



The Shepherds Friendly Society Limited

Report of the Board of Management and Financial Statements

31 December 2008

The Shepherds Friendly Society Limited

Board of Management: **David Somers** Chairman
Leslie Edwards Senior Independent Director
(Retired 18 October 2008)
Kim Harris Vice Chairman
Joanne Hindle (Joined 18 October 2008)
Roger Oakes Senior Independent Director
(from 19 October 2008)
Dianne Payne Finance Director
Geoffrey Spencer Chief Executive Officer

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

External Auditors: Brown and Batts LLP
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: Matthews and Goodman

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

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Your Board



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 from the ground up to a senior level with the Woolwich Group. He has knowledge of both the retail and regulated arms with a strong emphasis on sales and distribution. He also has 10 years experience in the recruitment industry, specialising in providing financial services personnel. Kim is a Freeman of the City of London, a member of MENSA and has also raised in the region of £250,000 in support of local youth initiatives. He is also active in the voluntary sector being an Explorer Scout Leader and an expedition assessor for the Duke of Edinburgh Award Scheme.

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. Date retired 18/10/08.



Joanne Hindle

Joanne joined the financial services industry in 1986 and has held a variety of roles. Joanne has recently been on the Board of disability insurer "unum", serving for seven years as Corporate Services Director with responsibilities for all Governance matters. Having left "unum" earlier this year, she is now concentrating

on chairing the charity "Employment opportunities for people with disabilities" and is Deputy Chair of the trade body "Investment & Life Assurance Group". Date appointed 18/10/08.

Geoffrey Spencer - Chief Executive

Geoff commenced his financial services career in 1974 with the Natwest Group and subsequently held senior positions at the Legal and General Group and Royal and SunAlliance Group. Prior to becoming Chief Executive of Shepherds in early 2006 he worked for two years as a Management Consultant and Interim Director when he fulfilled several Change Management roles for amongst others the Johnson Services Group, and Bradford and Bingley.

Chairman's Statement

Incorporating the Report of the Board of Management

Review of 2008

2008 will long be remembered for the dramatic events in the Financial Markets leading to what became known as the "credit crunch" and from which the onset of a period of recession was widely forecast.

Members will be forgiven for expecting such a dramatic turn of events to have had an adverse effect on their Society. However, I am pleased to confirm that whilst there has been an effect it has been considerably less severe than might have been suspected. There a number of reasons for this:

Firstly, we are a Mutual Society and our paramount concern is to deliver the best benefits we can for our members and therefore are not driven by trying to maximise profit for shareholders. It has been very noticeable that mutual organisations have not featured in the worst excesses behind the economic downturn.

Secondly, we pursue a relatively low risk operational strategy. In mid 2007 we believed stock markets were near their peak and property markets were over-heated. According we reduced our exposure to equity shares and reaped the benefits of this in 2008 because it reduced the losses experienced through falling stock markets.

Thirdly, we are a Society with products based on the With Profits principle. This means we can "smooth" the peaks and troughs of investment performance and pay a more level amount of bonuses to our Members. Accordingly the returns we will pay on your plans for 2008 will not reflect the full severity of the investment market falls seen in the last 12 months.

Turning to matters more under our control I am pleased to report a very significant increase in our new business income in 2008 with an overall increase of 73%. Our initiatives, launched in mid 2006, to diversify our approach to distribution are now paying dividends with significant further growth expected.

There can be no doubt that the next 3 years will be difficult for all of us but we believe the strategy of low risk business development combined with skilled investment management will see us through and we expect your Society to continue to be a safe haven for your money.



Business Objectives and Activities

The principal activity of the Society is to transact long-term assurance business for the benefit of its members. During 2008 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 2008 the Society had 22,800 members (2007: 23,514).

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 £83 was made to the Rainbow Trust, funds which were promised for votes made at the 2007 AGM. A charitable donation of £50 was made to our auditors for them to forward to the charity of choice following the unfortunate death of the senior partner, Mahmud Ahmad.

Appointment of Auditors

A resolution to re-appoint Brown & Batts LLP 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 2008 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.

D Somers

Chairman

24th March 2009

Chief Executive's Review

Investment Performance Review

2008 investment performance suffered in all our asset classes. The events of 2008 have been extraordinary in that the usual relationships between how asset classes perform relative to each other have been turned on their head. For example, it is traditionally expected that if equity share markets suffer a significant downturn then investors will turn to property causing values to rise or remain stable. However, in 2008 we have seen major reductions in the value of equity share markets and at the same time property markets have suffered a similar dramatic fall in value.

Unfortunately, not only have capital values diminished but the onset of recession has led to lower property occupancy rates by tenants, interest rates falling to record lows and share dividends beginning to fall in real terms. Therefore not only have capital values fallen but investment income has diminished also.

In mid 2007 the Society began to manage its asset allocation classes with the intention of minimising the adverse effects of volatile markets. This strategy was continued throughout 2008, and as can be seen below, at the end of 2008 a significantly higher proportion of our assets are in Gilts/fixed interest/cash than a year ago.

The overall value of the investment portfolio fell from £61.19M at the end of 2007 to £51,96M at the end of 2008. This represents a fall of 15.1% overall in a year in which the FTSE All Share Index fell by 32% and the Commercial Property Index by 28%.

The breakdown of our investment portfolio by asset class is shown below.

Asset Class	December 2007 %	December 2008 %
Equity Shares	41%	33%
Commercial Property	20%	11%
Gilts/Fixed Interest Bonds	27%	40%
Cash deposits	12%	16%

Operational Review

In operational terms 2008 was a very successful year for the Society. Our new business income was the highest for a number of years and grew steadily throughout the year as increased numbers of Independent Financial Advisers began to recommend the Society's products. Similarly the advisers who represent us through our subsidiary company, Shepherds Network, grew in number and the average productivity per adviser increased significantly.

Significant developments in our product range and in how we distribute products commenced in late 2008 and are expected to result in further increases in sales income over the coming year.

Most of the initiatives, commenced in 2006 as part of our 3 year plan, to improve the internal operating systems of the Society, have been completed and it is anticipated that such development expenses will be incurred at a lower level going forward.

The level of supervision of the Society by the Financial Services Authority has decreased and whilst we will remain fully committed to delivering high standards of compliance this should lead to a welcome reduction in the costs of compliance.

Since the credit crunch began and turned into a wider financial and economic crisis the Society has not been threatened by these events. Our solvency has remained comfortably above the regulatory required amount during 2008 and we believe we will return to an even stronger financial position over the coming years.

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

G Spencer
Chief Executive
24th March 2009

Corporate Governance Review



Throughout 2008, 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 a 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 2008 =	7
David Somers (Chairman)	7
Geoffrey Spencer	7
Kim Harris	7
Dianne Payne	7
Les Edwards	6 out of 6
Roger Oakes	7
Joanne Hindle	1 out of 1

Audit Committee for 2008 =	3
Kim Harris (Chairman)	3
David Somers	2
Dianne Payne	3

Nominations & Remunerations for 2008 =	6
Roger Oakes (Chairman)	6
Les Edwards	4 out of 5
David Somers	1 out of 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 2008 comprised of 4 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 4.

All Non-Executive Directors are independent directors and Roger Oakes 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 2008. These commitments are: non-executive director of Europe Arab Bank; non-executive director of AllenbridgeEPIC Investment Advisers; non-executive director of Ace Europe Life; Pension Trustee for Fujitsu Technologies Pension Fund and Doosan Babcock Energy Pension Scheme.

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 a professionally qualified HR specialist.

Board Performance Evaluation

The Board Appraisal process which involves Peer Group Assessment, analysis of the assessment, action plans and self assessment is a rolling program 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 2008, Mr David Somers was 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 Chief Executive. The Chairman of this Committee throughout 2008 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
- Initial interview by independent search agent
- Independently conducted Assessment Centre
- 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.

Joanne Hindle was appointed as a non-executive director in 2008.

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

David Somers (part of year)

Remuneration Policy

The Committee considers the remuneration levels for Executive and Non-Executive Directors. It does so by reference to equivalent salaries paid by the financial services sector in general and by Friendly Societies. Packages are designed to attract and motivate the right calibre of individual.

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.

	Commencement	Expiry	Notice period
G Spencer	20/2/2006	N/A	6 months
D Payne	19/5/2003	N/A	3 months
D Somers	18/10/2008	2011	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
J Hindle	18/10/2008	2010	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 normally meets 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 directors confirm that they have complied with the above requirements in preparing the financial statements.

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

TO THE MEMBERS OF THE SHEPHERDS FRIENDLY SOCIETY LIMITED

We have audited the financial statements of The Shepherds Friendly Society Limited (the society) for the year ended 31 December 2008 which comprise Income and Expenditure Accounts, the 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 2008.

The maintenance and integrity of the Society's website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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 or if information specified by law regarding directors remuneration and other transactions is not disclosed.

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 2008 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.

Brown & Batts (Registered Auditors, Chartered Accountants)

Delta House

Society Income and Expenditure Account for the year ended 31 December 2008

	Notes	2008 £	2008 £	2007 £	2007 £
Technical account - Long term business					
Earned premiums					
Gross premiums written	2	3,995,110		4,123,867	
Outward reinsurance premiums		<u>(11,082)</u>		<u>(26,844)</u>	
Net premiums			3,984,028		4,097,023
Investment income					
Land and buildings		614,687		763,818	
Other investments		1,974,141		2,206,810	
Gains on the realisation of investments		<u>(1,346,713)</u>		<u>8,325,516</u>	
			1,242,115		11,296,144
Unrealised losses on investments					
Other technical income			171		45,000
Total technical income			<u>(3,144,557)</u>		<u>6,907,278</u>



	Notes	2008 £	2008 £	2007 £	2007 £
Claims incurred					
Claims paid - gross amount		5,204,041		4,467,146	
Change in the provision for claims		<u>47,448</u>		<u>1,356</u>	
			5,251,489		4,468,502
Changes in other technical provisions					
Long term business provision transfer	11		860,182		1,051,050
Other expenditure					
Net operating expenses					
Other operating expenses	3	2,481,212		2,245,728	
Investment expenses		<u>94,121</u>		<u>167,215</u>	
			2,575,333		2,412,943
Other technical charges			45,000		174,000
Taxation	7				
Transfer: Fund for Future Appropriations	11		(11,876,561)		(1,199,217)
Total technical expenditure			<u>(3,144,557)</u>		<u>6,907,278</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 2008 or 2007 other than those shown in the accounts.

Group Income and Expenditure Account for the year ended 31 December 2008

	Notes	2008 £	2008 £	2007 £	2007 £
Technical account - long term business					
Earned premiums					
Gross premiums written	2	3,995,110		4,123,867	
Outward reinsurance premiums		<u>(11,082)</u>		<u>(26,844)</u>	
Net Premiums			3,984,028		4,097,023
Investment income					
Land and buildings		614,687		763,818	
Other investments		1,932,541		2,153,498	
Gains/(losses) on the realisation of investments		<u>(1,346,713)</u>		<u>8,325,516</u>	
			1,200,515		11,242,832
Unrealised losses on investments					
			(8,370,871)		(8,530,889)
Other technical income			<u>123,087</u>		<u>136,085</u>
Total technical income			<u>(3,063,241)</u>		<u>6,945,051</u>



	Notes	2008 £	2008 £	2007 £	2007 £
Claims incurred					
Claims paid - gross amount		5,204,041		4,467,146	
Change in the provision for claims		<u>47,448</u>		<u>1,356</u>	
Net claims			5,251,489		4,468,502
Changes in other technical provisions					
Long term business provision transfer	11		860,182		1,051,050
Net operating expenses	3				
Other operating expenses		2,279,358		2,099,126	
Investment expenses		<u>94,121</u>		<u>167,215</u>	
			2,373,479		2,266,341
Other technical charges			413,087		425,177
Taxation	7		0		0
Transfer: Fund for Future Appropriations	11		<u>(11,961,478)</u>		<u>(1,266,019)</u>
Total technical expenditure			<u>(3,063,241)</u>		<u>6,945,051</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 2007 or 2008 other than those shown in the accounts.

Society Balance Sheet as at 31 December 2008

ASSETS	Notes	2008 £	2008 £	2007 £	2007 £
Investments					
Land and buildings	9	5,843,000		10,940,747	
Other financial investments	9	<u>37,949,541</u>		<u>45,257,182</u>	
			43,792,541		56,197,929
Debtors					
Debtors arising out of direct insurance operations with members		25,826		63,862	
Other debtors	10	<u>(7,844)</u>		<u>1,847,956</u>	
			17,982		1,911,818
Other assets					
Tangible assets	12	116,604		145,393	
Cash at bank and in hand		<u>8,551,742</u>		<u>5,303,796</u>	
			8,668,346		5,449,189
Prepayments and accrued income					
Accrued interest and rent		67,785		89,279	
Deferred acquisition expenses		354,422		406,911	
Other prepayments and accrued income		<u>442,409</u>		<u>391,556</u>	
Total prepayments and accrued income			<u>864,616</u>		<u>887,746</u>
Total assets excluding pensions asset			<u>53,343,485</u>		<u>64,446,682</u>
Net Pension Asset	14		149,000		194,000
Total Assets			<u>53,492,485</u>		<u>64,640,682</u>



LIABILITIES	Notes	2008 £	2008 £	2007 £	2007 £
Reserves					
Revaluation reserve	8	(3,407,267)		4,963,604	
Fund for future appropriations	11	<u>15,532,823</u>		<u>19,038,514</u>	
			12,125,556		24,002,118
Technical provisions					
Long term business provision	11	40,605,866		39,745,684	
Claims outstanding		<u>94,985</u>		<u>47,536</u>	
			40,700,851		39,793,220
Provisions for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		196,000		200,871	
Other creditors, including taxation and social security		<u>154,678</u>		<u>324,189</u>	
			350,678		525,060
Accruals and deferred income			<u>315,400</u>		<u>320,284</u>
Total Liabilities			<u>53,492,485</u>		<u>64,640,682</u>

The attached notes form part of these accounts

Approved by the Board on 24th March 2009

D Somers Chairman

K Harris Vice Chairman

Group Balance Sheet as at 31 December 2008

ASSETS	Notes	2008 £	2008 £	2007 £	2007 £
Investments					
Land and buildings	9	5,843,000		10,940,747	
Other financial investments	9	<u>37,449,541</u>		<u>44,757,182</u>	
			43,292,541		55,697,929
Debtors					
Debtors arising out of direct insurance operations with members		25,826		63,862	
Other debtors	10	<u>(7,844)</u>		<u>1,847,955</u>	
			17,982		1,911,817
Other assets					
Tangible assets	12	117,511		150,412	
Cash at bank and in hand		<u>8,669,065</u>		<u>5,494,535</u>	
			8,786,576		5,644,947
Prepayments and accrued income					
Accrued interest and rent		67,785		89,279	
Deferred acquisition expenses		354,422		406,911	
Other prepayments and accrued income		<u>446,601</u>		<u>401,091</u>	
Total prepayments and accrued income			868,808		897,281
Total assets excluding pensions asset			<u>52,965,907</u>		<u>64,151,974</u>
Net Pension Asset	14		149,000		194,000
Total Assets			<u>53,114,907</u>		<u>64,345,974</u>



LIABILITIES	Notes	2008 £	2008 £	2007 £	2007 £
Reserves					
Revaluation reserve	8	(3,407,267)		4,963,604	
Fund for future appropriations	11	<u>15,153,183</u>		<u>18,743,791</u>	
			11,745,916		23,707,395
Technical provisions					
Long term business provision	11	40,605,866		39,745,684	
Claims outstanding		<u>94,985</u>		<u>47,536</u>	
			40,700,851		39,793,220
Provisions for other risks and charges					
Creditors					
Creditors arising from direct insurance operations		196,000		200,871	
Other creditors, including taxation and social security		<u>156,740</u>		<u>324,204</u>	
			352,740		525,075
Accruals and deferred income			<u>315,400</u>		<u>320,284</u>
Total Liabilities			<u>53,114,907</u>		<u>64,345,974</u>

The attached notes form part of these accounts.

Approved by the Board on 24th March 2009

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 "The ABI Sorp" in December 2005 and revised in December 2006.

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 ceases 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

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 consider 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.



Tangible Fixed Assets

Tangible assets are capitalised and depreciated by equal annual instalments over their estimated useful life. The principal rates use for this purpose are as follows:

- 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 more likely than not they will be recovered.

Changes in Accounting Policies

The Society has adopted an amendment to FRS 17 'Retirement benefits' in full in these financial statements. As well as changing certain disclosures, the adoption of this amendment has given rise to a change in accounting policy in respect of the valuation of listed equity investments and bonds which are held in scheme assets which are now valued at the current bid price, having previously been valued at mid-market value. There has been no material impact on income and expenditure as a result of this change.

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.

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.

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	2008 £	2008 £	2007 £	2007 £
Non Profit Policies				
Periodic premiums	70,259		45,034	
Reinsurance	<u>(10,481)</u>	59,778	<u>(25,810)</u>	19,224
With Profit Policies				
Periodic premiums	3,758,675		4,028,711	
Reinsurance	<u>(601)</u>	3,758,074	<u>(1,034)</u>	4,027,677
Single premium		<u>166,176</u>		<u>50,122</u>
		3,984,028		4,097,023
Annualised new business written: Society and Group			2008 £	2007 £
Single Premium			18,984	5,524
Life Assurance			165,607	92,712
Sickness			<u>203,656</u>	<u>106,483</u>
			388,247	204,719



3 Society and Group Net Operating Expenses

	Society 2008 £	Group 2008 £	Society 2007 £	Group 2007 £
Acquisition costs	1,217,910	1,016,056	1,259,456	1,112,854
Changes in deferred acquisition cost	52,489	52,489	42,999	42,999
Administration expenses	<u>1,210,813</u>	<u>1,210,813</u>	<u>943,273</u>	<u>943,273</u>
	2,481,212	2,279,358	2,245,728	2,099,126

Also included in the operating expenses are:

	Society 2008 £	Group 2008 £	Society 2007 £	Group 2007 £
Auditor's remuneration and expenses for audit services:	17,500	17,500	17,500	19,500
For non-audit services	9,800	10,500	9,600	9,600
Professional fees	176,717	176,717	223,867	225,865
Operating lease rental charges:				
Vehicles	0	0	5,325	4,840

Notes to the Accounts

4 Staff Costs

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

	2008 £	2007 £
Wages and salaries	751,400	633,083
Social security costs	74,890	61,781
Pension costs	40,221	36,756
Redundancy costs	0	12,898
	866,511	744,518

	2008	2007
Average number of employees:		
Sales	4	2
Administration	18	15
Board	6	7
	28	24

5 Board Remuneration

	Salary £	Bonus £	Other Benefits £	Total 2008 £	Total 2007 £
G Spencer	79,210	14,262	5,328	98,800	98,717
D Payne	52,865	9,730	4,229	66,824	60,441
L Edwards	15,817		710	16,527	14,150
K Harris	17,050		887	17,937	14,753
J Hindle	2,256		0	2,256	0
D Somers	18,700		1,237	19,937	19,337
R Sear					10,529
R Oakes	15,158		1,481	16,639	14,661
Total	201,056	23,992	13,872	238,920	232,588

Other benefits include contributions to money purchase schemes of £9,557 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

No contract of significance existed at any time during the year in which a director was materially interested or which requires disclosure as a related party transaction.

Advantage has been taken of the exemption in FRS 8 not to disclose transactions with entities that are part of the Shepherds Friendly Group.

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.

	2008 £	2007 £
Balance at 1 January	4,963,604	14,002,449
Transfer from income and expenditure account		
Transfer from fund for future appropriations	(8,370,871)	(9,038,845)
Balance at 31 December	(3,407,267)	4,963,604

The revaluation reserve is a component of Funds for Future Appropriations. To ensure consistency and comparability, it is disclosed separately to highlight the movement in market values of Society's investments year on year. The directors consider the negative position on the revaluation reserve to be temporary and expect it to reverse in future.

9 Society Investments

Land and buildings.

	Cost 2008 £	Market Valuation 2008 £	Cost 2007 £	Market Valuation 2007 £
Freehold properties partly occupied by the Society	361,483	267,000	361,483	650,000
Other investment properties	1,828,350	2,621,000	3,781,538	6,060,000
Long leasehold	805,067	2,955,000	805,067	4,230,000
Ground rents and feu duties	0	0	2902	747
	2,994,900	5,843,000	4,950,990	10,940,747

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 2008 Matthews and Goodman, 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 £800,000, of which the Society occupied one third.

Notes to the Accounts

Other financial investments

	Cost 2008 £	Market Valuation 2008 £	Cost 2007 £	Market Valuation 2007 £
UK and overseas listed shares	22,536,626	16,466,060	19,536,626	19,192,743
UK listed fixed interest securities	15,333,581	16,089,605	13,015,554	12,865,233
Overseas fixed interest securities	4,325,027	4,267,863	3,723,631	3,738,403
Absolute Return Fund	0	0	8,000,000	7,761,582
Real Estate Investment Trust	1,507,525	626,013	1,507,525	1,199,221
	43,702,759	37,449,541	45,783,336	44,757,182

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 2008	500,000	-

10 Other Debtors

	2008 £	2007 £
Income tax recoverable	0	125,799
Rents held by property manager	0	152,156
Sale of properties with contracts exchanged but payment not received at year end	0	1,570,000
Other	(7,844)	0
	(7,844)	1,847,955



11 Movements in Provisions and Appropriations

Fund for future appropriations (Group)

	2008 £	2008 £	2007 £	2007 £
Balance at 1 January		18,743,791		10,970,969
Transfer from/to income and expenditure account	(11,961,478)		(1,266,019)	
Transfer from/to revaluation reserve	<u>8,370,870</u>		<u>9,038,845</u>	
		(3,590,608)		7,772,826
Balance at 31 December 2007 (Group and Society)		15,153,183		18,743,791
Loss realised in subsidiary		<u>379,640</u>		<u>294,723</u>
Balance at 31 December (Society)		<u>15,532,823</u>		<u>19,038,514</u>
Less pension asset (FRS 17)		<u>149,000</u>		<u>(194,000)</u>
Balance at 31 December less pension asset		15,383,823		18,844,514

Long term business provision

	2008 £	2007 £
Balance at 1 January	39,745,684	38,694,634
Transfer from income and expenditure account	<u>860,182</u>	<u>1,051,050</u>
Balance 31 December	40,605,866	39,745,684

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. (2007: 3.5%, 3.0%, 2.0% 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 2008.

No allowance for bonus at 31 December 2008 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 2008 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 2008 including bonuses added throughout 2008.

Notes to the Accounts

12 Tangible Assets: Society

Cost	Motor Vehicles £	Equipment and Furniture £	Total £
At 1 January 2008	52,539	460,608	513,147
Additions	48,374	22,943	71,317
Disposals	<u>(18,100)</u>	<u>(324,660)</u>	<u>(342,760)</u>
At 31 December 2008	82,813	158,891	241,704
Depreciation			
At 1 January 2008	9,669	358,060	367,729
Provided in year	20,941	67,051	87,992
Disposals	<u>(6,033)</u>	<u>(324,588)</u>	<u>(330,621)</u>
At 31 December 2008	24,577	100,523	125,100
Net book value			
31 December 2008	58,236	58,368	116,604
31 December 2007	42,870	102,548	145,418

Running totals have been held for equipment and furniture, but this year we have removed some of the old items, hence the large amounts of disposals.

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:

- 1 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 2008.
- 2 Neither Mr Critchlow, his wife or children had any financial interest in any transaction with the Society at any time during 2008, other than as an employee of OAC plc.
- 3 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 £120,607 exclusive of VAT (2007: £98,235). No other benefits, emoluments, pensions or compensation were paid.
- 4 Mr Critchlow did not receive, and will not receive, any other financial benefit.



14 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 2008 by a qualified independent actuary.

FRS 17 figures for the period ending 31 December 2008:

The amounts recognised in the balance sheet	Year ending 31 December 2008 £000	Year ending 31 December 2007 £000
Present value of funded obligations	3,279	3,878
Fair value of plan assets	<u>3,428</u>	<u>4,250</u>
Surplus/(deficit) in the plan	149	372
Restriction on recoverable surplus	0	(178)
Present value of unfunded obligations	0	0
Unrecognised past service cost	0	0
Total surplus/(deficit) recognised	149	194
Related deferred tax asset	<u>0</u>	<u>0</u>
Net asset/liability recognised	149	194
Amounts recognised in profit or loss		
Current service cost (company)	9	18
Interest on obligation	216	202
(expected return on plan assets)	(257)	(246)
Past service costs	0	0
Losses/(gains) on curtailments and settlements	0	0
Impact, if any, of limit on recognisable surplus	<u>0</u>	<u>0</u>
Total amount recognised	(32)	(26)

Notes to the Accounts

Amounts recognised in statement of total recognised gains and losses	Year ending 31 December 2008 £000	Year ending 31 December 2007 £000
Actuarial gains/(losses) on the assets and liabilities	(263)	9
(Restriction due to limit on recoverable surplus)	0	(178)
Total gain/(loss) recognised	(263)	(169)
Recognition of change in defined benefit scheme obligation		
Opening defined benefit obligation	3,878	4,077
Current service costs (company only)	9	18
Interest cost	216	202
Actual contributions paid by plan participants	4	7
Actuarial (gains)/losses on obligation	(509)	(151)
Foreign currency exchange rate impact	0	0
(Benefits paid – including insurance premiums)	(319)	(275)
Past service costs	0	0
Business combinations	0	0
Curtailment losses/(gains)	0	0
Settlement losses/(gains)	0	0
Closing defined benefit obligation	3,279	3,878
Reconciliation of change in plan assets		
Fair value of plan assets at start of accounting period	4,250	4,400
Expected return on plan assets	257	246
Actuarial gains/(losses) on assets	(772)	(141)
Gains/(losses) due to foreign currency exchange rate changes	0	0
Contributions paid by the employer	8	13
Actual contributions paid by plan participants	4	7
(Benefits paid)	(319)	(275)
Business combinations	0	0
Settlements	0	0
Fair value of plan assets at end of accounting period	3,428	4,250



Further disclosures relating to the plan assets:

The major categories of plan assets, measured at fair value	Year ending 31 December 2008 £000	Year ending 31 December 2007 £000
Equities/property	1,051	1,847
Gilts and bonds	2,202	2,329
Cash	175	74
Other	0	0
Total fair value of assets	3,428	4,250
Amount included in fair value of assets for the following items		
Each category of the company's own financial instruments	0	0
Property or other assets used by the company	0	0
Total	0	0
Actuarial return on plan assets during the period is	(515)	105
Principal actuarial assumptions at the end of the accounting period		
Discount rate at the end of the period (%pa)	6.70%	5.80%
Expected return on plan assets (%pa)	6.26%	6.27%
Rate of increase in salaries (%pa)	4.1%	4.7%
Rate in increase (%pa) in future pensions in payment, split:		
Inflation linked up to 5%pa	2.6%	3.2%
Inflation linked up to 2.5%pa	2.15%	2.4%
Mortality table pre retirement	PA92 YOB mc+2	PA92 YOB mc+2
Mortality table post retirement, split:		
Members not yet retired	PA92 YOB mc+2	PA92 YOB mc+2
Current pensioners	PA92 YOB mc+2	PA92 YOB mc+2
Allowance for early retirements (Y/N)	N	N
Allowance for members to commute pension for tax-free cash (Y/N)	N	N

Notes to the Accounts

Narrative for determining the overall expected rate of return on the assets

The overall expected return assumption is calculated as the weighted average of the individual expected return assumptions for each of the major asset classes. The individual return assumptions are based on investment market conditions in the UK, specifically with regard to yields on Government gilts, high quality AA rated corporate bonds, and interest rates set by the Bank of England. Equity returns in well established global markets are generally expected to outperform the return on gilts by 3% pa or more in the long term, and such anticipated outperformance has been taken into account in deriving the expected return from equity type investments.

The weightings used for the overall expected return are in line with the proportions invested in each of the major asset classes, and a deduction to allow for investment expenses has been made.

Presentation of amounts for the current and previous : four periods are as follows	2008 £	2007 £	2006 £	2005 £	2004 £
Defined benefit obligation	3,279	3,878	4,077	4,280	3,993
Plan assets	<u>3,428</u>	<u>4,250</u>	<u>4,400</u>	<u>4,335</u>	<u>4,003</u>
Surplus/(deficit)	149	372	323	55	10
Experience adjustments on plan liabilities: gains/(losses)	(48)	13	(6)	128	(14)
Experience adjustments on plan assets	(771)	(141)	23	265	113

Other disclosures – including description of plan and expected contributions

- 1 The plan is a final salary pension arrangement where members receive benefits based on their final salary.
- 2 The plan is closed to new entrants.
- 3 The plan also provides benefits to spouses/dependants in the event of a member's death before or after retirement.
- 4 The company/group expects to pay contributions in the region of £8,000 to the plan during the next accounting period.

15 Capital Statement

The Society adopted Financial Reporting Standard 27(FRS27), issued in December 2004. The disclosure requirements of the standard largely focus on with-profit funds that fall under the Financial Services Authority (FSA) realistic reporting regime and Society is not required to report under such regime, therefore less detail is required in order to comply with FRS 27 Life Assurance. Society is required to hold sufficient capital to comply with the Individual Capital Assessment, as amended by the Individual Capital Guidance.

The Society maintains an efficient capital structure consistent with the Society's risk profile and the regulatory and market requirement of its business

In reporting our financial strength, capital and solvency is measured using the regulations prescribed by the FSA. These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the Society.



Capital Management policies and objectives

The Company's objectives in managing its capital are;

- To match the profile of its assets and liabilities, taking account of the risks inherent in the business,
- To maintain financial strength to support new business growth,
- To satisfy the requirements of its policyholders and regulators,

Restrictions on available capital resources

It remains the intention of management to ensure that there is adequate capital to exceed the Society's regulatory requirements

Capital Position Statement

	2008 £000	2008 £000	2007 £000	2007 £000
Society's reserves		12,126		24,002
Adjustment on regulatory basis:				
Inadmissible assets of regulated related undertaking	(500)		(500)	
DAC	(354)		(407)	
Other asset adjustment	(149)		(194)	
Expense closure reserve and life & sickness bonus and interest surplus not in R&A	(880)		(2,630)	
		(1,883)		(3,731)
Total available capital resources		<u>10,243</u>		<u>20,271</u>

Capital resource sensitivities:

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. Following the events of 2008 the Society's finances remain strong and the Board of Management remains 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.

Glossary

Corporate Governance

An internal system encompassing processes, policies and people by directing management activities with objectivity accountability and integrity.

Deferred Acquisition Expenses

Certain costs of acquiring new business are spread over the life of the policy, and are treated as an asset in the accounts.

FRS 17

A Financial Reporting Standard issued by the Accounting Standards Board. FRS 17 states how a firm's pension fund should be accounted for.

Fund for Future Appropriations

The accumulated profits of the Society. Equivalent to Retained Profits in a company's accounts.

Long Term Business Provision

An actuarial calculation of the amounts due to policyholders. It is also known as technical provisions.

Realised and unrealised gains or losses

A realised gain or loss occurs when an asset is sold and is the difference between the sale proceeds and the cost. Insurance companies are required to revalue their assets every year, and the increase or decrease in value since the previous year is classed as an unrealised gain or loss.

Reinsurance

The Society pays a premium to a larger insurer to share the risks for larger sums assured.

Smoothing

The principle of reducing bonuses in good years to prevent lower bonuses in poor years.

Valuation methods

Note 11 of the Report and Accounts refers to the assumptions that the actuary uses in calculating the Long Term Business Provision. The references are to standard actuarial tables for calculating death and sickness rates.

With Profits Fund

All members/policyholders participate in the profits and losses of the fund.

Zilmerisation

This is an actuarial method of calculating the Deferred Acquisition Cost.



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The Shepherds Friendly Society is incorporated under the 1992 Friendly Societies Act No.240F.

AUTHORISED AND REGULATED BY THE FINANCIAL SERVICES AUTHORITY.