularly reviewed in the light of investment results and operational performance.

A growing trend has emerged over the year for Friendly Societies to seek mergers with other like-minded Societies. We believe this is a way forward that the Financial Services Authority would welcome, provided it can be seen to bring benefits to the Members. Shepherds is well placed, because of its financial strength, to pursue opportunities of this type if it is in the interests of our Members to do so.

I believe 2008 will prove to be a more difficult year for the economy as a whole and particularly businesses in the Financial Services Sector. Nevertheless we believe the "de-risking" strategy implemented in 2006/2007 will stand us in good stead to weather the difficulties.

Business Objectives and Activities

The principal activity of the Society is to transact long-term assurance business for the benefit of its Members. During 2007 it carried out its activities in accordance with its Memorandum and Rules.

In accordance with the requirements of the Friendly Societies Act 1992, the Board of Management confirms that all the activities carried out during the year by the Society have been carried out within its respective powers.

Solvency

The Society has maintained the required margin of solvency in accordance with FSA regulations.

Membership

As at 31st December 2007 the Society had 23,514 Members (2006: 24,607).

Complaints

The Society has in place clearly documented procedures for the handling and recording of complaints. The Compliance Officer investigates all complaints thoroughly and impartially within a reasonable time. A Member who feels dissatisfied with the result of such investigation has the right to refer the complaint to the Financial Ombudsman Service.

Pension Scheme

The assets of the Society's defined benefit pension scheme are totally separate from the assets of the Society and are invested with independent fund managers. There are three Trustees of the scheme, of whom one is an employee representative. The Actuaries of the pension scheme are independent of those of the Society.

Political and Charitable Donations

No political donations were made in the year or previous year. A charitable donation of £233 was made to the Rainbow Trust; funds which were promised for votes made at the 2006 AGM.

Appointment of Auditors

A resolution to re-appoint E.C. Brown & Batts as Auditors will be proposed at the Annual General Meeting.

Statement of Disclosure of Information to Auditors

The Directors who held office at the date of approval of the Report and Accounts confirm that, as far as each of them is aware, there is no information relevant to the audit of the Society's consolidated financial statements for the year ended 31st December 2007 of which the Auditors are unaware. They have taken all the steps they should have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's Auditors are aware of that information.

Chief Executive's Review

Investment Performance Review

2007 investment performance was adversely affected by a significant drop in the value of commercial property investments. This was offset by modest gains in the value of stocks and shares investments.

The Society successfully disposed of three properties in 2007 at fractionally above their 2006 valuation figure.

The remaining property investments fell by 8.0% in value over the year compared to a UK commercial property index fall of 7.7%.

Overall our property investment strategy delivered a result broadly in line with the UK market as a whole.

During the course of the year we changed from having our equity shares and fixed interest investments managed solely by Newton Investment Management to having two managers who are Legal and General Investment Management Ltd and Barings Asset Management.

With our property investment portfolio falling in value by 8.0%, but the total portfolio falling in value by only 0.6%, our other investments performed well given that we moved, over the course of the year, to a more defensive approach. This approach is reflected in the table below showing a move of asset allocations to less volatile fixed interest holdings.

Asset Class	December 2006 £m	%	December 2007 £m	%
Equity Shares	£25.9	41%	£23.8	38%
Commercial Property	£14.6	23%	£12.7	20%
Fixed Interest	£11.9	19%	£16.6	27%
Cash deposits	£10.5	17%	£7.4	12%
Other	£0.00	0%	£2.0	3%

Operational Review

During the course of 2007 we completed many of the transitional actions commenced in 2006.

We successfully established the first Appointed Representative firm within Shepherds Network and are now well placed to expand on this front.

Many new relationships were established with Independent Financial Advisers and by year end 200 had signed Terms of Business Agreements with us.

The product range was enhanced by the launch of a new Income Protection Plan with competitive terms to enable us to compete strongly against our competitors in this specialist product area.

Our programme to replace the Information Technology hardware was completed as was a large part of the improvement programme to software programmes. Continuous improvement of all our operating systems is an ongoing project.

Although much progress has been made in containing expenses and reducing the costs associated with acquiring new business, we do still have a significant challenge to achieve high levels of new premiums from existing and new customers. To help in this effort a new Mortgage Payment Protection product will launch in January 2008 and the team promoting our products to the IFA sector will be strengthened.

Our two-pronged approach of reducing risk whilst steadily increasing new business levels is, we believe, the most appropriate way forward for your Society.

G. Spencer
Chief Executive
18th March 2008

Corporate Governance Review

Throughout 2007, we have complied with the annotated version of the Combined Code on Corporate Governance published in July 2005.

In the sections below, we describe how we have complied with the requirements.

The Board

The Board meets a minimum of six times per year. Its primary responsibilities and decision taking areas are -

- Setting the strategic direction
- Monitoring performance of the business and the executive
- Establishing the framework of systems and controls
- Monitoring risk via the framework of systems and controls
- Agreeing the appointment and remuneration levels of Executive Directors and Senior Managers

Direction of the day to day management of the Society is delegated to the Executive who operate within defined authority limits.

The table alongside identifies the Board members, their positions and their attendance at Board and Board Sub-Committee meetings.

Board & Committee Attendance Summary

Board Meetings for 2007 =	7
David Somers (Chairman)	7
Geoffrey Spencer	7
Kim Harris	7
Dianne Payne	7
Leslie Edwards	7
Richard Sear	5 out of 5
Roger Oakes	7

Audit Committee for 2007 =	5
Kim Harris (Chairman)	5
David Somers	3
Dianne Payne	5

Nominations & Remunerations for 2007 =	4
Roger Oakes (Chairman)	4
Leslie Edwards	4
Richard Sear	2 out of 2
Kim Harris	1 out of 1
David Somers	1 out of 1

Investment & Benchmarking for 2007 =	1
Leslie Edwards (Chairman)	1
David Somers	1
Kim Harris	1
Geoffrey Spencer	1
Richard Sear	1
Roger Oakes	1
Dianne Payne	1

Chairman and Chief Executive

There is a clear division of responsibilities between the roles of Chairman and Chief Executive and they are conducted by different individuals. The respective roles are documented in the Board Manual.

The Chairman meets the definition of an Independent Director.

Board Balance and Independence

The Board in 2007 comprised 5 Non-Executive Directors and 2 Executive Directors, having transitioned over recent years from having 7 Non-Executives and 1 Executive Director.

The Board contains a balance of management, investment, financial and financial services expertise, which ensures it has the appropriate skills and knowledge to direct the Society's business. Short CVs of the Directors are shown on page 5.

Mr Richard Sear was a Non-Executive Director until the end of September 2007. We wish him well in his new role as Chief Executive of The National Deposit Friendly Society.

All Non-Executive Directors are Independent Directors and Leslie Edwards is appointed as Senior Independent Director.

Appointments to the Board

The Society has adopted a transparent and independently managed process when making appointments to the Board. The Chairman had disclosed his other significant commitments prior to his re-appointment on 20th July 2007. These commitments are: Director of Allerbridge EPIC Investment Advisers; Pension Trustee for the Fujitsu Technologies Pension Scheme and the Doosan Babcock Energy Pension Scheme. In 2006, he also became a Non-Executive Director of Europe Arab Bank plc and Non-Executive Director of ACE Europe Life Group.

Information and Professional Development

New Directors undergo a formal Induction Programme when appointed. All Directors pursue a programme of Continuous Professional Development and this is appropriately documented and monitored by professionally qualified HR specialists.

Board Performance Evaluation

The Board Appraisal process which involves Peer Group Assessment, analysis of the assessment, action plans and self assessment is a rolling programme during their term of office. All Board Members record their Continuous Professional Development (CPD).

Re-election

The Society has procedures to ensure its Directors retire on a 3 year cycle and, if they wish, may submit for re-election. Nomination is subject to satisfactory performance assessments during the previous term. Appointment requires endorsement by Membership vote.

At the A.G.M. in 2007, Mr Roger Oakes and Mr Kim Harris were re-elected for a further 3 years.

Nominations and Remuneration

The Society has a Nominations and Remuneration Committee. It has not formed two separate Committees as the Board does not believe the Society is of a size which would justify this. The Committee consists entirely of Independent Non-Executive Directors and does not include the Chairman or Chief Executive. The Chairman of this Committee throughout 2007 was Roger Oakes.

Nominations

The process to appoint Non-Executive Directors contains the following elements -

- An open market search involving professional search agents and/or national newspaper advertising
- Assessment utilising external advisers
- Final interview by Nominations and Remuneration Committee

If an Executive Director is appointed from outside the business, a similar process is followed. If an Executive Director is appointed internally, then the decision is based on past performance review and an independent assessment process.

No new Directors were appointed in 2007.

Remuneration

The Committee recommends remuneration packages to the Board for all Directors and the Company Secretary. It does so by reference to what levels of remuneration are necessary to attract the right calibre of individual in the context of the financial services market place. It ensures that a significant portion of overall remuneration of Executives is linked to the achievement of corporate and personal targets. None of the Executive Directors hold Non-Executive Director positions elsewhere.



Directors' Report on Remuneration

Nominations and Remuneration Committee

The members who served on the Committee during the year were:

Roger Oakes (Chairman)
Leslie Edwards
Richard Sear (part of year)

Non-Executive Directors

NEDs are paid a basic salary, supplemented by a daily rate when additional work is necessary for specific projects. Due to the relatively small size of the Society, it is not felt that additional performance-related incentives are needed.

Notice periods have not been built into their Service Agreements. The Society does not pay compensation for early termination of a NED's agreement.

Executive Directors

Remuneration for Executive Directors is made up of salary, annual performance related bonus and contributions to the defined contribution pension scheme. In addition, the Chief Executive, G Spencer, has a "flex benefit" which entitles him to choose from a range of additional benefits, including cash.

The Chief Executive's bonus is linked to a number of performance indicators as decided by the Nominations and Remuneration Committee and is limited to a maximum of 50% of basic salary. Other Directors' bonuses are based on a combination of Society and personal performance.

There is no limitation on the number of years that an Executive Director may serve and the notice period can be from three to six months, depending upon the position. The CEO is entitled to 6 months notice should his contract be terminated. However, if the reason for termination is that the Society has been acquired or transfers its engagements, then an additional one month's notice for each year of service is added, to a maximum of twelve months in all.

There are no long term incentive schemes in place.

Service Agreements

	Commencement	Expiry	Notice period
G Spencer	20/2/2006	N/A	6 months
D Payne	19/5/2003	N/A	3 months
D Somers	6/8/2005	2008	N/A
L Edwards	6/8/2005	2008	N/A
K Harris	5/6/2004	2010	N/A
R Oakes	5/6/2004	2010	N/A
R Sear	6/8/2005	resigned in September 2007	N/A

Corporate Governance Review - Accountability and Audit

The Society has an Audit Committee, which is chaired by Kim Harris. Its Terms of Reference are published on the Society's web site.

The Committee conducts an ongoing process of reviewing the Society's system of internal controls and, where risks of significance are identified, they are managed via the Society's Risk Register.

The Audit Committee meets not less than 4 times a year to conduct its affairs and will include meetings with the External Auditors and the Internal Auditors to discuss the work they conduct independently.

The Society has a documented 3 year audit programme and shares its internal audit work between its in-house Compliance Department and its appointed Internal Auditors.

Corporate Governance Review - Constructive use of the AGM

The Society seeks to ensure the AGM provides an opportunity for open and transparent communication with its Members.

We distribute notice of the AGM and associated papers at least 20 working days ahead of the Meeting.

Separate resolutions are published for each substantive item and the numbers of proxy votes are independently verified. The numbers of proxy votes cast for each resolution are announced at the AGM.

Statement of Responsibilities of the Board of Management

Friendly Society law and the rules of the Society require the Board of Management to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Society and its subsidiary as at the end of each financial year and the income and expenditure of the Society and its subsidiary for that period. In preparing these financial statements the Board is required to:

- Select suitable accounting policies and 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 a going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and its subsidiary, and for ensuring that the Society and its subsidiary establishes and maintains systems of control of its business and records and of inspection and report in accordance with the Friendly Societies Act 1992.

It is also responsible for establishing satisfactory systems of control of the Society's business and records, and of inspection and report, to enable the Board and the Society to comply with the Friendly Societies Act 1992 and the Financial Services and Markets Act 2000.

The Board of Management has a general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

Independent Auditor's Report



We have audited the financial statements of The Shepherds Friendly Society Limited for the year ended 31 December 2007 which comprise Income and Expenditure Accounts, Balance Sheets and the related notes. These financial statements have been prepared under the accounting policies set out therein. We are also required to report on the Report of the Board of Management for the year ended 31 December 2007.

This Report is made solely to the Society's Members as a body in accordance with section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we may state to the Society's Members those matters we are required to state to them in an Auditors' Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board of Management and Auditors

The Board of Management responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of the Board of Management Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. In addition we report to you if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit.

We also report to you our opinion as to whether the Report of the Board of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and as to whether the information given therein is consistent with the financial statements.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Report of the Board of Management and Corporate Governance Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Board of Management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's and the Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Society's and the Group's affairs as at 31 December 2007 and of the income and expenditure of the Society and the Group for the year then ended, and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.
- The Report of the Board of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it and the information given therein is consistent with the financial statements for the financial year.

E C Brown & Batts (Registered Auditors, Chartered Accountants)
Delta House
175-177 Borough High Street
London SE1 1HR
18th March 2008

Society Income and Expenditure Account for the year ended 31 December 2007



	Notes	2007 £	2007 £	2006 £	2006 £
Technical account - long term business					
Earned premiums					
Gross premiums written	2	4,123,867		4,369,937	
Outward reinsurance premiums		<u>(26,844)</u>		<u>(25,837)</u>	
Net premiums			4,097,023		4,344,100
Investment income					
Land and buildings		763,818		805,976	
Other investments		2,206,810		1,940,274	
Gains on the realisation of investments		<u>8,325,516</u>		<u>2,570,143</u>	
			11,296,144		5,316,393
Unrealised gains (losses) on investments					
Other technical income	15		<u>45,000</u>		<u>296,000</u>
Total technical income			<u>6,907,278</u>		<u>10,356,407</u>

	Notes	2007 £	2007 £	2006 £	2006 £
Claims incurred					
Claims paid - gross amount		4,467,146		3,698,332	
Change in the provision for claims		<u>1,356</u>		<u>22,944</u>	
Net claims			4,468,502		3,721,276
Changes in other technical provisions					
Long term business provision transfer	11		1,051,050		576,917
Other expenditure					
Loss on the realisation of investments			0		137,191
Net operating expenses					
Other operating expenses	3	2,245,728		2,072,113	
Investment expenses		<u>167,215</u>		<u>279,769</u>	
			2,412,943		2,351,882
Other technical charges	15		174,000		28,000
Taxation	7				
Transfer: Fund for Future Appropriations	11		(1,199,217)		3,541,141
Total technical expenditure			<u>6,907,278</u>		<u>10,356,407</u>
Balance on technical account - long term business			0		0

The attached notes form part of these accounts. All income and expenditure relates to continuing operations of the Society. There were no recognised gains or losses in 2006 or 2007 other than those shown in the accounts.

Group Income and Expenditure Account for the year ended 31 December 2007



	Notes	2007 £	2007 £	2006 £	2006 £
Technical account - long term business					
Earned premiums					
Gross premiums written	2	4,123,867		4,369,937	
Outward reinsurance premiums		<u>(26,844)</u>		<u>(25,837)</u>	
Net Premiums			4,097,023		4,344,100
Investment income					
Land and buildings		763,818		805,976	
Other investments		2,153,498		1,931,004	
Gains on the realisation of investments		<u>8,325,516</u>		<u>2,570,143</u>	
			11,242,832		5,307,123
Unrealised (losses) gains on investments					
Other technical income	15		<u>136,085</u>		<u>362,981</u>
Total technical income			<u>6,945,051</u>		<u>10,414,118</u>

	Notes	2007 £	2007 £	2006 £	2006 £
Claims incurred					
Claims paid - gross amount		4,467,146		3,698,332	
Change in the provision for claims		<u>1,356</u>		<u>22,944</u>	
Net claims			4,468,502		3,721,276
Changes in other technical provisions					
Long term business provision transfer	11		1,051,050		576,917
Other expenditure					
Loss on the realisation of investments			0		137,191
Net operating expenses					
Other operating expenses	3	2,099,126		1,896,042	
Investment expenses		<u>167,215</u>		<u>279,769</u>	
			2,266,341		2,175,811
Other technical charges	15		425,177		426,946
Taxation	7		0		(316)
Transfer: Fund for Future Appropriations	11		<u>(1,266,019)</u>		<u>3,376,293</u>
Total technical expenditure			<u>6,945,051</u>		<u>10,414,118</u>
Balance on technical account - long term business			0		0

The attached notes form part of these accounts. All income and expenditure relates to continuing operations of the Society. There were no recognised gains or losses in 2006 or 2007 other than those shown in the accounts.

Society Balance Sheet as at 31 December 2007



ASSETS	Notes	2007 £	2007 £	2006 £	2006 £
Investments					
Land and buildings	9	10,940,747		14,675,748	
Other financial investments	9	<u>45,257,182</u>		<u>37,702,045</u>	
			56,197,929		52,377,793
Debtors					
Debtors arising out of direct insurance operations with members		63,862		78,508	
Other debtors	10	<u>1,847,956</u>		<u>573,863</u>	
			1,911,818		652,371
Other assets					
Tangible assets	12	145,393		98,071	
Cash at bank and in hand		<u>5,303,796</u>		<u>10,536,214</u>	
			5,449,189		10,634,285
Prepayments and accrued income					
Accrued interest and rent		89,279		111,278	
Deferred acquisition expenses	14	406,911		449,910	
Other prepayments and accrued income		<u>391,556</u>		<u>316,428</u>	
Total prepayments and accrued income			<u>887,746</u>		<u>877,616</u>
Total assets excluding pensions asset			<u>64,446,682</u>		<u>64,542,065</u>
Net Pension Asset	14		194,000		323,000
Total Assets			<u>64,640,682</u>		<u>64,865,065</u>

LIABILITIES	Notes	2007 £	2007 £	2006 £	2006 £
Reserves					
Revaluation reserve	8	4,963,604		14,002,449	
Fund for future appropriations	11	<u>19,038,514</u>		<u>11,198,889</u>	
			24,002,118		25,201,338
Technical provisions					
Long term business provision	11	39,745,684		38,694,634	
Claims outstanding		<u>47,536</u>		<u>48,891</u>	
			39,793,220		38,743,525
Provisions for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		200,871		197,720	
Other creditors, including taxation and social security		<u>324,189</u>		<u>300,908</u>	
			525,060		498,628
Accruals and deferred income			<u>320,284</u>		<u>421,574</u>
Total Liabilities			<u>64,640,682</u>		<u>64,865,065</u>

The attached notes form part of these accounts

Approved by the Board on 18th March 2008.

D Somers Chairman

K Harris Vice Chairman

Group Balance Sheet as at 31 December 2007



ASSETS	Notes	2007 £	2007 £	2006 £	2006 £
Investments					
Land and buildings	9	10,940,747		14,675,748	
Other financial investments	9	<u>44,757,182</u>		<u>37,701,945</u>	
			55,697,929		52,377,693
Debtors					
Debtors arising out of direct insurance operations with members		63,862		78,508	
Other debtors	10	<u>1,847,955</u>		<u>303,968</u>	
			1,911,817		382,476
Other assets					
Tangible assets	12	150,412		98,071	
Cash at bank and in hand		<u>5,494,535</u>		<u>10,567,533</u>	
			5,644,947		10,665,604
Prepayments and accrued income					
Accrued interest and rent		89,279		111,278	
Deferred acquisition expenses	14	406,911		449,910	
Other prepayments and accrued income		<u>401,091</u>		<u>335,479</u>	
Total prepayments and accrued income			897,281		896,667
Total assets excluding pensions asset			<u>64,151,974</u>		<u>64,322,440</u>
Net Pension Asset	16		194,000		323,000
Total Assets			<u>64,345,974</u>		<u>64,645,440</u>

LIABILITIES	Notes	2007 £	2007 £	2006 £	2006 £
Reserves					
Revaluation reserve	8	4,963,604		14,002,449	
Fund for future appropriations	11	<u>18,743,791</u>		<u>10,970,969</u>	
			23,707,395		24,973,418
Technical provisions					
Long term business provision	11	39,745,684		38,694,634	
Claims outstanding		<u>47,536</u>		<u>48,891</u>	
			39,793,220		38,743,525
Provisions for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		200,871		197,720	
Other creditors, including taxation and social security		<u>324,204</u>		<u>307,593</u>	
			525,075		505,313
Accruals and deferred income			<u>320,284</u>		<u>423,184</u>
Total Liabilities			<u>64,345,974</u>		<u>64,645,440</u>

The attached notes form part of these accounts.

Approved by the Board on 18th March 2008.

D Somers, Chairman

K Harris, Vice Chairman

Notes to the Accounts



1 Accounting policies

Basis of Accounting

The accounts have been prepared in accordance with the Friendly Societies Act 1992, the Friendly Societies (Accounts and Related Provisions) Regulations 1994, with applicable accounting standards and with the Statement of Recommended Practices issued by the Association of British Insurers.

Basis of Consolidation

The Group Accounts comprise the assets, liabilities, and income and expenditure account transactions of the Society and its subsidiary. The ongoing results of the subsidiary are included with 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.

Premium Income

Premium income is included in the income and expenditure account on the basis of premiums due from members during the year. Reinsurance premiums are included when they are payable.

Claims

Claims are included on the following basis:

- Maturities when they become due
- Deaths when notified to the Society
- Surrenders when the policies cease to be included in the long term business provision
- Reinsurance receipts are brought into account to match the recognition of the claim.

Investment Income

Investment income includes dividends, interest, rents and realised gains and losses on investments. They are all included on an accruals basis except for realised gains and losses, which are included as the difference between the net sale proceeds and the original cost of purchase. Unrealised gains and losses are calculated as the difference between the valuation of the investments at the balance sheet date and the valuation at the last balance sheet date.

Investments

These are shown on the balance sheet at the following values:

- Land and buildings: at the last independent professional valuation
- Quoted investments: at the mid-market value at the accounting date
- Authorised unit trusts: at the published bid prices at the accounting date.

Depreciation and Amortisation

No depreciation or amortisation is provided in respect of freehold or leasehold properties. As properties are included in the financial statements at their open market values, the Board considers that no depreciation is required to give a true and fair view. It would be neither practical or of real value to determine depreciation or amortisation taken into account in arriving at open market values.

- Computer equipment is depreciated over 2 years
- Other equipment is depreciated over 4 years.

Technical Provisions

The provisions are determined by the Society's Actuarial Function Holder following his annual investigation of the long term business. The methods and assumptions used in the valuation have been approved by the Board.

Tax attributable to long term business

Taxes are provided for at the current rates in respect of the taxable element in the Society's business. As a registered Friendly Society the Society is only subject to tax on part of its life and endowment business.

Deferred Taxation

In accordance with Financial Reporting Standard 19, deferred taxation is provided for in full on all material timing differences that have originated, but not reversed at the balance sheet date.

Deferred tax assets are recognised to the extent that it is considered that they will be recovered.

Notes to the Accounts

2 Premium Analysis

All premiums are written in the United Kingdom on a direct basis and relate to individual business. The following note refers to the Society and not the Group.

LONG TERM LIFE BUSINESS	2007 £	2007 £	2006 £	2006 £
Non Profit Policies				
Periodic premiums	45,034		53,677	
Reinsurance	(25,810)	19,224	(24,687)	28,990
With Profit Policies				
Periodic premiums	4,028,711		4,214,460	
Reinsurance	(1,034)	4,027,677	(1,150)	4,213,310
Single premium		50,122		101,800
		4,097,023		4,344,100
Annualised new business written: Society and Group			2007 £	2006 £
With Profit Bonds			5,524	42,188
Life Assurance			92,712	109,877
Sickness			106,483	85,704
			204,719	237,769

3 Society and Group Net Operating Expenses

	Society 2007 £	Group 2007 £	Society 2006 £	Group 2006 £
Acquisition costs	1,259,456	1,112,854	910,319	734,248
Administration expenses	943,273	943,273	1,121,318	1,121,318
Change in deferred acquisition cost	42,999	42,999	40,476	40,476
	2,245,728	2,099,126	2,072,113	1,896,042

Also included in the operating expenses are:

	Society 2007 £	Group 2007 £	Society 2006 £	Group 2006 £
Auditor's remuneration and expenses for audit services:	17,500	19,500	17,000	19,500
For non-audit services, including reviewing actuary	9,600	9,600	9,600	9,600
Professional fees	223,867	225,865	309,665	309,665
Operating lease rental charges:				
Vehicles	5,325	4,840	6,107	12,215

Notes to the Accounts

4 Staff Costs

The staff costs for the Group, including directors' fees, for the year, were:

	2007 £	2006 £		2007	2006
Wages and salaries	633,083	985,599	Average number of employees:		
Social security costs	61,781	103,326	Sales	2	13
Pension costs	36,756	48,573	Administration	15	15
Redundancy costs	<u>12,898</u>	<u>46,955</u>	Board	<u>7</u>	<u>6</u>
	744,518	1,184,453		24	34

5 Board Remuneration

Board of Management Remuneration.

	Salary £	Bonus £	Other Benefits £	Total 2007 £	Total 2006 £
G Spencer	77,427	16,104	5,186	98,717	66,820
D Payne	51,450	4,875	4,116	60,441	59,225
L Edwards	13,550	0	600	14,150	24,214
K Harris	14,300	0	453	14,753	21,491
D Somers	18,100	0	1,237	19,337	21,241
R Sear	10,450	0	79	10,529	12,148
R Oakes	13,750	0	911	14,661	11,966
Total	199,027	20,979	12,582	232,588	217,105

Other benefits include contributions to money purchase schemes of £9,302 for Executive Directors. Non-Executive Directors receive expenses for travel to and from Board meetings at Head Office. These are taxed through PAYE and are included under 'Other Benefits'.

6 Related Party Transactions

There were no related party transactions in 2007. (2006: £13,500).

7 Taxation

The Society has tax losses to carry forward and as such there is no tax liability for the current year. These losses would normally create a deferred tax asset but they cannot be recognised under FRS 19 on the basis that foreseeable recovery cannot be determined with reasonable certainty.

8 Movements in Reserves

Revaluation Reserve.

	2007 £	2006 £
Balance at 1 January	14,002,449	13,536,637
Transfer from income and expenditure account	0	0
Transfer from fund for future appropriations	<u>(9,038,845)</u>	<u>465,812</u>
Balance at 31 December	4,963,604	14,002,449

9 Society Investments

Land and buildings.

	Cost 2007 £	Market Valuation 2007 £	Cost 2006 £	Market Valuation 2006 £
Freehold properties partly occupied by the Society	361,483	650,000	361,483	683,333
Other investment properties	3,781,538	6,060,000	4,231,538	7,726,667
Long leasehold	805,067	4,230,000	2,348,263	6,265,001
Ground rents and feu duties	<u>2,902</u>	<u>747</u>	<u>2,902</u>	<u>747</u>
	4,950,990	10,940,747	6,944,186	14,675,748

The properties were valued in full at 31st December 2005 by Dunlop Haywards, Chartered Surveyors. The properties were valued on an open market existing use basis. In December 2007 Atisreal (UK) Ltd, Chartered Surveyors, fully valued one third of the properties and undertook a 'desktop' valuation of the remaining two thirds. The full value of the property occupied by the Society is £ 1,950,000 of which the Society occupied one third.

Notes to the Accounts

Other financial investments

	Cost 2007 £	Market Valuation 2007 £	Cost 2006 £	Market Valuation 2006 £
UK and overseas listed shares	19,536,626	19,192,743	19,347,924	25,952,352
UK listed fixed interest securities	13,015,554	12,865,233	12,081,321	11,749,593
Overseas fixed interest securities	3,723,631	3,738,403	-	-
Absolute Return Fund	8,000,000	7,761,582	-	-
Real Estate Investment Trust	1,507,525	1,199,221	-	-
	45,783,336	44,757,182	31,429,245	37,701,945

The sale of all the investments managed by Newton was treated as a realised gain. This, combined with the sale of three properties in the year, resulted in large movements in the realised and unrealised gains seen in the Income and Expenditure Accounts.

Investment in subsidiary.

The Society owns 100% of the ordinary share capital of Shepherds Network Limited.

	Shares in subsidiary £	Loans to subsidiary £
As 31 December 2007	500,000	-

10 Other Debtors

	2007 £	2006 £
Income tax recoverable	125,799	172,087
Rents held by property manager	152,156	131,800
Loan to subsidiary	0	269,896
Sale of properties with contracts exchanged but payment not received at year end	1,570,000	0
Other	0	80
	1,847,955	573,863

11 Movements in Provisions and Appropriations

Fund for Future Appropriations (Group)

	2007 £	2007 £	2006 £	2006 £
Balance at 1 January		10,970,969		8,123,560
Transfer from/to income and expenditure account	(1,266,019)		3,313,221	
Transfer from/to revaluation reserve	<u>9,038,845</u>		<u>(465,812)</u>	
		<u>7,772,826</u>		<u>2,847,409</u>
Balance at 31 December 2007 for Group and Society		18,743,791		10,970,969
Loss realised in subsidiary		<u>294,723</u>		<u>227,920</u>
Balance at 31 December for Society		19,038,514		11,198,889
Less pension asset (FRS 17)		<u>(194,000)</u>		<u>(323,000)</u>
Balance at 31 December less pension asset		18,844,514		10,875,889

Long term business provision

	2007 £	2006 £
Balance at 1 January	38,694,634	38,117,717
Transfer from income and expenditure account	1,051,050	576,917
Balance 31 December	39,745,684	38,694,634

The technical provisions were calculated by the Society's Actuarial Function Holder, using assumptions as follows:

1 Life and Endowment Fund

The net premium valuation method was adopted using a per annum interest rate of 3.5% and 3.0% for tax exempt and taxable non-profit business respectively and 2.0% for all with-profits. (2006: 3.5%, 3.0%, 2.4% respectively) Mortality based on A67/70 tables with a four year deduction for female lives was assumed. Old table assurances were valued as the maximum sum assured under the contracts. With profit bonds were taken at face value as at 31 December 2007. No allowance for bonus at 31 December 2007 was made in calculating the above provisions.

2 Sickness Fund

Sickness benefits were valued by a gross premium valuation method using an interest rate of 3.5% per annum, 100% of A67/70 mortality, and sickness rates of 80% of Manchester Unity AHJ sickness rates. An allowance for expenses of 15% of premiums and a notional dividend of £2.70 per unit (£1.35 per share) for adult business and £3.15 per unit (£1.575 per share) for juvenile business were assumed.

3 Members' Individual Credit Funds

Members' individual credit funds were taken at face value at 31 December 2007 and allowing for members' allocations (but excluding interest) at that date.

4 Pension Fund

Unitised with profits pension policies were valued at the face value of the units allocated at 31 December 2007 including bonuses added throughout 2007.

Notes to the Accounts

12 Tangible Assets: Society and Group

Cost	Motor Vehicles £	Equipment and Furniture £	Total £
At 1 January 2007	16,577	379,075	395,652
Additions	35,962	81,533	117,495
Disposals	0	0	0
At 31 December 2007	52,539	460,608	513,147
Depreciation			
At 1 January 2006	1,035	296,546	297,581
Provided in year	8,634	61,514	70,148
Disposals	0	0	0
At 31 December 2007	9,669	358,060	367,729
Net book value			
31 December 2007	42,870	102,548	145,418
31 December 2006	15,542	82,529	98,071

13 Statement in accordance with Section 77 of the Friendly Societies Act 1992

The following information has been provided in accordance with Section 77 of the Friendly Societies Act 1992:

- The Actuarial Function Holder and the With Profits Actuary during the year was Mr C. Critchlow BSc FIA, an employee of OAC plc. Neither Mr Critchlow, his wife or his children were members of the Society at any time during 2007.
- Neither Mr Critchlow, his wife or children had any financial interest in any transaction with the Society at any time during 2007, other than as an employee of OAC plc.
- The only remuneration was the fee for professional services paid to OAC plc for the services provided by Mr Critchlow and his support team. The amount payable in this respect amounted to £98,235 exclusive of VAT (2006:£117,196). No other benefits, emoluments, pensions or compensation were paid.
- Mr Critchlow did not receive, and will not receive, any other financial benefit.

14 Deferred Acquisition Expenses

For single premium and Holloway (sickness) policies no acquisition expenses are deferred. For regular premium assurance policies the deferred acquisition expenses have been determined using a Zilmerisation approach and have been calculated on the basis of a prudential assessment of their recovery from the margins contained in the future premiums.

15 Other Technical Income and Technical Charges

Other technical income and charges in the Society are in relation to the Society's superannuation fund and are in accordance with FRS 17. In addition, other technical income and charges in the Group refers to income and expenditure incurred by the subsidiary.

16 Staff Pension Scheme: Society and Group

The Society operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 5 April 2006 and updated to 31 December 2007 by a qualified Independent Actuary. The major assumptions used by the Actuary were:

	31st December 2007	31st December 2006	31st December 2005
Rate of increase in salaries pa	4.7%	4.4%	4.4%
Rate of increase in inflation linked pensions in payment pa	3.2% (2.4% for post Apr05)	2.6% (2.0% for post Apr 05)	2.9% (2.5% for post Apr 05)
Rate of increase in inflation linked deferred pensions pa	3.2%	2.9%	2.9%
Discount rate pa	5.8%	5.1%	4.6%
Inflation assumption pa	3.2%	2.9%	2.9%

The assets in the scheme and the expected long term rate of return were:

	31st December 2007		31st December 2006		31st December 2005	
	Long term expected rate of return	Value £	Long term expected rate of return	Value £	Long term expected rate of return	Value £
Equities	7.25%	1,847,000	7.0%	1,852,000	7.0%	1,922,000
Bonds	5.55%	2,329,000	5.0%	2,191,000	5.0%	2,341,000
Cash	4.25%	74,000	4.0%	357,000	4.0%	72,000
Total Market value of assets		4,250,000		4,400,000		4,335,000
Present value of scheme liabilities		3,878,000		4,077,000		4,280,000
Surplus (Deficit) in the Scheme		372,000		323,000		55,000
Restriction in Recoverable Surplus		(178,000)		0		0
Pension Asset (before tax deferral)		194,000		323,000		55,000

Notes to the Accounts

Analysis of the amount charged to operating profit	31st December 2007 £	31st December 2006 £
Current service cost	18,000	53,000
Settlements and Curtailments	0	0
Past service cost	<u>0</u>	<u>0</u>
Total operating charge	18,000	53,000
Analysis of the amount credited to other finance income		
Expected return on pension scheme assets	246,000	248,000
Interest on pension scheme liabilities	<u>201,000</u>	<u>193,000</u>
Net return	45,000	55,000
Analysis of amount recognised in statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	(141,000)	23,000
Experience gains and losses arising on the scheme liabilities	12,000	(6,000)
Changes in assumptions underlying the present value of the scheme liabilities	138,000	224,000
Restriction due to surplus cap	<u>(178,000)</u>	<u>0</u>
Actuarial (loss)/gain recognised in the STRGL	(169,000)	241,000
Movement in surplus during the year		
Surplus (deficit) in scheme at beginning of the year	323,000	55,000
Movement in the year:		
Current service cost	(18,000)	(53,000)
Contributions	13,000	25,000
Past service costs	0	0
Settlements and Curtailments	0	0
Other finance income	45,000	55,000
Actuarial gain / (loss)	<u>(169,000)</u>	<u>241,000</u>
Surplus (deficit) in scheme at end of the year	194,000	323,000

History of experience gains and losses					
	2007 £	2006 £	2005 £	2004 £	2003 £
Difference between expected & actual return on scheme assets					
Amount	(141,000)	23,000	265,000	113,000	373,000
% of scheme assets	(3.3%)	0.5%	6.1%	2.8%	9.6%
Experience gains and losses on scheme liabilities					
Amount	12,000	(6,000)	128,000	(14,000)	259,000
% of present value of scheme liabilities	0.35%	(0.1%)	3.0%	(0.4%)	6.6%
Total amount recognised in statement of total recognised gains and losses					
Amount	(169,000)	241,000	22,000	45,000	1,013,000
% of present value of scheme liabilities	4.4%	5.9%	0.5%	1.1%	(9.5%)

Notes:

At the actuarial valuation at 5 April 2006, the Actuary recommended a Company contribution rate of 12% of Pensionable Pay plus expenses and life insurance premiums.

Under the projected unit method, the current service cost will increase as Members approach retirement.

The FRS17 funding position at 31 December 2007 shows a surplus of £372,000. However, this can only be recognised on the balance sheet to the extent that the Society will be able to benefit from it, which is only really possible to the extent that the Society will save on future employer contributions. As there are so few active Members remaining, the extent of this is limited and the surplus has been restricted to take this into account. The resulting actuarial loss is shown as a cost in the accounts.

Notes to the Accounts

15 Capital Statement

Capital Statement 2007.

	Life Business	Consolidation Adjustments	Group Total
	£000	£000	£000
Revaluation Reserve	4,963	0	4,963
Fund for Future Appropriations	19,039	(295)	18,744
Total Available Capital Resource	24,002	(295)	23,707

Capital Statement 2006.

	Life Business	Consolidation Adjustments	Group Total
	£000	£000	£000
Revaluation Reserve	14,002	0	14,002
Fund for Future Appropriations	11,199	(228)	10,971
Total Available Capital Resource	25,201	(228)	24,973

Analysis of Policyholders Liabilities 2007.

	Life Business	Consolidation Adjustments	Group Total
With Profits	38,744	0	38,744
Non-participating	1,002	0	1,002
Total liabilities	39,746	0	39,746

Analysis of Policyholders Liabilities 2006.

	Life Business	Consolidation Adjustments	Group Total
With Profits	37,683	0	37,683
Non-participating	1,012	0	1,012
Total liabilities	38,695	0	38,695

The Society is not required to report under the FSA's realistic capital regime, and therefore less detail is required in order to comply with FRS 27 Life Assurance. It is required to hold sufficient capital to comply with the Individual Capital Assessment, as amended by the Individual Capital Guidance.

The Society's total available capital resource of £24m is held by the With Profits Fund. There is a small adjustment to the Group capital to cover the trading losses of the subsidiary.

The assumptions used in valuing the liabilities are agreed by the Actuarial Function Holder and the Board of Management.

These include the following:

- The discount rate used ranged from 2% to 3.5%;
- Life business is valued using A67/70 mortality tables;
- Sickness benefits are valued at 80% of Manchester Unity AJH rates.

The Society does not provide any guarantees and options.

The capital position is sensitive to changes in market conditions, which may affect the value of assets and liabilities. The key risks are a fall in equity and/or property values and a sharp rise in interest rates.

The Board of Management is of the opinion that it has sufficient capital to cope with a sudden fall in asset values, such as a stock market crash, but if necessary immediate action would be taken to reduce the impact. These actions may include the immediate sale of higher risk assets or reducing overheads.

The Board of Management is fully aware of the impact of changes in market conditions, and the sensitivities have been included in the calculations made in arriving at the capital requirement in the Individual Capital Assessment.

