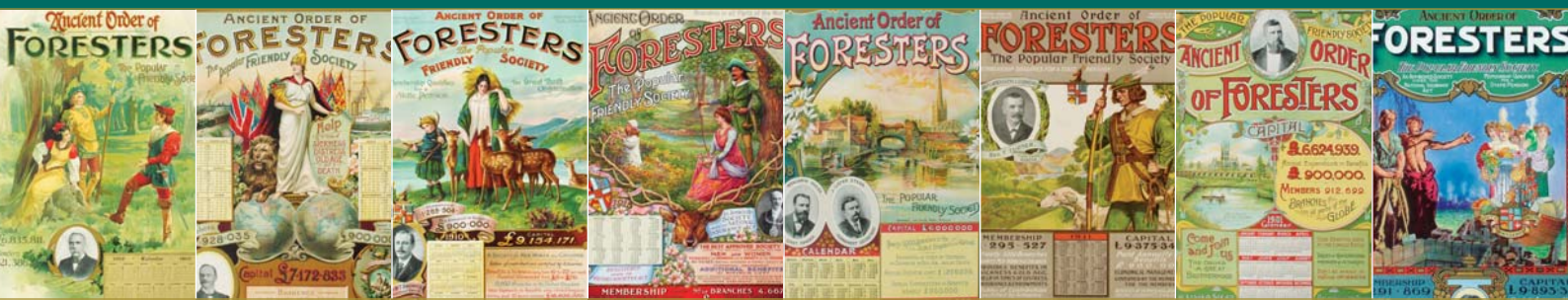


REPORT & ACCOUNTS

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BOARD OF DIRECTORS

Non-Executive Directors

Chairman **Glyn Carpenter**

Deputy Chairman **Andrew Pooley**

Senior Independent Director **Anthony Lovell**

Non-Executive Directors **Carys Clarke**

Cheryl Eagleson

Carl Genese

John Levett

Penny O’Nions

Kathryn Vagneur

Executive Directors

Chief Executive **Kevin Dann**

Finance **Paul Osborn**

Marketing **Neil Armitage**

Company Secretary

Jill Chipchase

ADVISORS

Actuarial Function Holder & With-Profits Actuary

Gavin Lock, Watson Wyatt Limited

Independent Auditors

BDO Stoy Hayward LLP

Bankers

Royal Bank of Scotland PLC

The Ancient Order of Foresters Friendly Society Limited

Society Information

Registered Office

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The Ancient Order of Foresters Friendly Society Limited. Authorised and regulated by The Financial Services Authority Incorporated Friendly Society No. 511F. FSA Registration No. 110029



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Board of Directors Non-Executive Directors



Glyn Carpenter
Chairman

Glyn was elected to the Board in 2002, appointed Deputy Chairman in 2004, and Chairman in September 2007. Following a career in the civil service and local government, he is currently an Inspector with the Audit Commission, examining local government services and the NHS. Glyn is a member of the Institute of Directors and a qualified company director, achieving Chartered Director status with the IOD in 2007. Glyn is a full time employee of the Audit Commission and he has declared he has sufficient time and resources to carry out his duties for the Society.



Andrew Pooley
Deputy Chairman

Andrew joined the Board in 2002 and prior to being the Deputy Chairman served as the Senior Independent Director until 12 September 2007. He has worked at the Royal Courts of Justice for over 30 years. Within the Society he has held a range of branch officer roles during his membership and currently sits on the Investment Committee. He deputises for the Chairman at meetings when necessary.



Tony Lovell
Senior Independent Director
(Appointed Senior Independent Director from 10 December 2008)

Tony was elected to the Board in September 2007 and came to the Society by way of a Non-Executive Directorship of Tunstall. He was appointed to the role of Senior Independent Director in December 2008 and is also a member of the Audit and Risk Committee and the Nominations Committee.



Michael Clarke
Senior Independent Director
(Retired 12 September 2008)

Michael was re-elected to the Board in September 2005. He also served as the High Chief Ranger in 1999/2000. He is a solicitor in private practice and retired from the Board in September 2008.



Alex Battershill
(Resigned 14 January 2008)

Alex was elected to the Board in 2001 and served on a number of sub-committees including interim chairmanship of the Audit and Risk Committee. He retired from the Naval Base at Davenport where he was Technical Officer. He has held various branch offices and served as High Chief Ranger in 2005/6.



Carys Clarke
(Appointed 28 November 2008)

Carys was elected to the Board in 2008 and is a qualified veterinary surgeon. However she now practices as a Solicitor in Birmingham. Carys is also a serving JP and has been a Forester since 1994.



Cheryl Eagleson
(Appointed 24 October 2008)

Cheryl joined the Board after election in 2008. She has been a Forester all her adult life and acts as Trustee and Court Secretary. Her professional life was in the paper textile industry. Cheryl was the first Director to take advantage of the Bursary Scheme prior to her election.



Carl Genese

Carl has held a variety of roles within the Society and is currently Chairman of the Heritage Trust and a Pension Trustee. He is a serving Parish Councillor. Carl also sits as a member of the Audit and Risk Committee.



John Levett

John was elected to the Board in 2003 and serves on a number of Committees. His background is in HR with British Rail. During 2007/8 John served as High Chief Ranger, he is a Court Secretary and has been a member of the Society since 1954.



Penny O’Nions

Elected to the Board in 2007, Penny serves as the Chairman of the Investment Committee. She also sits on the Remuneration Committee. Penny has broad experience of the financial services sector, regularly contributes to “Working Lunch” and the financial press and is studying for her Bar exam.



Kathryn Vagneur (Appointed 15 April 2008)

Kathryn joined the Society in April 2008 and took the chairmanship of the Audit and Risk Committee. She is a Director of a private investment fund and has worked for PriceWaterhouseCoopers. She has a PhD from the London Business School, acts as a consultant and co-manages her family’s cattle business in Colorado. She is also a member of the Remuneration Committee.

Executive Directors



Kevin Dann Chief Executive (Appointed 29 October 2008)

Kevin joined the Society in August 2008. Kevin has over 18 years experience within the financial services sector. Prior to joining Foresters he held a number of senior roles with Alliance Trust PLC, including 10 years as Managing Director of Alliance Trust Savings and latterly as Chief Operating Officer of Alliance Trust Pensions.



Paul Osborn Finance Director and Interim Chief Executive (from 9 May 2008 to 29 October 2008)

Paul joined Foresters as Finance Director in June 2006 and was the first Executive Director to be elected to the Board. He is a qualified Chartered Accountant with over 14 years experience within the friendly society sector, most notably in his previous employment at Teachers Provident Society.



Mark J Rothery Chief Executive (Resigned 9 May 2008)

Mark left the Society in May 2008 but had held the post of Chief Executive since May 2000. He held a number of roles in the Society and was instrumental in the incorporation of the Society. He also served on the Small Business Practitioner Panel of the Financial Services Authority and a Director of the Association of Friendly Societies.



Neil Armitage Marketing Director (Appointed 26 March 2008)

Neil joined the Society as Marketing Director in 2008. He is a member of the Chartered Institute of Marketing where he has achieved the status of Chartered Marketer and also has an MBA from Exeter University. He has sat on the Board of several organisations as Marketing Director developing brands and markets both at home and overseas. More recently, Neil worked for Exeter Friendly Society where he was Group Marketing Director.

Directors are elected to the Board at High Court, but are not appointed until FSA approval is received.



Chairman's Report

Dear Member

Last year in my first report as Chairman, I referred to a year of change, but like many others I did not anticipate the speed and the severity of the changes that would come with the economic downturn that affected the lives of all of us so quickly

in 2008. In this my second year, the story of the Society is one of adapting to those changes, some internal and some external.

In early 2008 the Board were faced with the task of finding a replacement for Mark Rothery who left the Society in May after a total of seventeen years, the last eight as Chief Executive. After a thorough recruitment process we were pleased to appoint Kevin Dann in time for the High Court in Scarborough. Delegates welcomed our new Chief Executive to the Society just as he took on this considerable task at a time of great economic pressure and uncertainty not just for our Society but for friendly societies and the financial services sector as a whole.

In March the executive team was joined by Neil Armitage as Marketing Director. Many of you will have seen the new updated literature which has been introduced, seen several mentions in the press and experienced our new website. The Board remains committed to reversing the decline in membership and a vigorous marketing review and campaign will be launched over the coming year, although we do not underestimate the additional challenges that economic conditions pose, we must do our utmost to find and engage with the next generation of Foresters. As part of that overall plan, the Society's magazine 'Miscellany' has been updated and broadened to be attractive for all members, even those not currently actively involved in Court and Area activities. We have largely completed work on the strategic projects mentioned last year, as part of the overall future strategy. The executive team have been working to produce a new business plan to ensure our longer term strategy to grow the Society is delivered. This plan will focus on the medium term. It will set out ambitious targets for the next five years to place the Society at the forefront of the friendly society sector for member services, product choice and social and benevolent activity.

2008 has of course been a very turbulent year, not just within the financial services sector in this country, but across the entire world economy. The Society has inevitably seen some losses in the value of its overall assets but we remain solvent and the strength of the Society allows the Board to remain committed to a long-term investment strategy that seeks to provide the returns expected by our members.

This year also saw further development of the court project with over 65 Courts now attaining accreditation status. This programme will be continued to ensure Courts are able to offer a wide range of social and community involvement together with benevolence and also spread the treating customers fairly initiative out to our grass roots members. Helping and supporting those in need remains central to the Society's values and in 2008 over £650,000 in

benevolent grants was paid to members through Court and Society funds. In addition, Courts donated over £250,000 to support external charities.

The development of the website is also continuing; this is becoming an increasingly important tool to attract new members. It also informs and educates current members acting as a social point of contact. Over the next year the website will be further refined and expanded to reflect how important this interaction with potential and current members is to organisations such as ours.

2009 is the 175th anniversary of the Society. High Court this year will be held in Manchester, as close to Salford where the very first High Court was held as possible. This was largely determined by the availability of venues able to accommodate the delegates. We want this to be an exciting and celebratory event, and Head Office staff have worked hard to find some superb venues for our main events, with the High Court itself being held at the Manchester United ground, Old Trafford.

At a time when people have become distrustful of corporate greed and short term solutions, mutuality may be coming back into fashion. It has certainly gained a higher public profile. The Society is determined to build on the increased interest now being shown in the mutual sector. To this end we will work with colleagues and like minded institutions to take advantage of the shift away from large and impersonal financial institutions. As a friendly society we are not driven by the need for short-term shareholder returns but can focus on our members' wider and longer term needs and interests.

This is a challenging time for the Society but it has been in existence for 175 years and has weathered similar storms during that time. With careful financial management, adherence to our mutual principles, and a focus on the longer view, the Society will come through the current financial difficulties. In our long history we have experienced other major financial and legislative challenges and we are still here. In 1834 the Society was established on the principles of unity, benevolence and concord to provide financial cover and support for its members in times of need. Considering the current economic outlook it seems that these tenets are just as important today as back then. Our past has seen the Society adapt to extraordinary changes in how we live our lives; and while sticking to our mutual principles we have changed how we do things, and we have survived. The future for the Society relies on strong financial management, attractive products, a dynamic business plan and the ability to respond to events quickly and effectively. This must also be underpinned by a strong commitment to member involvement and service. I believe the Society is well placed to respond to these challenges and to deliver real value and service to the next generation of Foresters.

Glyn Carpenter

Chairman 25 March 2009

Directors' Report

Introduction

The Society's Board of Directors present their report together with the audited accounts of The Ancient Order of Foresters Friendly Society (the Society) for the year ended 31 December 2008.

This report is the statutory report required by 'The Friendly Societies (Accounts and Related Provisions) Regulations 1994'. This report is presented and discussed by the delegates at the Society's Annual General Meeting (High Court) that is being held in September 2009.

Having been through significant modernisation and change in recent years, the Society has focused on membership growth by mergers and group business expansion. Whilst this remains a key focus, individual membership has been declining and it is therefore equally important that the Society achieves growth through recruiting more individual Foresters. 2008 saw the commencement of new initiatives to support this objective and we look forward to reporting on the success of these ventures.

The 'Statement of the Directors' Responsibilities' on page 16 details the Board's responsibilities for these accounts.

The Board Report to High Court (AGM) in 2007 identified a number of strategic projects that impact upon service to members and the role of Courts. Despite a challenging and turbulent external environment 2008 saw significant progression of those projects as planned. The majority of the projects are now complete and have delivered initiatives and activities that now form part of the daily operations of the Society.

Business Review

Objectives and Activities

The Society is a friendly society which incorporated under the 1992 Friendly Societies Act on 1 January 2003. On that date the Society became governed by a new Memorandum and Rules. Prior to that date it operated in accordance with the requirements of rules known as General Laws.

The objects of the Society remain: to provide certain classes of insurance contracts to its members in addition to discretionary financial, social and benevolent benefits.

The Society's overall objective is summarised in its Vision Statement as:

'to be one of the leading mutual providers of easily accessible, worthwhile, financial services products, while retaining our caring values and the involvement of our members'

The Board has further articulated this vision statement into eight basic strategic objectives. These are explained in detail on page 8 of this report.

The Board sets key performance indicators and targets, which it monitors on a regular basis throughout the year. Current key performance indicators are constantly being updated as the strategy of the Society progresses. The Board believe that all key performance indicators should be linked to the Society's strategy. During 2008, the key performance indicators focused on the financial results of the Society, particularly as investment markets continued their wild fluctuation and decline over the latter half of the year. These key performance indicators are explained further on pages 9 to 14.

The Board is the governing body of the Society. Each Director on the Board is an FSA 'Approved Person'. During 2008 the Non-Executive Directors on the Board consisted of the Chairman, Deputy Chairman, Senior Independent Director and between five and seven other Directors.

The Board regards each of the Non-Executive Directors as being independent. In determining this, the Board considers that the small amounts of remuneration received by some individual Directors for Non-insurance activities from branches (Courts), see page 22, does not undermine their independence in the role as a Non-Executive Director of a life mutual. The appointment of Executive Directors to the Board was formalised in early 2007. The Executive Directors are now full members of the Board and share collective responsibility for the governance of the Society. The Executive Directors appointed are the persons holding the roles of Chief Executive, Finance Director and Marketing Director.

The Board considers that it has the requisite balance of knowledge, skills and experience which fits the needs of the Society. It has sought to improve this in recent years by changing the composition of the Board as well as by improved training, professional development co-opting a member with specialist skills, by consideration of external recruitment of Non-Executive Directors and by closer monitoring of performance of all Directors. The Board has the dedicated support of a professional Company Secretary both during and between meetings. The Chairman agrees the Agenda for meetings with the Company Secretary. The Board has Terms of Reference and Standing Orders that define how it operates and its responsibilities.

Directors' Report

Business Review (*continued*)

Objectives and Activities (*continued*)

There is a further document entitled 'Decisions Reserved for the Board' which includes:

- The determining of bonus rates, valuation policy and Individual Capital Assessment (ICA).
- Compliance with the Society's Principles and Practice of Financial Management (PPFM).
- All strategic issues.
- Approval of budgets, business plans, and a number of statutory reports.
- Agreement of investment policy.

The Senior Management Team are delegated the responsibility of running the Society between meetings. It achieves this primarily by regular senior management meetings that:

- Consider the impact and implementation of Board decisions.
- Manage, identify and report to the Audit and Risk Committee on corporate and operational risk.
- Track the progress of projects.
- Co-ordinate operational issues.
- Review financial results.

Strategy

During 2008 the Board continued to develop the theme of eight strategic objectives being central to everything that the Society aspires to. The eight strategic objectives agreed are:

1. To be a mutual in which all members have an opportunity to participate in a meaningful way.
2. To provide a professional and friendly service to members.
3. To treat members fairly.
4. To make appropriate benevolent/extra contractual payments available to members.
5. To provide financial service products that are attractive in our chosen marketplace.
6. To be socially responsible in all that we do.
7. To manage the Society's finances efficiently.
8. To meet statutory and regulatory requirements.

In order that the Society delivers more fully against these objectives, a number of strategic projects were initiated at the end of 2007. During 2008 significant progress was made in line with plans, with a majority of the projects having been completed. These key projects are:

- **Treating Members Fairly (TMF)**

This project was completed in January 2008 and is now embedded in the day to day operation of the Society. The Board monitors this through management information provided at each Board meeting.

- **Service to Members**

This project produced a detailed recommendation for website content, a member service charter, and a member survey which identified that satisfaction levels with the Society were extremely good. Significant enhancements in member communications have been delivered with the development of a new, expanded membership magazine, now being distributed to over 38,000 member households. A review of non-contractual benefits is ongoing to ensure that the Society continues to deliver relevant benefits that are appropriate to and recognise the differing needs of our members both young and old.

- **Role of Courts**

The accreditation process introduced in early 2008 has been enthusiastically supported by Courts to the extent that 67 Courts have now achieved full accreditation. The success of the process has resulted in additional accreditation panels being put in place to meet the demand from Courts and it is expected that all Courts will have been reviewed under this process by the end of 2009. This will ensure that all Courts will be well placed to plan for their future and deliver improved services which continue to be relevant to their members.

- **Financial Controls**

Over the course of the year significant savings were achieved in relation to professional fees and information technology costs. Further savings are now being realised as the administration of former Tunstall business has been consolidated within operations at the Society's Head Office. It is planned to complete the transfer of the administration of the former Leek business during 2009.

- **Product Development**

The Society's product range and branding has been updated and a new website implemented to assist members and potential members take out new policies. Although external market conditions remain very challenging the Board remains fully committed to developing and distributing new products to individual members in much larger numbers.

Future Plans

As we celebrate the 175th anniversary of the Society in 2009 we remain focused on ensuring that it continues to prosper and grow on a sustainable basis for the benefit of our current and future members. The Board and the Executive team have developed a medium term plan which sets out key objectives for the Society for the next five years. This builds on the work begun in 2008 and aims to focus our activities in 2009 onwards under five key headings: Membership, Courts, Policies, Premium Income, Expenses and Assets. The Board looks forward to reporting on progress in each of these areas to members at the 2009 Annual General Meeting. In addition to our growth plans, the Board will be commencing work in 2009 on preparations for the Solvency II regulations that will fundamentally affect the future regulatory position of the Society and how it is reported. Solvency II is due for implementation in 2012.

The Society is fortunate to have a very loyal and long serving membership base but one of the significant challenges facing us is the rapidly ageing profile of our membership. One of our main priorities for 2009 is to ensure that we address this by seeking to attract younger individual members in much larger numbers. During the second half of 2008 planned new business activity began in earnest as the new marketing team implemented a number of initiatives as part of the Society's new business plans. Whilst the external economic environment remains challenging, significant progress has been achieved in identifying partners who will enable us to distribute our products in very cost effective ways to much larger groups of potential members.

The Board will continue to discuss strategy with members at Annual General Meetings and will seek other opportunities to understand members' views.

Key Risks and Uncertainties

The principal risks facing the Society are grouped as: Market, Operational, Strategic and Regulatory Risk.

- **Market Risk**

Market risk represents the loss from a change in the value of, or income from, the assets of the Society. The Society manages this risk by the maintenance of a comprehensive investment strategy which aims to support the objectives set out in the Society's Principles and Practices of Financial Management. This strategy ensures that the Society maintains a diversified portfolio of assets and sets benchmarks for each asset type that our investment managers are required to operate within.

The Investment Committee meets regularly to monitor the performance of all asset classes and consider investment policy against changes in market conditions.

- **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, and includes the risk of loss caused by external events such as regulatory changes.

The Society has in place a comprehensive risk management and internal control framework that ensures that risks are identified and necessary controls are in place or mitigating actions have been taken.

- **Strategic Risk**

Strategic risks are those risks the Society faces which might affect our ability to meet our core objectives. These risks are managed by the Board and Senior Management through the development of annual and medium term business plans and the setting of key performance indicators and targets which are monitored throughout the year.

- **Regulatory Risk**

Regulatory risk represents the risk associated with a failure to comply with an increasing array of regulatory requirements and governance expectations. The Society has a comprehensive governance framework led by the Board and its Committees.

The day to day monitoring and managing of regulatory risk has been delegated to the senior management team and the Risk Management Executive Committee.

Key Performance Indicators

The Society uses the following key performance indicators to manage and monitor its financial performance:

- Capital Resources
- Premium Income
- Investment returns
- Membership

Other non-financial key performance indicators used by the Society include:

- High Court attendance
- Complaint management

Directors' Report

Business Review *(continued)*

Key Performance Indicators *(continued)*

Capital Resources

The Society's capital position is set out in note 19 of the financial statements. At 31 December 2008 the Society's capital resources for both long term and general insurance business exceeded the statutory capital resource requirements prescribed by the Financial Services Authority by £20.7m (2007: £39.2m).

In these turbulent market conditions the Board, and particularly the Investment Committee, have maintained a very close watch on the financial markets and how the impact of different economic events has affected the Society's capital resources. In considering how much capital is held above the regulatory minimum, the Directors consider different stress scenarios that reflect the risks the Society might face, particularly with respect to market risk and large falls in property and equity values. This is reported regularly to the Board in the form of an Individual Capital Assessment (ICA) and is a regulatory process that provides a key risk tool for the Board to manage capital.

For the Society, being a mutual organisation, surplus capital resources are used to grow and expand the business and ultimately increase the membership base. Foresters is a branch Society and improving membership services is one of its key objectives. To achieve this there needs to be tight control over expenses particularly in a period when more resources are being invested in increasing the marketing activity.

The Fund for Future Appropriations (FFA) represents the capital available to support the current business and future growth, and at the end of 2008 it stood at over £32m, a fall of £19m on 2007. In these times of market risk and economic uncertainty, the financial strength of the Society allows for the Board to be committed to investing in assets that provide long term growth for its policyholders and members. Although the deficit in the year has impacted on this strategy in the short term the Board believe this is the right approach for Foresters.

The following table shows the steady growth in the FFA over the last 7 years, followed by the fall in 2008:

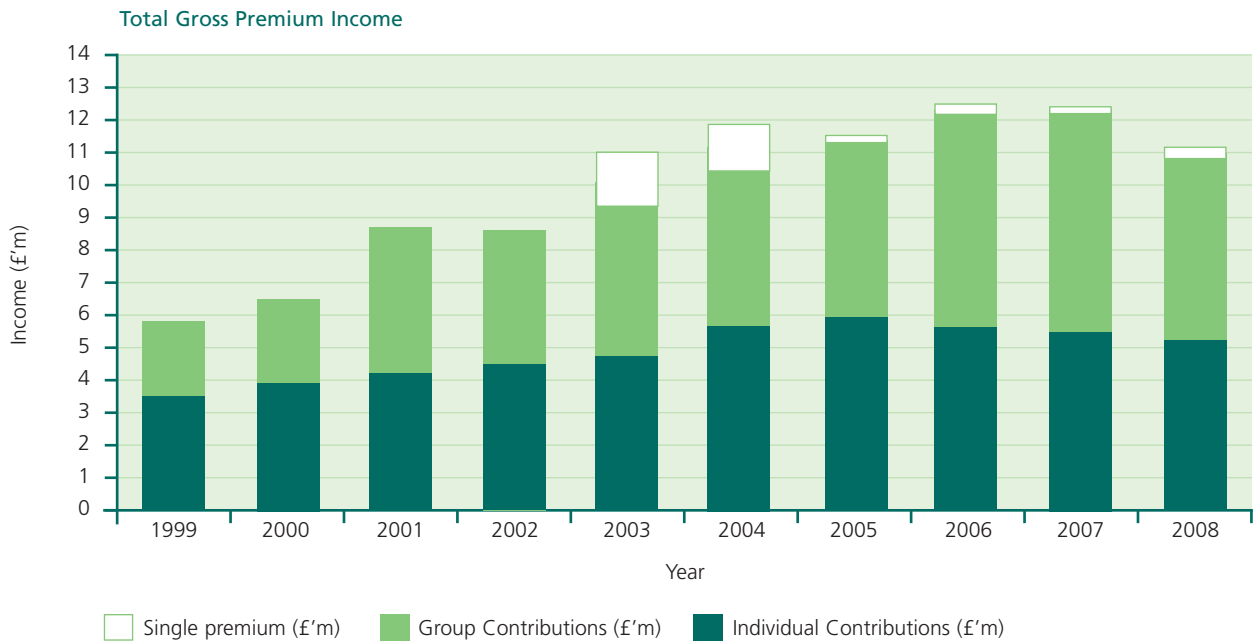


Premium Income

The Society's total gross premium income for 2008 amounted to £12.1m (2007: £12.5m). This comprises all premiums disclosed in these accounts, including those received on the island of Guernsey.

The slight fall in total premiums was due mainly to a fall in the individual business premium income as planned new business activities took place later in 2008 than expected. The appointment of a new Marketing Director has enabled the new marketing team to complete their groundwork and implement a number of initiatives as part of the Society's new business plans for the next few years. Although external market conditions remain very challenging the Board remains fully committed to developing and distributing new products to individual members in much larger numbers.

Group business premium income remained at similar levels to 2007 and continues to be a critical part of the Society's business model since it provides the opportunity to spread overheads over a larger premium income. Although the Society offers group schemes to a number of professions, by far the most successful has been close links with police federations. By the end of 2008 the Society was providing insurances to 58 federations and other commercial schemes. This association has grown both with the loyalty shown by a small number of brokers to the Society and by recognition through federations of the benevolent approach by the Society to our business with them. The Foresters Police Benevolent Fund was launched by the Society in 2007 so that in times of need these group members could receive the same type of financial support that individual members have benefited from for almost 175 years. During 2008 £3,000 was paid to group members.



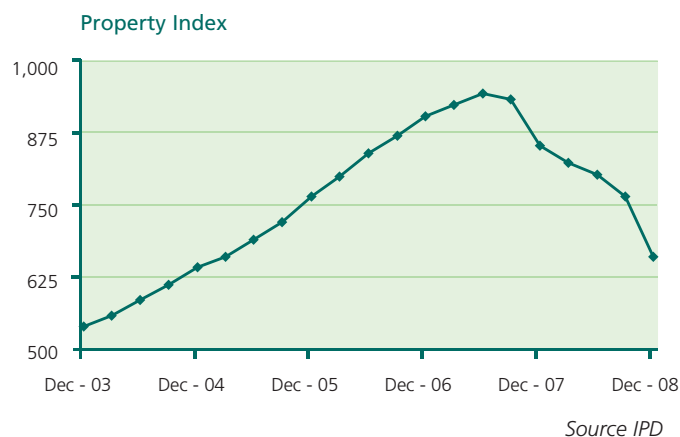
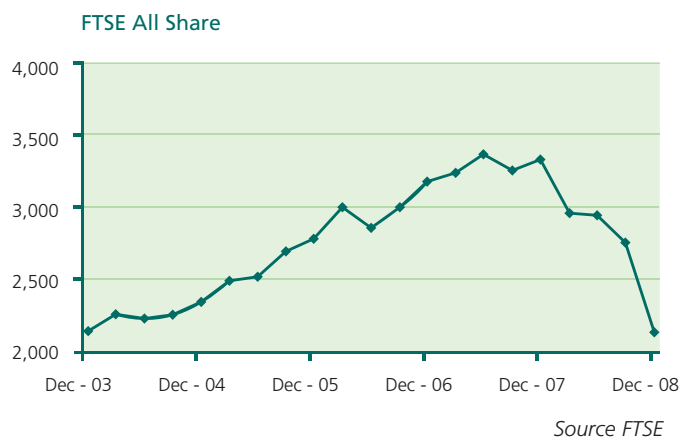
Directors' Report

Business Review *(continued)*

Investment Returns

Although there are very differing views on the economic outlook and the future direction of the investment markets, nobody can doubt that 2008 was a calamitous year for all asset classes other than Government bonds. In recent years we have become accustomed to lower investment returns, after the heady days of the 1980's and 1990's, but the magnitude of the 2008 falls has not been witnessed since the depression of the 1930's. Over the last few years the Board has recognised the necessity to spread investment risk by diversifying the investment portfolio further into equities and fixed interest securities, leaving the Society less exposed to a fall in value of properties and closer matched to its liabilities.

The following graphs show the FTSE all share index returns and the Industrial Property Databank (IPD) Total Return Index encompassing all property (Retail, Office & Industrial) over the last 5 years. Particularly they show a large fall in the final quarter of 2007 and throughout 2008.

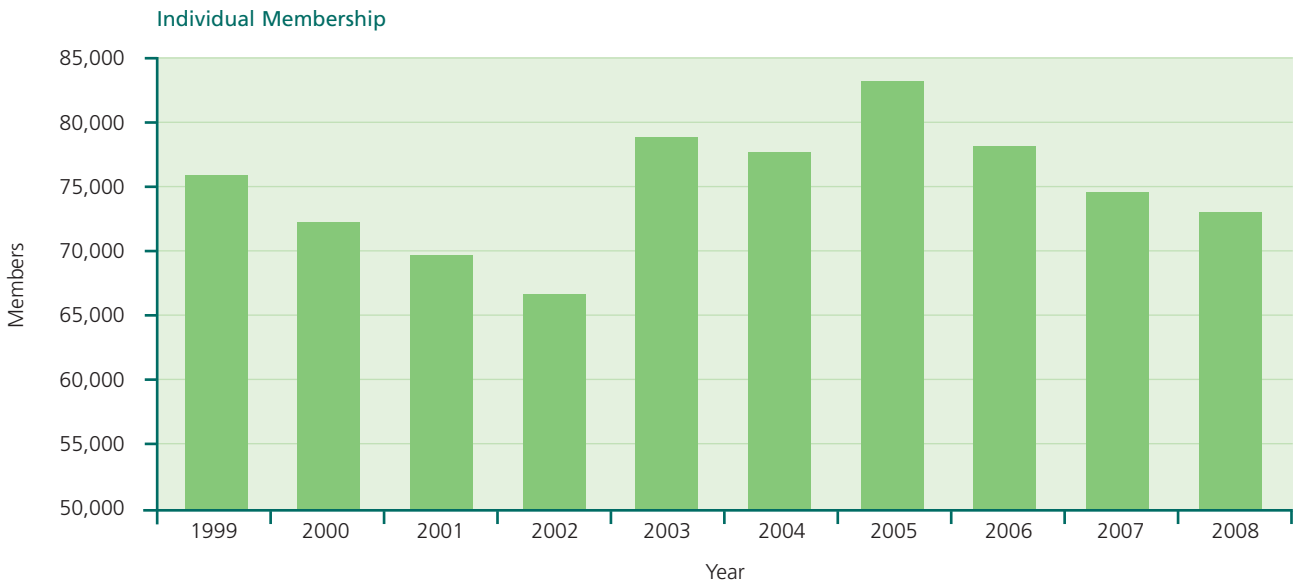


Despite all the doom and gloom in the investment markets, it is pleasing for the Board to report that the Society's investment advisers once again produced investment returns greater than the FTSE all share index, and our property portfolio did less badly than the industry respected IPD commercial property indices. The Society's property portfolio is managed by Aston Rose Limited, who carried out the valuation of most of the property portfolio at the year end. The Society is committed to investing policyholders' funds for the long term and to closely match insurance and member liabilities within its investment strategy. The financial strength of the Society has allowed the Investment Committee to monitor the investment falls in the financial markets, without having to make drastic short term reactionary decisions. However, trigger points are in place if the investment markets continue to fall whereby action will be taken to safeguard policyholders and members funds. The investment returns for the Society are detailed in notes 4 and 10.

The Society's Board of Directors has determined that no monies can be invested in any organisation that cannot demonstrate that it satisfies the high levels of prudential operation that would be expected by the FSA (whether regulated or not). This decision was made because such deposits from Courts would expose members' funds to greater risk in an unregulated environment. The Society has been in regular communication with the three Investment Associations that hold members' money to ensure suitable controls and systems are in place. Two of these Associations have been consolidated into the Society's accounts in 2008 and more information can be found in note 2.

Membership

The total individual membership of the Society at 31 December 2008 was 72,875 (2007: 74,495). The following graph details how individual membership has shown a decline over the past three years from its high in 2005, which the forthcoming marketing activity is planning to address.



High Court Attendance

One of the eight strategic objectives of the Society is “to be a mutual in which all members have an opportunity to participate in a meaningful way”. The key benchmark against which the Board monitors whether members are participating is the members (or delegates) attendance at the AGM or High Court. Courts have the opportunity to send delegates to contribute and vote on the many topical and strategic issues that are on the agenda. It is very important for the Board to ensure as many Courts as possible send delegates and the following graph shows a steady increase over the last five years.

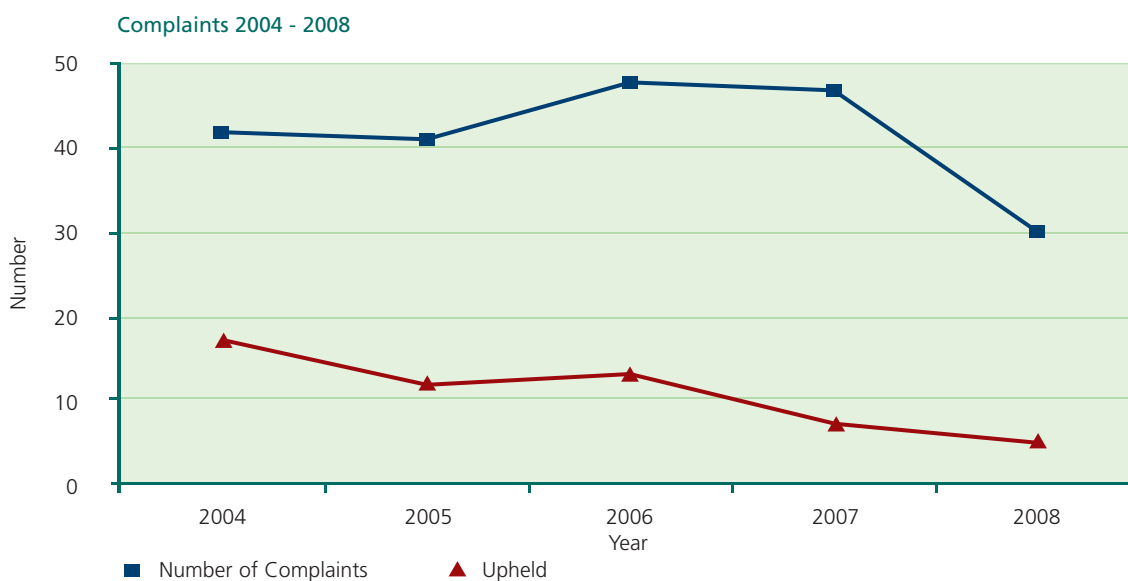


Directors' Report

Business Review *(continued)*

Complaints Management

Society Rule 32 provides for necessary procedure for the settlement of internal disputes, complaints or claims arising between members and the Board. A copy of The Society Memorandum and Rules is available from the Registered Office on demand. Any complaint arising out of the business of the Society that is subject to regulation by the Financial Services Authority will be dealt with in accordance with its requirements. Such complaints should be referred, in the first instance, to the Compliance Oversight Manager, at the Registered Office. Monitoring complaints is a key indicator for the Board and the following graph shows a steady improvement over the last five years.



Business Performance

The technical income and expenditure accounts on page 25 explain the movement in the long term and general business insurance funds in the year. The technical income for long term business has fallen significantly from 2007, mainly as a result of the unrealised losses on the insurance assets. This is shown in more detail in note 4. The technical charges also show a large increase over 2007 predominantly due to a change in method of calculating the sick and death fund insurance liabilities in 2007. Claims have fallen in the year, in line with expectations, and in 2007 there was a large writeback of deferred acquisition costs within management expenses, which explains the increase over 2008. All of these movements have resulted in a transfer from the fund for future appropriations (FFA) of £8.6m (2007: transfer to the FFA of £5.8m).

The non-technical account on page 26 highlights movements in the Court, Investment Associations, benevolent and non insurance funds. In 2008 we have consolidated two of the investment associations that Courts invest a significant amount of their capital in. This has required the comparative 2007 figures to be restated and is explained further in note 2. Unrealised investment returns again dominate the results in the non-technical account with a loss of more than £22m experienced in 2008. The transfer from the fund for future appropriations was £10.9m (2007: transfer to the FFA of £1.1m).

The Balance Sheet on page 27 shows a reduction in the fund for future appropriations of £51.9m to £32.5m and a decrease in total assets from £201.8m to £171.5m at 31 December 2008.

The Society has received a claim for damages due to an accident in one of the Society's Court properties. This is currently under investigation and the Directors believe that the claim is adequately insured against. This is explained in more detail in note 26 on page 46.

Going Concern

The Board is of the opinion that the Society has adequate capital resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis for the Society's accounts.

Directors' Report

Governance Arrangements

Introduction

The names and profiles of those who served on the Board during the year are set out on pages 4 and 5. Relevant transactions between the Society and the Directors and the Chief Executive are set out in notes 8 and 23.

The Board has established sub-committees to consider certain specialist areas in more detail than would be possible at a Board meeting. Each sub-committee operates within defined Standing Orders and Terms of Reference. Further details of the role and membership of each sub-committee is shown on pages 17 and 18.

The Board meets at least eight times a year. It is responsible for the strategic direction of the Society. Day to day management and the implementation of the strategy is delegated to the Chief Executive and the Senior Management Team.

The governance arrangements followed throughout the history of the Society reflect a traditional approach to mutuality. A significant feature of this has been to ensure the Society is governed by members for members. The Society considers that members have benefited from those arrangements. This is reflected in the products and services offered by the Society whereby quality of the membership experience has been the foremost consideration.

The Board fully supports the principle of best practice in the governance of friendly societies since good governance must clearly be in the best interests of members. Therefore, in recent years, to comply with best practice the following governance arrangements have been introduced:

- The appointment of a Chairman for a period of more than a year.
- The separation of the Chairman and High Chief Ranger (HCR) roles within the Board.
- The separation of the role of HCR and Non-Executive Director.
- The inclusion of Executive Directors on the Board.
- The development and operation of sub-committees to consider certain specialist areas in more detail than would be possible at a Board meeting.
- A change in emphasis in the way that the Nominations Committee works. It now identifies the knowledge, skills and experience required to produce a competent Board.
- An expanded Directors' Report within these Accounts, that identifies and reports on many additional aspects of the Society's governance arrangements.
- The ability to co-opt Non-Executive Directors from outside the Society if individuals with the required knowledge, skills, qualifications and experience cannot be found amongst its membership.

The Board will continue to monitor the development of best practice and consider where improvements can be made to the governance arrangements within the Society.

Appraisal and Evaluation

A process of annual appraisal exists for the Board with a view to improving both individual contributions and group achievement. The appraisal process is conducted by the Chairman and involves consultation and individual interviews with Board Members. The Senior Independent Director leads the appraisal of the Chairman. The Board is satisfied that each of its Members committed the time required to properly discharge the role. Each Board Member has undertaken a programme of continued professional development designed to expand and update their skills and knowledge, both within the Society and outside. The Chairman has met the Non-Executive Directors from time to time without Executives present.

Senior Independent Director

The Myners Report recommends that mutual insurers maintain a dialogue with their members and have a Senior Independent Director available to handle issues and concerns raised by members. Tony Lovell was appointed Senior Independent Director on 10 December 2008, following the retirement of Michael Clarke.

Society's Relationship with Members

As the majority of Non-Executive Directors of the Board are also members of the Society, its governance arrangements always take into account the views of members. Members are allocated to Courts which are represented through a delegate system at the Society's Annual General Meeting (known as 'High Court').

High Court takes place over a three day period and includes detailed discussions between the Board and members on the performance of the Society and discussion on strategic issues. Non-Executive Directors attend many meetings with members during the year.

Directors' Report

Governance Arrangements *(continued)*

Statement of the Directors' Responsibilities

The Friendly Societies Act 1992 ('the Act') requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Society at the end of the year and of its income and expenditure for that year.

In preparing those accounts the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which must show and explain the transactions of the Society and disclose the financial position of the Society with reasonable accuracy at any time, and enable them to ensure that the accounts comply with the Act and the regulations under it. They are also responsible for the system of internal control, for safeguarding the assets of the Society and hence taking reasonable steps for the prevention and the detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society website. The Directors' responsibility also extends to the ongoing integrity of the accounts contained therein. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

The Directors confirm that the Society did not carry out any activities outside its powers during the year.

Board Attendance

Attendance at 2008 Board Meetings and Sub-Committees:

Director	Board		Nominations Committee		Remuneration Committee		Audit & Risk Committee		Investment Committee	
	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended	Meetings Held	Meetings Attended
Neil Armitage	11	9	5	-	2	-	4	1	4	-
Glyn Carpenter	11	10	5	5	2	2	4	3	4	2
Carys Clarke	11	2	5	-	2	-	4	-	4	1
Michael Clarke	11	8	5	-	2	-	4	1	4	-
Kevin Dann	11	4	5	3	2	1	4	1	4	2
Cheryl Eagleson	11	3	5	-	2	-	4	-	4	1
Carl Genese	11	10	5	-	2	-	4	1	4	2
John Levett	11	11	5	5	2	1	4	1	4	1
Anthony Lovell	11	11	5	5	2	-	4	2	4	2
Penny O'Nions	11	11	5	-	2	2	4	1	4	4
Paul Osborn	11	11	5	1	2	1	4	4	4	4
Andrew Pooley	11	11	5	-	2	-	4	3	4	4
Mark Rothery	11	4	5	1	2	-	4	2	4	1
Kathryn Vagneur	11	9	5	-	2	1	4	3	4	2

The Board has a number of sub-committees that are formed to deal with specialist areas in more detail than would be possible at a Board meeting. Each sub-committee operates with defined Standing Orders and Terms of Reference. All Standing Orders and Terms of Reference are reviewed annually by the Board.

Nominations Committee

Glyn Carpenter - *Chairman*

Alex Battershill - *resigned 14 January 2008*

John Levett

Tony Lovell - *appointed 20 February 2008*

The responsibilities of the Nominations Committee include:

- Encouraging suitable candidates to serve on the Board from the membership.
- Ensuring that nominees for election or re-election to the Board meet the Society's criteria and the requirements of the FSA's Approved Person regime and provide a report to the Annual General Meeting on the suitability of the nominees.
- Considering the following information from each Nominee:
 - Details of the nominee's knowledge, skills, qualifications and experience;
 - An "FSA Form A" is completed by the nominee;
 - Credit Reference and Criminal Bureau Agency checks; and
 - Details of any previous adverse information held by Head Office;

Consideration is given to the answers and statements on the Form A and any adverse information from the checks undertaken or disclosed in Head Office files. Where issues or concerns are identified, the nominee will be asked to provide additional information. Failure to provide a response to further information or clarification will automatically disqualify the nominee.

- Considering suitable candidates for the role of High Chief Ranger following separation of the role from the Board.
- Development of a bursary scheme to encourage and facilitate applications for the Board from the membership.

The Board has adopted the Institute of Chartered Secretaries (ICSA) Guidance Note on the Terms of Reference for the Nomination Committee of a Mutual Insurer. These Terms require the Nomination Committee to be proactive in considering the balance of knowledge, skills, qualifications and experience of the Board as a whole. This Committee formally interviews candidates for vacancies and uses an external specialist resource to verify the process followed and the suitability of candidates where necessary. It will be making recommendations to the Board on which candidates fulfil the required criteria for elections being held at the Annual General Meeting in September 2009.

Investment Committee

Penny O'Nions - *Chairman*

Glyn Carpenter - *resigned 12 September 2008*

Andrew Pooley - *appointed 12 September 2008*

Mark Rothery - *resigned 9 May 2008*

Paul Osborn

John Levett - *appointed 12 September 2008*

Kevin Dann - *appointed 29 October 2008*

The main responsibilities of the Investment Committee are to:

- Review and approve the investment management agreements and the appointment of external investment managers;
- Monitor the fund performance of all assets classes plus the total portfolio against performance measurement targets;
- Review the performance and fees of all external investment managers, and review the investment risk management policy in consultation with the Risk Management Committee.

The main tasks this year have been to:

- review the balance of investments held by individual funds against liabilities they face;
- take into consideration the movements in the equity and property markets during the latter part of the year; and
- tender the management of the property portfolios and make recommendations to the Board.

Remuneration Committee

Glyn Carpenter - *Chairman*

John Levett - *resigned 12 September 2008*

Penny O'Nions - *appointed 12 September 2008*

Kathryn Vagneur - *appointed 12 September 2008*

The Remuneration Committee determines the remuneration of senior management and approves the policy of remuneration for other staff. In doing so it considers the trends in competitor and local employment markets. It also makes recommendations to the Board regarding the basis of Non-Executive Directors' remuneration for confirmation at the Annual General Meeting. Further information on the remuneration policy is shown on pages 21 to 23.

Directors' Report

Governance Arrangements *(continued)*

Audit and Risk Committee

Kathryn Vagneur - *Chairman appointed 15 April 2008*
Alex Battershill - *Chairman resigned 14 January 2008*
Carl Genese - *appointed 12 September 2008*
Tony Lovell - *appointed 12 September 2008*
Glyn Carpenter - *resigned 12 September 2008*
John Levett - *appointed 20 February, resigned 15 April 2008*
Andrew Pooley - *acting Chairman 14 January 2008 to 15 April 2008, resigned 12 September 2008*

The Audit and Risk Committee meets as at least four times a year to help the Board fulfil its responsibilities. The main duties and responsibilities of the Audit and Risk Committee are as follows:

- To monitor the integrity of the accounts of the company;
- To monitor any formal announcements in relation to the Society's financial performance;
- Review significant financial reporting judgements;
- Review the Society's internal financial controls and review the internal control and risk management system;
- To monitor and review the effectiveness of the Society's internal audit function;
- Make recommendation to the Board for appointment and reappointment of the external auditor;
- Approve the remuneration and terms of engagement of the external auditor;
- Review and monitor the external auditors independence and objectivity and the effectiveness of the audit process;
- Developing and embedding policy from the recommendation of the external auditor in supplying non-audit services; and
- Reporting to the Board and identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

The minutes of the Audit and Risk Committee meeting are circulated to the Board following each meeting. The Chief Executive and the Finance Director usually attend meetings. The internal and external auditors attend meetings when required. The external auditors meet with the Committee once a year without the Executive Directors being present. Internal audits are conducted by a specialised and independent external firm that reports directly into the Audit and Risk Committee. Therefore, responsibility for the adequacy of internal audit rests with the Committee as a whole and not any one individual.

The Society has in place a very comprehensive risk management framework, consisting of two further Committees that report into the Audit and Risk Committee and embed risk throughout the Society:

- The Risk Management Executive Committee (RMEC) sets the principles and standards with respect to internal controls, define risk policies and appetites, have input on the nature, scope, objectives and functions of internal audit and ensure the efficient and effective management and compliance of all business risk and legal and company policy.
- The Risk and Internal Control Committee (RICC) ensures the efficient management of all known business risks, the efficient and effective compliance with relevant legal and company policy requirements and ensure that there are adequate internal controls and documented procedures to deliver the efficient management of all business risks and to provide assurance to the RMEC.

Statement of Internal Control

The Board understand that systems and controls are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against material mis-statement or loss.

Compliance with Myners' Recommendations

The Board is committed to following best practice as regards governance wherever appropriate for the Society. Myners' recommendations are produced on a 'comply or explain' basis. This recognises that best practice should be followed in most circumstances but that firms also have the opportunity to explain why certain recommendations were not applied. The Society has complied with the provisions of the Annotated Combined Code for Mutuals in every respect with the exception of the following:

Code Ref	Provision	Explanation
A4.1	Did the Nominations Committee make available by including on the Company's website and summarising in the annual reports its Terms of Reference explaining its role and the authority delegated to it by the Board?	A summary is included in these accounts. However, The Society's website requires development to accommodate this information. It was hoped that this would be achieved during 2008, but development of the website took longer than anticipated and compliance is now expected to be achieved during 2009.
A.4	Did a statement of the Director's expertise and experience and a statement of the Board's own balance, completeness and expertise appear on the Company's website?	The information is included in these accounts. However, the Society's website requires development to accommodate this information, which took longer than anticipated and compliance is now expected to be achieved during 2009.
A.7	Did the annual report contain a statement on performance and strategy in the form of an operating and financial review?	This provision applies to larger mutuals. The Board does not consider that such a report is appropriate or proportionate for the Foresters in view of its relative size.
B2.1	Does the Remuneration Committee make available (on the Company's website and in summarised form in the report and accounts) its Terms of Reference, explaining its role and the authority delegated to it by the Board?	A summary is included in these accounts. However, the Society's website requires development to accommodate this information, but development of the website took longer than anticipated and compliance is now expected to be achieved during 2009.
D2.1	Does the company permit and encourage the use of proxy votes at general meetings?	The Society operates a delegate system and its rules do not permit the use of Proxy voting.
A5.3	Is the appointment and removal of the Company Secretary a matter for the Board as a whole?	Company Secretary contract of employment needs amending to reflect this, which is now expected to be achieved in 2009.
A.6	Does the Board undertake a formal and rigorous annual evaluation of its own performance and that of the Committees and individual Directors?	The Board has introduced an appraisal system, which is in development. A skills matrix will be established to help succession planning.

Directors and Officers Liability Insurance

The Society has maintained liability insurance cover for members of the Board and Senior Management of the Society as permitted by Section 106 of the Friendly Societies Act 1992.

Directors' Report

High Court Report

As in previous years, an additional report will be published for High Court. In the meantime, it is requested that any question relating to the financial statements be forwarded in writing to the Registered Office of the Society before 24 August 2009.

Foresters General Insurance Services Limited

This is a wholly owned subsidiary of The Ancient Order of Foresters Friendly Society Limited that exists to enable a broader range of financial services products to be provided to its members. It is hoped that further opportunities to increase the services available to members through this subsidiary are identified in the coming years.

Its governance arrangements are entirely separate and its Board of Directors are not a sub-committee of the Board. The Directors, who received no remuneration for their duties, as at 31 December 2008 were:

John Levett - *Chairman*
Tony Lewis - *Secretary*
Mike Nightingale - *Director*
Tim Robertson - *Director*

Donations

The Society donated £1,670 (2007: £3,500) to charity during the year. Each year the Society makes a donation to the Mayor's charity in the town that hosts High Court. In 2008 Scarborough received £500 and in 2007 Eastbourne received £500. The Society also donated £870 (2007: £3,000) to the Police Federation of Northern Ireland. No political donations were made in either year.

Courts carry out a lot of charitable work as part of their social activities and in 2008 £252,718 (2007: £259,877) was paid out to various local and national charities.

Independence of External Auditors

As well as acting as external auditors to the Society, BDO Stoy Hayward LLP have provided other professional services to the Society during the year. Acknowledging that the firm has provided non-audit services as shown in note 7b, BDO Stoy Hayward LLP have confirmed their independence to the members of the Audit and Risk Committee.

Statement of Disclosure of Information to Auditors

Each of the persons who is a Director at the date of this report confirms that so far as each of them is aware, there is no information relevant to the audit of the Society's financial statements for the year ended 31 December 2008 of which the auditors are unaware; and the Director has taken all steps that he/she ought to have taken in his/her duty as a Director to make him/herself aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

By Order of the Board

Jill Chipchase
Company Secretary
25 March 2009

Directors' Remuneration Report

This report sets out the remuneration policy for the members of the Society's Board. It details the various elements of their remuneration in 2008, and explains how the Society has applied the Annotated Combined Code on Corporate Governance for Life Mutuals with respect to Directors' remuneration.

Remuneration Committee

The role and list of Non-Executive Directors who sit on the Remuneration Committee is shown on page 17. The Chief Executive is invited to attend the meetings to participate in the consideration of Executives remuneration and associated matters, but he is excluded from detailed discussions relating to his own remuneration. From time to time, the Remuneration Committee will make use of external specialists to provide independent expert advice, although none were used in 2008.

The remuneration of all Non-Executive Directors, including the Chairman, is reviewed on an annual basis by the Remuneration Committee using expert advice and guidance from both internal and external sources. A recommendation is made to the full Board, who will put a proposition to the delegates at High Court to approve any remuneration changes. High Court will determine the final remuneration amount.

The Non-Executive Directors are only entitled to fees and expenses, and do not participate in any performance pay schemes, or receive any pension arrangements or other benefits.

Remuneration Policy

The Society's remuneration policy aims to recruit, motivate, support and retain good quality staff and executives with the necessary skills to achieve the Society's objectives. Remuneration is considered within the financial services sector for the geographical location the Society occupies. The policy is to provide a mid market level of salary that is fair to the Society and reflects the contribution made by the employee. These salaries are reviewed annually and become effective from 1 October for Non-Executive Directors, or 1 January for all other staff, including Executive Directors. Salary is the only pensionable remuneration the Society offers.

Remuneration Policy for Non-Executive Directors

Non-Executive Directors are elected for a three year period by the members at High Court, subject to FSA approval. This appointment can be extended for two further periods of three years at which point the Non-Executive Director has to stand down. The full Board will determine any notice period that is convenient to both the Society and the Director under other circumstances.

Directors' Remuneration Report *(continued)*

Remuneration Policy for Executive Directors

The remuneration policy of the Executive Directors comprises of basic salary, annual cash based bonus, a contributory pension and other benefits.

The basic salary is determined by the Remuneration Committee, who recommend any change in salary to the full Board for approval. The non-pensionable annual cash bonus is linked to individual contribution towards the Society fulfilling its strategic objectives, payable in December of the year in question. Mr Rothery is a member of the Foresters' final salary pension scheme, Mr Osborn is a member of the Group Personal Pension Scheme and Mr Armitage receives payments into his own personal pension scheme. Mr Dann was not entitled to pension contributions until 1 January 2009. Executive Directors are also entitled to benefits in kind that include a company car (or an equivalent allowance) and private medical insurance.

Executive Directors do not currently have service contracts as Directors. The employment contract of the Executive Directors, including the Chief Executive, is for a contractual notice period of 6 months by either party. Unless notice to terminate the contract has been given all Executive Directors' contracts continue automatically until the age of 65.

	Salary/ Fees	Salary as Court Official	Bonuses	Benefits	Pension Contributions	Total	2007
	£	£	£	£	£	£	£
Non Executives							
G Carpenter	20,304	-	-	-	-	20,304	16,481
A Pooley	15,076	3,379	-	-	-	18,455	16,080
A Battershill	1,000	750	-	-	-	1,750	12,700
C Clarke	3,828	-	-	-	-	3,828	-
M Clarke	8,369	-	-	-	-	8,369	12,000
C Eagleson	3,845	6,129	-	-	-	9,974	-
C Genese	12,182	900	-	-	-	13,082	4,454
J Levett	14,512	1,722	-	-	-	16,234	14,810
A Lovell	12,182	-	-	-	-	12,182	3,554
P O'Nions	18,390	-	-	-	-	18,390	12,000
K Vagneur	15,300	-	-	-	-	15,300	-
M Baker	-	-	-	-	-	-	29,309
M Nightingale	-	-	-	-	-	-	9,239
Executives							
K Dann	26,250	-	-	3,450	-	29,700	-
M Rothery	36,602	-	-	3,235	6,515	46,352	125,948
P Osborn	85,350	-	7,000	11,263	8,535	112,148	93,774
N Armitage	53,083	-	20,417	2,050	5,850	81,400	-
G Bloor	-	-	-	-	-	-	8,658
	326,273	12,880	27,417	19,998	20,900	407,468	359,007

Mr Dann was appointed Chief Executive on 29 October 2008, but joined the Society on 26 August 2008 as CE designate. His remuneration is reported as from his date of joining.

Directors' Pension Benefits

Non-Executive Directors do not receive any pensionable benefits from the Society. Mr Rothery, who has now left the Society, is a member of the Foresters' final salary pension scheme, as described in note 21 on pages 42 and 43. This is a contributory pension scheme that is designed to provide retirement, dependents and life assurance benefits. All members of the scheme receive the same pension entitlements. The table below sets out disclosures of the scheme.

	Age at 31.12.08	Years of Service	Pension Accrued during 2008	Accrued pension at 31.12.2008	Transfer value of accrued pension at 31.12.07	Increase in transfer value in the year	Transfer value of accrued pension at 31.12.08
			£	£	£	£	£
M Rothery	47	17	382	20,066	192,578	1,402	193,980

The accrued pension entitlement is the amount that the Director would receive if he retired at the end of the year. The increase in the accrued benefit is the difference between the accrued benefit at the end of 2008 and that at the end of 2007. All transfer values have been computed on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11. The transfer values of the accrued pension entitlement represent the value of assets that the pension scheme would need to transfer to another pension provider on transferring the scheme liability in respect of the Director's pension liability. They do not represent a sum payable to the Director and can not be added meaningfully to annual remuneration.

Mr Osborn is a member of the Group Personal Pension Scheme, which is a money purchase stakeholder pension scheme with Scottish Widows plc. The Society has made contributions as highlighted in the remuneration table above. Mr Armitage has had the contributions shown above paid into his personal pension scheme.

Independent Auditors' Report to the members of The Ancient Order of Foresters Friendly Society Limited

We have audited the financial statements of the Ancient Order of Foresters Friendly Society Limited for the year ended 31 December 2008 which comprise the Income and Expenditure Accounts, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 Board of Directors Report for the year ended 31 December 2008.

Respective Responsibilities of the Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Board of Directors' Report.

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 have been 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 we require for our audit, or if information specified by law regarding Committee of Management members' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Society's compliance with the nine provisions of the Annotated Combined Code specified for our review by the Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Society's corporate governance procedures or its risk and control procedures.

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

We read the other information contained in these Report and Accounts and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Board of Directors' Report and the Directors' Remuneration Report. 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.

Our report has been prepared pursuant to the requirements of Section 73 of the Friendly Societies Act 1992 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Friendly Societies Act 1992 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of Audit Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2008 and of its income and expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it; and
- the Board of Directors' Report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it and the information given therein is consistent with the financial statements for the financial year.

BDO STOY Hayward LLP

Chartered Accountants and Registered Auditors
Southampton
25 March 2009

Income and Expenditure Accounts for the year ended 31 December 2008

Technical Account - Long Term Business

Earned premiums, net of reinsurance

Gross premium written
Outward reinsurance premiums

Investment income
Unrealised (losses)/gains on investments
Total Technical Income

Claims incurred, net of reinsurance

Claims paid: Gross amount
Reinsurers' share

Change in provision for claims: Gross amount
Net claims incurred

Long term business provision

Gross amount
Reinsurers' share

Other Expenditure

Net operating expenses
Investment expenses and charges
Taxation attributable to Long Term Business

Total Technical Charges

(Deficit)/surplus of technical income over technical charges

Transfer from non-technical account
Transfer from/(to) fund for future appropriations

Balance on Technical Account

Technical Account - General Business

Technical Income

Gross premium written
Investment income

Total Technical Income

Technical charges

Claims incurred gross
Transferred (to)/from general business provision
Net operating expenses

Total Technical Charges

Balance on Technical Account

Notes	2008 £'000	2007 £'000
	10,552	10,934
	200	(292)
3	10,752	10,642
4	2,214	3,281
4	(6,844)	89
	6,122	14,012
	(9,520)	(11,931)
	99	(47)
	(9,421)	(11,978)
	(226)	(228)
5	(9,647)	(12,206)
	(2,013)	6,294
	-	-
6	(2,013)	6,294
	(3,152)	(2,533)
4	(117)	(86)
9	-	19
	(3,269)	(2,600)
	(14,929)	(8,512)
	(8,807)	5,500
	159	253
18	8,648	(5,753)
	-	-
	1,575	1,603
	77	78
	1,652	1,681
	(1,478)	(1,652)
19	(66)	94
	(108)	(123)
	(1,652)	(1,681)
	-	-

In addition to the long term business income and expenditure above, the Court in Guernsey also conducted general business, which is classified as overseas.

The notes on pages 28 to 46 form an integral part of these accounts.

Income and Expenditure Account for the year ended 31 December 2008 *(continued)*

Non-Technical Account

	Notes	2008 £'000	2007 Restated £'000
Income			
Investment income	10	7,451	11,328
Unrealised losses on investments	10	(22,214)	(875)
Unrealised (losses)/gains on Court investments		(1,866)	1,439
Discretionary fund donations and levies		96	292
Total Income		(16,553)	12,184
Expenditure			
Net operating expenses		(3,114)	(3,051)
Court operating expenses		(1,897)	(2,030)
Investment expenses and charges	10	(520)	(345)
Discretionary benefits paid and approved Court distributions		(1,798)	(1,689)
Total Expenditure		(7,329)	(7,115)
Excess of expenditure over income for the financial year		(23,882)	5,069
From/(to) discretionary fund	16	12,265	(788)
To long term business technical account		(159)	(253)
From/(to) Mainland court funds	17	961	(2,820)
To court funds - Guernsey	17	(48)	(85)
From/(to) fund for future appropriations	18	10,863	(1,123)
Balance on the Non-Technical Account		-	-

Statement of Total Recognised Gains and Losses for the year ended 31 December 2008

	2008 £'000	2007 £'000
(Deficit)/surplus on Technical Account	(8,648)	5,753
(Deficit)/surplus on Non-Technical Account	(10,863)	1,123
Pension schemes actuarial gain/(loss)	133	(251)
Total Recognised Gains and Losses	(19,378)	6,625

The notes on pages 28 to 46 form an integral part of these accounts.

Balance Sheet as at 31 December 2008

Assets

Investments

Land and buildings
Investment in subsidiary
Other financial investments

Debtors

Debtors arising out of insurance operations
Other debtors

Other Assets

Tangible assets
Stocks of goods for resale
Certificates of deposit
Cash at bank and in hand

Prepayments and accrued income

Accrued interest and rent
Deferred acquisition costs
Other prepayments and accrued income

Total Assets

Notes	2008	2007
	£'000	Restated £'000
11	87,580	108,820
12	10	10
12	58,984	66,927
	<u>146,574</u>	<u>175,757</u>
	1,007	1,279
13	1,069	1,143
	<u>2,076</u>	<u>2,422</u>
14	533	661
	49	48
	6,866	6,086
	14,501	15,120
	<u>21,949</u>	<u>21,915</u>
	188	915
15	526	611
	166	171
	<u>880</u>	<u>1,697</u>
	<u>171,478</u>	<u>201,791</u>

Liabilities

Reserves

Discretionary Funds
Court Funds

Fund for open future appropriations

Technical provisions

Long term business provision
Claims outstanding
General business provision (Guernsey)

Creditors

Creditors arising out of re-insurance operations
Other creditors including taxation and social security

Accruals and deferred income

Pension liability

Total Liabilities

16	6,070	18,335
17	70,913	71,826
	<u>76,983</u>	<u>90,161</u>
18	32,491	51,869
	54,503	52,490
	1,522	1,296
	2,446	2,380
19	58,471	56,166
	-	300
	1,841	1,523
	<u>1,841</u>	<u>1,823</u>
	1,676	1,656
21&22	16	116
	<u>171,478</u>	<u>201,791</u>

The notes on pages 28 to 46 form an integral part of these accounts.

The accounts were approved by the Board on 25 March 2009 and signed on its behalf by:

G Carpenter
Chairman

J Chipchase
Secretary

P Osborn
Finance Director

Notes to the Accounts

1. Accounting Policies

a) Basis of Presentation

The Society prepares its annual accounts on the current value basis of accounting, excluding tangible fixed assets, in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 and with the applicable United Kingdom accounting standards and generally accepted accounting principles. In addition the recommendations of the Association of British Insurers Statement of Recommended Practice 'Accounting for Insurance Business' issued in December 2005, and revised in December 2006, have been adopted.

The Court assets are not available to back the long term business of the Society but the Courts remain as branches of the incorporated Society. Their assets and activities are therefore shown separately within the notes to the accounts.

The income and expenditure accounts, statement of total recognised gains and losses and balance sheet are the financial statements of the whole Society. Internal transactions and balances between the various components of the Society have been eliminated.

b) Premium Income

Regular premium income is accounted for on a receivable basis, single premium income is accounted for when received. Outward reinsurance premiums are accounted for in accordance with the contract terms when due, reflecting the period when risk is transferred.

c) Claims

Death claims are recorded on the basis of notifications received, maturity claims are recorded when due, and surrenders are recorded at the earlier of the date when paid or when the policy ceases to be included in the long term business provision. Claims on with profit business include bonuses payable. In addition the cost of administering the claims has been included in the claims amount, as shown in note 5.

d) Investment Income and Expenses

Investment income includes dividends, property rent, interest, together with realised gains and losses on investments less their related expenses. Dividends are taken into account on a cash basis, which is not considered materially different to an accruals basis. Interest on fixed interest securities and deposits and rental income is taken into account on an accruals basis.

e) Tax Attributable to the Long Term Business

Only part of the business is subject to taxation. No provision is required in these accounts as the benefit of accumulated tax losses brought forward exceeds net taxable income and capital gains on the taxable business.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date. This includes timing differences arising on revalued investments, as required by FRS19, since unrealised gains are recognised in the income and expenditure accounts. The recognition of deferred tax assets is limited to the extent that the Board anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. Deferred tax balances are discounted to take into account the time value of the amount of tax deferred to future periods.

f) Investments

Investments comprise listed investments, units in authorised unit trusts, loans, mortgages, deposits with credit institutions and deposits with investment associations.

Listed investments and units held in authorised unit trusts are measured at their mid market value at the balance sheet date. Amounts receivable in respect of loans and mortgages are shown at the lower of the amounts advanced or the amount expected to be recovered where there is evidence of impairment. Deposits with credit institutions are carried at their historical cost.

Investment Associations are specially authorised societies under the Friendly Societies Act 1896. The objective of these associations are to receive the funds of registered friendly societies and to invest the same for their benefit. These associations have their own rules and are governed by a committee of management that is independent of the Society's Board of Directors. Deposits with the Derby and Derbyshire Foresters Investment Association, which represents cash invested along with cumulative interest and bonuses paid, are shown at their deposit value.

The Leeds District of the Ancient Order of Foresters Investment Association and the Sheffield & Hallamshire District of the Ancient Order of Foresters Investment Association, which the Society has the legal ability to control have been consolidated using the equity accounting method in line with the requirements of FRS 2. The Investment Associations assets are not available to back the long term business of the Society, and form part of the Court Funds. Please see note 2 for further information.

The Society does not invest in derivative investments.

g) Land and Buildings

Land and Buildings, which include properties that are held by the Society for operational purposes, are freehold and leasehold investment properties held for long term rental yields and capital growth. Changes in fair value are recorded as unrealised gains or losses in the Income and Expenditure account.

Land and buildings, other than those held by the Society for operational purposes, are valued annually at open market value, determined by reference to the indicative selling price. Head Office managed properties were valued as at 31 December 2008, by qualified professional valuers working for the Society, Aston Rose Limited, Chartered Surveyors. Court and Investment Association managed properties were valued at 31 December 2008 by appointed professional independent valuers. Land and buildings held for operational purposes are valued annually at market value with existing use basis by Aston Rose Limited.

Land and buildings, occupied by the Society, are required to be depreciated over their expected useful economic lives under the requirements of the Friendly Societies Act 1992. In respect of investment properties, this requirement conflicts with the accounting standard for Investment Properties (SSAP 19), that no depreciation should be provided on such investments. The Board consider that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

Freehold land is not subjected to depreciation. No depreciation is charged on freehold buildings as, in the Directors' opinion, it is considered that their estimated useful economic lives and residual values are such that the required depreciation charge is immaterial.

h) Operating Leases

Rentals payable under operating leases are charged to the technical and non-technical accounts as incurred over the lease term.

i) Gains and Losses on Investments

Unrealised gains and losses on investments represent the difference between the market value of investments held at the end of the year and their market value at the beginning of the year, or their cost when acquired during the year. Realised gains and losses on investments and land and buildings are calculated as the difference between purchase costs and net sales proceeds. An adjustment is made to unrealised gains and losses for the prior year's unrealised element included in the current year's realised gains and losses.

Both realised and unrealised gains (losses) of investments and land and buildings are credited (charged) to the Income and Expenditure Account.

j) Stocks

Stocks have been valued at the lower of cost and net realisable value.

k) Pension Schemes

The Society operates two contributory defined benefit pension schemes covering some of its permanent employees. Both schemes are closed to new members.

The first defined benefit scheme for Foresters' employees, is administered by the Trustees and is independent of the Society's finances. Contributions paid by the Society for year ended 31 December 2008 amounted to £113,353 (2007: £38,522). More information on the scheme is given in note 21.

The second defined benefit scheme for Tunstall employees is administered by the Trustees, is independent of the Society's finances and is a scheme covering some of the permanent employees of the Society. Contributions paid by the Society for the year ended 31 December 2008 amounted to £14,288 (2007: £14,571). More information on the scheme is given in note 22.

As required by the provisions of Financial Reporting Standard 17 'Retirement Benefits', the difference between the pension schemes' assets and their liabilities, including the long term liabilities to pay pension benefits to the schemes' members, are recognised as an obligation of the Society. Accordingly, the aggregate surplus or deficit appears in either the asset or liabilities section of the balance sheet. Movements in the year are reflected in the Non-Technical Income and Expenditure Account or in the Statement of Total Recognised Gains and Losses.

The pension cost for the scheme is analysed between current service cost, past service cost and the net return on pension scheme assets. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of, or improvement to, retirement benefits, are recognised in the technical or non-technical account on a straight-line basis over the period in which the increase in benefits rest. Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on the pension scheme liabilities.

Notes to the Accounts (*continued*)

1. Accounting Policies (*continued*)

The Society also contributes to a stakeholder group personal pension scheme covering certain permanent employees who are not eligible to join the two defined benefit schemes. Contributions paid by the Society and charged to the Income and Expenditure Account for the year ended 31 December 2008 amounted to £100,000 (2007: £79,885).

l) General Business Provision

The general business provision represents the accumulated general business fund balance held to provide against future payments of the business.

m) Long Term Business Provision

The long term business provision is determined by the Board on the advice of the Actuarial Function Holder as part of the annual actuarial valuation of the Society's long term business. The provision is initially determined in accordance with the requirements of the Prudential Sourcebook for Insurers on a net premium basis for all types of business. However, in accordance with normal insurance practice, certain reserves required for the statutory valuation returns are not required to be included in these accounts that are designed to present a true and fair view. This adjusted basis is referred to as the modified statutory solvency basis. This makes sufficient provision for future expenses of fulfilling the long term contracts and includes a provision for existing reversionary bonuses and current reversionary bonuses declared as a result of the valuation. The provision for current bonuses is shown separately in note 19. Future reversionary bonuses are implicitly provided for by use of valuation rates of interest below those expected. No provision is made for terminal bonuses which can be varied at any time depending on investment conditions.

n) Fixed Assets and Depreciation

Fixed assets are valued at cost less depreciation or provision for impairment.

Depreciation is calculated to write off the cost of tangible fixed assets over their expected useful lives by equal annual instalments as follows:

Fixture and fittings - 4 to 10 years

Motor vehicles - 4 to 5 years

o) Fund for Future Appropriations

The balance on this account consists of funds which have not been allocated to specific policyholders or non insurance funds. Transfers to and from the fund reflect the excess or deficiency of income over outgoings in each accounting period arising

from participating business. The fund for future appropriations represents working capital and the value of discretionary future bonuses to policyholders.

p) Cash Flow Statement

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

2. Prior Year Adjustment

The Society has a number of Court fund deposits in three organisations known as 'Investment Associations'. These associations are all registered as Specially Authorised Societies under the Friendly Society Act 1974. The associations have their own constitutions or rules and are governed by a Committee of Management that is independent to the Society's Board of Directors. The objective of these associations is to receive the deposits of registered friendly societies and their branches and to invest the same for their benefit. Currently, the Society is the only friendly society that has funds deposited in the associations. All investment associations are unincorporated associations and are registered in England and Wales with the Financial Services Authority. In all cases their principal country of operation is Great Britain. They do not have issued share capital and each association is governed by their own internal constitution or rules.

Since incorporation in 2003, the Society has discussed at length with the Committee of Management of the Investment Associations' both the substance and legal form of these three entities, to gain a better understanding of governance matters. As these discussions proved inconclusive in a number of areas, during 2007, the Society instructed their legal advisors to perform a significant amount of further investigation into the legal structure of the investment associations, particularly focusing on the matter of who controls these entities. The legal work was completed in the autumn of 2008. The Society has concluded that, on the basis of the legal position and relevant accounting guidance, in substance two of the investment associations are owned by its depositors, who are the Courts. These two associations are The Leeds District of the Ancient Order of Foresters' Investment Association and The Sheffield and Hallamshire District of the Ancient Order of Foresters' Investment Association.

In the case of these two associations, all potential gains within the investment associations' will revert to the Courts, and therefore ultimately the Society, in the event of a liquidation. Furthermore, the Society is clearly capable of exercising dominant influence through their ability to take the decision to withdraw the deposits

in these associations. The third Investment Association, The Derby and Derbyshire Foresters Investment Association, states within its rules that the members of the association consist of those individuals who are members of depositing Courts, and not the Courts themselves. The ownership of the association and controlling voting rights therefore rest with those individual members and not the Courts.

The accounting policy for the 2007 accounts stated that deposits with Investment Associations, represented by cash invested along with cumulative interest and bonuses paid, were accounted for at their deposit value and shown in other financial investments on the balance sheet.

The legal investigation completed during 2008 concludes that the Society has been in a position to exercise a dominant influence over both the Leeds and Sheffield and Hallamshire Investment Associations since incorporation in 2003. If this legal advice had been received prior to the signing of the 31 December 2007 financial statements, the Investment Associations would have been consolidated into the Society's financial statements for that period, as they would have met the definition of a subsidiary undertaking as given in Financial Reporting Standard 2 "Accounting for Subsidiary Undertakings". For this reason, the Society has consolidated the financial statements of both these associations in 2008 and in accordance with the guidance in FRS 3 "Reporting Financial Performance", has restated the comparative figures for 2007 in the non-technical Account, Balance Sheet and notes to the accounts. The restatements are summarised below...

Non-Technical Account

	Notes	2007 £'000	Prior Year Adjustment £'000	2007 Restated £'000
Investment Income	10	10,871	457	11,328
Unrealised gains on Court investments		984	455	1,439
Net operating expenses		(2,913)	(137)	(3,050)
		<u>8,942</u>	<u>775</u>	<u>9,717</u>
Balance Sheet adjustments				
Assets				
Land and buildings	11	97,873	10,947	108,820
Other financial investments	12	69,776	(2,849)	66,927
Other debtors	13	903	240	1,143
Tangible assets	14	658	3	661
Certificates of deposit		4,420	1,666	6,086
Cash at bank and in hand		6,569	8,551	15,120
		<u>180,199</u>	<u>18,558</u>	<u>198,757</u>
Liabilities				
Discretionary funds	16	10,520	7,815	18,335
Court funds	17	61,106	10,720	71,826
Other creditors		1,500	23	1,523
		<u>73,126</u>	<u>18,558</u>	<u>91,684</u>

The Investment Association deposits are investments of the Court and Discretionary funds and consequently have no impact on the insurance results shown in the Technical Account or the fund for future appropriations. The effect on the comparative figures was to increase the excess of income over expenditure by £775k and increase the total assets and total liabilities by £18,558k.

Had this adjustment not been made, the excess of expenditure over income for the year ended 31 December 2008 would have been reduced by £797k and the total assets and total liabilities as at 31 December 2008 would have fallen by £17,760k. There is no impact on the statement of total recognised gains and losses, as the surplus on the non-technical account is unaffected by the above adjustments which have been recognised in the Discretionary Funds and Court Funds and not the Fund for Future Appropriation.

Notes to the Accounts (*continued*)

3. Earned Premiums - Long Term Business

	2008 £'000	2007 £'000
Gross premiums written	10,552	10,934
Outward reinsurance premiums	200	(292)
Total Earned Premiums	10,752	10,642
Gross premiums written:		
Life cover business		
Regular premiums	3,003	3,141
Pensions business		
Regular premiums	107	137
Investment and savings		
Single premiums	243	238
Regular premiums	535	502
Industrial business		
Regular premiums	213	239
Group business		
Regular premiums	6,451	6,677
	10,552	10,934
The above includes premiums in respect of participating business	3,422	3,299
Gross new business premiums (annualised)		
Life cover business		
Regular premiums	128	65
Investment and savings		
Single premiums	243	238
Regular premiums	114	499
	485	802

All long term business is written in the United Kingdom, is in respect of continuing operations and relates to direct insurance contracts. Single premiums relate to products issued by the Society which allows for one premium only. Regular premiums contractually allow for payments on a regular basis and have been annualised in the gross new business premiums.

4. Investment Returns

	2008 £'000	2007 £'000
a) Investment Income - Long Term Business		
Income from land and buildings	607	617
Income from listed investments	1,451	1,260
Income from other investments	329	332
(Losses)/gains on the realisation of investments	(173)	1,072
	2,214	3,281
b) Unrealised losses/(gains) on Investments		
Unrealised losses from land and buildings	2,213	316
Unrealised losses/(gains) from listed investments	4,631	(405)
	6,844	(89)
In the 2007 accounts unrealised losses on investments were reported in investment expenses and charges. In 2008 they are reported on the face of the non-technical account.		
c) Investment Expenses and Charges - Long Term Business		
Investment management expenses and charges	117	86

5. Claims Incurred - Long Term Business

Gross claims payable
Reinsurers share
Cost of administration

2008 £'000	2007 £'000
9,312	11,746
(99)	47
434	413
<u>9,647</u>	<u>12,206</u>

6. Change in Technical Provisions - Long Term Business

Gross change in long term business provision
Bonuses
Pension annuity guarantee

2008 £'000	2007 £'000
2,270	(6,542)
(416)	(4)
159	252
<u>2,013</u>	<u>(6,294)</u>

7. Net Operating Expenses

a) Long Term Business

Acquisition costs
Change in deferred acquisition costs
Administrative expenses

2008 £'000	2007 £'000
873	750
85	(303)
2,194	2,086
<u>3,152</u>	<u>2,533</u>

b) Net operating expenses includes:

Fees payable to the Society's auditor for the audit of the annual accounts
Other services supplied pursuant to legislation - FSA Returns
Total audit fees

138	164
27	25
<u>165</u>	<u>189</u>

Auditors remuneration for non-audit services - taxation
Commission paid
Depreciation on tangible fixed assets
Operating lease rental charges

28	28
257	310
219	238
<u>38</u>	<u>43</u>

c) Operating leases

Annual commitments under operating leases for motor vehicles which expire between one and five years

<u>35</u>	<u>27</u>
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Notes to the Accounts (*continued*)

8. Staff Costs

a) Employees

i) Staff Costs:

Wages and salaries
Social security costs
Other pension costs

2008 £'000	2007 £'000
1,910	1,752
184	165
237	147
<u>2,331</u>	<u>2,064</u>

Included in the 2008 pension costs is a single payment of £75,000 (2007: £nil) paid by the Society into the Foresters Pension Scheme (see note 21).

ii) Average number of persons employed:

Board and Senior Management
Administration and other
Area Co-ordinators

Number	Number
12	11
63	61
18	18
<u>93</u>	<u>90</u>

b) Board emoluments

Remuneration
Benefits in kind
Pension scheme contribution

£	£
366,570	302,821
19,998	23,018
20,900	23,168
<u>407,468</u>	<u>349,007</u>

Included in the above amounts are the emoluments (including benefits in kind but excluding pension contributions) of:

The Chairman
The High Chief Ranger
The Chief Executive - resigned 9 May 2008
The Chief Executive - joined 26 August 2008 (see remuneration report)

£	£
20,304	25,790
16,234	19,309
46,352	110,547
<u>29,700</u>	<u>-</u>

The emoluments of the other Board members (including benefits in kind but excluding pension contributions) were in the following scale:

£nil - £5,000
£5,001 - £10,000
£10,001 - £15,000
£15,001 - £20,000
£20,001 - £25,000
£25,001 - £30,000
£30,001 - £35,000
£35,001 - £40,000
£40,001 - £45,000
£45,001 - £50,000
£50,001 - £55,000
£55,001 - £60,000
£60,001 - £65,000
£65,001 - £70,000
£70,001 - £75,000
£75,001 - £80,000
£80,001 - £85,000
£85,001 - £90,000
£90,001 - £95,000
£95,001 - £100,000
£100,001 - £105,000
£105,001 - £110,000
£110,001 - £115,000

Number	Number
2	2
2	2
2	4
3	2
1	-
-	1
1	-

9. Taxation

Deferred tax (see note 20)

£'000	£'000
<u>-</u>	<u>(19)</u>

There was no current tax charge in either 2008 or 2007 due to the losses the Society is carrying forward. At 31 December 2008 these losses stood at £6,532k (2007: £4,820k) in respect of excess management expenses. In addition, as at 31 December 2008 there are realised and unrealised capital losses totalling £1,020k (2009 £nil).

10. Non-Technical Investment Returns

a) Investment Income

Income from land and buildings	5,513	5,964
Income from listed investments	317	308
Income from other investments	473	586
(Losses)/gains on the realisation of investments	(4)	2,799
(Losses)/gains on realisation of investments - Courts	(44)	121
Income from mainland court investments	173	173
Other income - Courts	1,023	1,377
	<u>7,451</u>	<u>11,328</u>

b) Unrealised losses on Investments

Unrealised losses from land and buildings	17,411	1,337
Unrealised losses from listed investments	4,803	(462)
	<u>22,214</u>	<u>875</u>

In the 2007 accounts unrealised losses on investments were reported in investment expenses and charges. In 2008 they are reported on the face of the non-technical account.

c) Investment Management Expenses and Charges

Investment expenses and charges	520	345
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11. Land and Buildings

	Freehold £'000	Long Leasehold £'000	Ground Rent £'000	Occupied by Society £'000	Court Properties £'000	Total £'000
Market Value						
At 1 January 2008	78,994	9,290	13	1,930	7,646	97,873
Prior year adjustment (note 2)	-	-	-	-	10,947	10,947
At 1 January 2008 restated	78,994	9,290	13	1,930	18,593	108,820
Additions	244	-	-	-	32	276
Disposals	-	-	-	-	(394)	(394)
Revaluation	(16,573)	(2,455)	-	(595)	(1,499)	(21,122)
At 31 December 2008	62,665	6,835	13	1,335	16,732	87,580
Cost						
At 1 January 2008	62,984	8,662	13	1,887	1,002	74,548
Prior year adjustment	-	-	-	-	2,485	2,485
At 1 January 2008 restated	62,984	8,662	13	1,887	3,487	77,033
Additions	244	-	-	-	32	276
Disposals	-	-	-	-	(391)	(391)
At 31 December 2008	63,228	8,662	13	1,887	3,128	76,918

All investment properties, except the Court and Investment Association properties, were valued by Aston Rose Limited as at 31 December 2008 on a Market Value basis, taking into account the remaining periods of leases granted to tenants. The properties occupied by the Society, Foresters House and Tunstall, were valued at the same date by Aston Rose Limited on an Existing Use Value basis. No allowance has been made for the costs of realisation. In order for these accounts to show a true and fair view it is appropriate not to provide depreciation on land and buildings as it is considered that their useful economic lives and residual values are such that their depreciation is immaterial. Court and Investment Association properties have been valued by a number of professional independent valuers on the same basis as indicated above.

Notes to the Accounts (*continued*)

12. Other Financial Investments

	2008		2007 Restated	
	Market Value	Cost	Market Value	Cost
	£'000	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts	28,208	31,521	37,484	29,975
Debt securities and other fixed income securities	27,061	26,443	25,527	26,035
Investments listed on UK recognised investment exchange	55,269	57,964	63,011	56,010
Loans secured by mortgages	905	905	1,222	1,222
Other investments	291	291	301	301
Deposits in Investment Associations	2,140	2,140	1,911	1,911
Court held other investments - mainland	32	32	33	33
Court held other investments - Guernsey	347	347	449	449
	58,984	61,679	66,927	59,926

Note 2 explains that the Society has implemented a prior year adjustment restating the 2007 comparative figures. This has had the following effect on the 2007 other financial investments as follows:

Shares and other variable yield securities and units in unit trusts
 Debt securities and other fixed income securities
 Investments listed on UK recognised investment exchange
 Loans secured by mortgages
 Other investments
 Deposits in Investment Associations
 Court held other investments - mainland
 Court held other investments - Guernsey

2007 Market Value Restated		
Market Value	Prior year adjustment	Restated Market Value
£'000	£'000	£'000
36,071	1,413	37,484
23,281	2,246	25,527
59,352	3,659	63,011
967	255	1,222
102	198	300
8,872	(6,961)	1,911
34	-	34
449	-	449
69,776	(2,849)	66,927
62,688	(2,762)	59,926

Other financial investments - cost

The listed investments, except Investment Association investments, were valued by Tilney Investment Management, Citigroup Quilter, Brown Shipley and Legal and General at market value at 31 December 2008. Mortgages and other investments are included at their book cost. Investment Association investments were valued by the Association's professional advisors.

The balance sheet also includes the cost of £10,000 for all the shares in Foresters General Insurance Services Limited, which is incorporated in the United Kingdom. In view of the immaterial amounts involved, it has not been consolidated.

13. Other Debtors

	2008	2007 Restated
	£'000	£'000
Trade debtors	257	430
Other debtors including taxation recoverable	812	713
	1,069	1,143

Note 2 explains that the Society has implemented a prior year adjustment. This has had the effect of increasing the comparative figures for other debtors including taxation recoverable by £240k.

14. Tangible Fixed Assets

Cost

As at 1 January 2008 (restated)
 Additions
 As at 31 December 2008

Depreciation

As at January 2008 (restated)
 Charge for the year
 As at 31 December 2008

Net Book Value

31 December 2008

31 December 2007

	Motor Vehicles £'000	Fixtures & Fittings £'000	Total £'000
As at 1 January 2008 (restated)	26	1,682	1,708
Additions	-	92	92
As at 31 December 2008	26	1,774	1,800
As at January 2008 (restated)	26	1,021	1,047
Charge for the year	-	220	220
As at 31 December 2008	26	1,241	1,267
31 December 2008	-	533	533
31 December 2007	-	661	661

Note 2 explains that the Society has implemented a prior year adjustment. This has had the effect of increasing the comparative figures for the net book value of fixtures and fittings by £3k.

15. Deferred Acquisition Costs

There were no recoverable deferred acquisition costs with the margin in the policy premiums having been fully used to off-set future expense provisions. The figure of £526k (2007: £611k) on the balance sheet represents the discounted value of any deferred acquisition cost margins within the remaining policy premiums still outstanding as at 31 December 2008 from the first ten years of the policy's term. This figure has been added back so as to gross up the long term business provision and the deferred acquisition costs.

16. Discretionary Funds

These comprise those funds with specific purposes as determined by The Society.

At 1 January
 Prior year adjustment
 At 1 January restated
 Transfer (to)/from non-technical account

At 31 December

These funds are comprised as follows:

Court Reserve Fund
 Prior year adjustment (note 2)
 Court Reserve Fund restated
 Convalescent Home Benefit Fund
 War Memorial Benevolent Fund
 Foresters' Lifeboat Fund
 150th Anniversary Educational Awards Fund
 High Court Relief Fund
 Police Benevolent Fund
 Subsidiary Benefit Funds

At 31 December

	2008 £'000	2007 £'000
At 1 January	18,335	10,235
Prior year adjustment	-	7,312
At 1 January restated	18,335	17,547
Transfer (to)/from non-technical account	(12,265)	788
At 31 December	6,070	18,335
Court Reserve Fund	5,019	9,443
Prior year adjustment (note 2)	-	7,815
Court Reserve Fund restated	5,019	17,258
Convalescent Home Benefit Fund	75	95
War Memorial Benevolent Fund	350	334
Foresters' Lifeboat Fund	16	12
150th Anniversary Educational Awards Fund	321	316
High Court Relief Fund	73	100
Police Benevolent Fund	104	102
Subsidiary Benefit Funds	112	118
At 31 December	6,070	18,335

Notes to the Accounts (*continued*)

17. Court Funds

	Mainland Courts £'000	Guernsey Court £'000	Total £'000
At 1 January 2008	60,621	485	61,106
Prior year adjustment (note 2)	10,720	-	10,720
At 1 January 2008 restated	71,341	485	71,826
Transfer (to)/from non-technical account	(961)	48	(913)
At 31 December 2008	70,380	533	70,913

18. Fund for Future Appropriations

	2008 £'000	2007 £'000
At 1 January	51,869	45,244
Transfer (to)/from technical account	(8,648)	5,753
Transfer (to)/from non-technical account	(10,863)	1,123
Pension schemes actuarial gain/(loss)	133	(251)
At 31 December	32,491	51,869

19. Technical Provisions

	Long Term Business £'000	Pension Annuity Guarantee £'000	Bonus £'000	Guernsey General £'000	Claims £'000	Total £'000
At 1 January 2008	50,706	805	979	2,380	1,296	56,166
Transfer to/(from) technical account	2,270	159	(416)	66	226	2,305
At 31 December 2008	52,976	964	563	2,446	1,522	58,471

Introduction

The Society has three UK with-profits funds; the Order Insurance Fund (OIF), the Pure Endowment Fund (PEF), and Transfer Fund (TF). The capital position of these funds has been calculated on the existing regulatory basis as the funds size is significantly below the £500m level the FSA has determined should be applied for calculating liabilities under the realistic methodology. The Society also operates two non-participating funds, the Sick and Death Fund (SDF) and the Group Fund (GBF).

Capital Statement

The Capital Statement illustrates the financial strength of the Society's life business at 31 December 2008 and is set out below. This statement shows an analysis of the available capital resources calculated on a regulatory basis for the Society's with-profits funds as a whole. It also shows the margins over and above the regulatory requirements and the overall surplus capital within the funds under these bases. Further, the technical liabilities of the Society (i.e. those directly attributable to members policies), is split between with profit plans and non-participating plans.

19. Technical Provisions (continued)

Capital Statement Table	2008		2007	
	Non-Participating £'000	With-Profits £'000	Total £'000	Total £'000
Qualifying capital				
Fund for Future Appropriations (FFA)	3,878	28,613	32,491	51,869
Regulatory adjustments:				
Assets	-	(704)	(704)	(1,552)
Liabilities	-	(4,533)	(4,533)	(1,291)
Total available capital resources	3,878	23,376	27,254	49,026
Capital requirement			(6,530)	(9,778)
Overall surplus capital			20,724	39,248
Analysis of members' liabilities				
With-profits	-	35,803	35,803	34,581
Non participating	18,700	-	18,700	17,909
	18,700	35,803	54,503	52,490
Claims outstanding	1,522	-	1,522	1,296
General business provision (outside the UK)	2,446	-	2,446	2,380
Total technical liabilities	22,668	35,803	58,471	56,166
Total technical liabilities 2007	21,049	35,117	56,166	

Basis for calculating available capital resources in life business

The available capital of the with-profits funds has been determined in accordance with FSA regulations and includes the Fund for Future Appropriations (FFA). The FFA represents the estimated surplus in the funds that has not been allocated and is available to meet regulatory and other solvency requirements of the funds.

Basis of calculating capital requirements for life business

The Society's Resilience Capital Requirements (RCR) as at 31 December 2008 amount to £3.9m (2007: £3.7m). The RCR is the additional capital required when a prescribed set of stress tests, as set by the FSA, are applied simultaneously to the value of the assets and liabilities. In particular, for the Society this involves the following three tests as at 31 December 2008:

- a fall in property prices of 10% (2007: fall of 20%),
- a fall in equity of 10% (2007: fall of 10%), and
- the more onerous of an increase or decrease of 0.75% (2007: 0.91%) on fixed interest yields.

All three tests are applied at 31 December 2008. Instead of including the RCR as an explicit capital requirement, an amount equal to this calculated figure has been provided for as an additional reserve to cover any cash flow matching requirements.

The result is largely presentational and made to comply fully with regulatory guidance in light of any potential cash flow mismatch within the Society's funds. The total regulatory capital requirements for the Society therefore amount to £6.5m (2007: £9.8m) comprising purely the Long Term Insurance Capital Requirement £6.5m (LTICR 2007: £6.1m). In 2007 the RCR of £3.7m was included in the regulatory capital requirements.

Restrictions on available capital resources in life business

The Society is required to hold sufficient capital to meet the FSA's minimum capital requirements. Account is also taken of the Individual Capital Assessment (ICA), which considers certain business risks not covered by the statutory basis. The available capital is subject to certain restrictions as to its availability to meet capital requirements elsewhere in the Society. Some of the funds have their assets ring-fenced, this means that the associated assets cannot be used to support other areas of the business. This is particularly relevant to funds that have been transferred in through mergers and acquisitions. Full details of these restrictions are publicly available within the Society's Principle and Practices of Financial Management. The Society's total available capital resources are £27m (2007: £49.0m).

Notes to the Accounts (continued)

Options and guarantees

Options and guarantees are features of life assurance and pensions contracts that confer potentially valuable benefits to members. The Society does not fall within the FSA's realistic reporting regime and therefore is not required to measure liabilities on a market consistent basis, which values options and guarantees at fair value. The Society maintains two types of guarantee in the with-profits funds, Maturity Guarantees and Guaranteed Annuity Options (GAOs). Maturity guarantees are in respect of conventional with profit business and represent the sum assured and reversionary bonuses declared to date.

Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect any change in investment conditions would have on the basis for calculating policy liabilities. The capital position is also sensitive to assumptions and actual experience relating to mortality, expenses and policy lapse rates. For conventional with-profits business the key sensitivity is to future investment returns. The mix of assets is kept under review taking into account the level of capital required and the anticipated returns for members.

Technical provisions

An internal review of the Society's mortality experience supported the basis used in 2007. Our mortality assumptions therefore remain unchanged from last year. A further five year review of morbidity experience led to no change in the percentages applied to the standard CMIR 12 inception and recovery rates. The principal assumptions used in the technical provisions calculated on a regulatory basis were:

Class of Business		Mortality Tables Used		Valuation Interest Rate pa	
		2008	2007	2008	2007
Order Insurance Fund (£16m)				%	%
With profit contracts (Taxable)	Males	90% A67/70Ult	90% A67/70Ult	2.50	2.50
	Females	100% A67/70Ult (minus 4 years to actual age)	100% A67/70Ult (minus 4 years to actual age)		
With profit contracts (Non-taxable) and Non profit contracts	Males	90% A67/70Ult	90% A67/70Ult	3.00	3.00
	Females	100% A67/70Ult (minus 4 years to actual age)	100% A67/70Ult (minus 4 years to actual age)		
Pension business S1/S2	Males	90% A67/70Ult	90% A67/70Ult	3.25	3.75
	Females	100% A67/70Ult (minus 4 years to actual age)	100% A67/70Ult (minus 4 years to actual age)		
Pure Endowment Fund (£9m)					
With profit contracts (Non-taxable) and Non profit contracts	Males	90% A67/70Ult	90% A67/70Ult	3.25	3.75
	Females	100% A67/70Ult (minus 4 years to actual age)	100% A67/70Ult (minus 4 years to actual age)		
Sick and death fund (£7m)					
Non profit contracts (Non-taxable)	Males	90% A67/70Ult	90% A67/70Ult	3.25	3.25
	Females	100% A67/70Ult (minus 4 years to actual age)	100% A67/70Ult (minus 4 years to actual age)		
Transfer fund (£12m)					
Industrial business With profit (Non-taxable)	Males	ELTM 14	ELTM 14	3.00	3.50
	Females	ELTM 14	ELTM 14		
Industrial business Non profit (Non-taxable)	Males	ELTM 14	ELTM 14	3.25	3.75
	Females	ELTM 14	ELTM 14		
With profit contracts (Taxable)	Males	90% A67/70Ult	90% A67/70Ult	2.50	3.00
	Females	100% A67/70Ult (minus 4 years to actual age)	100% A67/70Ult (minus 4 years to actual age)		
Non profit contracts	Males	90% A67/70Ult	90% A67/70Ult	2.75	3.25
	Females	100% A67/70Ult (minus 4 years to actual age)	100% A67/70Ult (minus 4 years to actual age)		
With profit contracts (Non-taxable)	Males	90% A67/70Ult	90% A67/70Ult	3.25	3.75
	Females	100% A67/70Ult (minus 4 years to actual age)	100% A67/70Ult (minus 4 years to actual age)		

19. Technical Provisions (continued)

Asset mix at the valuation date

	2008	2007
	%	%
Cash	3	4
Fixed interest	20	14
Equities	21	22
Property	56	60
	<u>100</u>	<u>100</u>

Movement in available capital

	2008	2007
	£'000	£'000
Total available capital at 1 January	49,026	43,002
Changes in valuation assumptions	(4,576)	4,833
New business and other factors	(17,196)	1,191
	<u>27,254</u>	<u>49,026</u>

20. Provisions for Other Risks and Charges

Deferred Taxation

	2008	2007
	£'000	£'000
Movements in provision		
At 1 January	-	19
Charge in technical account	-	(19)
	<u>-</u>	<u>-</u>
At 31 December	-	-
Provision for deferred tax is made up as follows:		
Realised and unrealised (losses)/gains on Investments	(224)	728
Acquisition costs	(142)	(163)
Company losses	(1,070)	(897)
Deferred tax asset not recognised in the balance sheet	<u>(1,436)</u>	<u>(332)</u>

In accordance with Financial Reporting Standard 19 Deferred Taxation, the Society is required to disclose that it has an unprovided deferred tax asset of £1,436k (2007: £332k). No deferred tax asset has been provided for due to the uncertainty of taxable profits arising in the foreseeable future.

Notes to the Accounts (*continued*)

21. Pension Scheme - Ancient Order of Foresters

The Society operates a defined benefit scheme, the Ancient Order of Foresters 1978 Retirement and Death Benefit Scheme. The scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuarial advisor. The scheme is closed to new entrants.

Details in respect of the scheme are provided below in accordance with Financial Reporting Standard 17 (FRS 17). A full actuarial valuation was carried out at 6 April 2007 that showed a deficit in the scheme of £150,000 using the funding method. The Society agreed a funding basis with the scheme trustees that made a one-off payment into the fund of £75,000 together with enhanced employer contributions of £1,500 per month.

The actuarial valuation at 6 April 2007 was updated to the accounting date by an independent qualified actuary in accordance with FRS 17. As required by FRS 17, the value of the defined benefit liabilities has been measured using the projected unit method and both the assets and liabilities include the value of those pensions in payment which are secured with insured annuities.

The following tables set out the key FRS 17 assumptions used for the scheme:

Assumptions	31 December		
	2008	2007	2006
Price Inflation	3.0% pa	3.2% pa	2.9% pa
Discount rate	6.4% pa	5.9% pa	5.1% pa
Pension increases (LPI)	3.0% pa	3.1% pa	2.9% pa
Salary growth	4.0% pa	4.7% pa	4.4% pa
Life expectancy of male aged 65 in 2008	23.9 yrs	23.6 yrs	20.2 yrs

The following tables set out as at the accounting dates the fair value of the assets, a breakdown of the assets into the main asset classes, the present value of the FRS 17 liabilities and the deficit of assets below the FRS 17 liabilities (which equals the gross pension liability):

Asset distribution and expected return	31 December					
	2008		2007		2006	
	Expected return	Fair value £'000	Expected return	Fair value £'000	Expected return	Fair value £'000
Equities	7.4%pa	1,050	7.6% pa	756	7.5%pa	2,528
Bonds	4.9%pa	906	5.1% pa	1,751	4.5%pa	218
Annuity policies	6.4%pa	1,939	5.9% pa	1,953	5.1%pa	1,581
Other	5.5%pa	322	5.9% pa	84	5.0%pa	169
Total		4,217		4,544		4,496
Balance Sheet						
Total fair value of assets		4,217		4,544		4,496
Present value of liabilities		(4,429)		(4,704)		(4,465)
Gross pension asset (liability)		(212)		(160)		31
Deferred tax		29		22		(4)
Net pension (liability) asset		(183)		(138)		27

None of the assets of the scheme are invested in the Society's own financial instruments or in any property occupied by the Company.

Over the year to 31 December 2008, contributions were made to the scheme by the Society of £113,353 (2007: £39,000) including a one off payment of £75,000, in addition to the PPF levy of £8,143 (2007: £7,000). The Society has agreed to pay annual contributions of 16.4% pa of total pensionable salaries in respect of accruing benefits into the scheme together with monthly contributions of £1,500 to fund the current pension deficit.

21. Pension Scheme - Ancient Order of Foresters *(continued)*

Movement in surplus during the period:

Gross surplus (deficit) in scheme at start of year
 Current service cost (employee and employer)
 Contributions (employee and employer)
 Other net finance income
 Actuarial (loss) gain

Gross deficit surplus in scheme at end of year

Year to 31 December	
2008	2007
£'000	£'000
(160)	31
(62)	(64)
54	57
(10)	53
(34)	(237)
<u>(212)</u>	<u>(160)</u>

Analysis of the amount charged to operating profit:

Current service cost and total operating charge

Year to 31 December	
2008	2007
£'000	£'000
54	53
<u>54</u>	<u>53</u>

The scheme is closed to new entrants and, under the method used to calculate pension costs in accordance with FRS 17, the service cost as a percentage of pensionable payroll will tend to increase as the average age of the membership increases.

Analysis of the amount credited to other finance income:

Expected return on pension scheme assets
 Interest on post retirement liabilities

Net return to credit to finance income

Year to 31 December	
2008	2007
£'000	£'000
263	279
(273)	(226)
<u>(10)</u>	<u>53</u>

Total amount recognised in statement of total recognised gain and losses (STRGL):

Actual return less expected return on scheme assets
 Experience gains and (losses) arising on scheme liabilities
 Gain or (loss) due to changes in assumptions underlying the present value of scheme liabilities
 Actuarial (loss) gain recognised in the STRGL

Year to 31 December	
2008	2007
£'000	£'000
(440)	(144)
(234)	-
640	(93)
<u>(34)</u>	<u>(237)</u>

History of experience gains and losses is:

Actual less expected return - £'000's
 as a percentage of assets

Experience gain (losses) on the liabilities - £'000's
 as a percentage of liabilities

Total amount recognised in STRGL - £'000's
 as a percentage of liabilities

	31 December				
	2008	2007	2006	2005	2004
Actual less expected return - £'000's as a percentage of assets	(440) (10%)	(144) (3%)	39 1%	459 11%	275 8%
Experience gain (losses) on the liabilities - £'000's as a percentage of liabilities	(234) (5%)	- -%	(29) (1%)	(48) (1%)	7 -%
Total amount recognised in STRGL - £'000's as a percentage of liabilities	(34) (1%)	(237) (5%)	318 7%	(108) (2%)	82 2%

Notes to the Accounts (*continued*)

22. Pension Scheme - Tunstall

The Society operates a defined benefit scheme, The Tunstall and District Assurance Collecting Society Staff Superannuation Fund Scheme. The scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the scheme in accordance with the recommendations of an independent actuarial advisor. A full actuarial valuation was carried out at 31 December 2007 by a qualified independent actuary. The scheme is closed to new entrants.

Assumptions

	31 December		
	2008	2007	2006
Price inflation	3.0% pa	3.2% pa	2.9% pa
Discount rate	6.4% pa	5.9% pa	5.1% pa
Pension increases	3.0% pa	3.1% pa	2.9% pa
Salary growth	4.0% pa	4.7% pa	4.4% pa
Life expectancy of male aged 65 in 2008	23.9yrs	22.4yrs	20.2yrs

Asset distribution and expected return

	31 December					
	2008		2007		2006	
	Expected Return	Fair Value £'000	Expected Return	Fair Value £'000	Expected Return	Fair Value £'000
Equities	7.4% pa	623	7.6% pa	714	7.5% pa	726
Gilts	3.4% pa	642	4.5% pa	725	4.5% pa	712
Other/Cash	2.1% pa	16	5.5% pa	12	5.0% pa	10
		<u>1,281</u>		<u>1,451</u>		<u>1,448</u>

Balance sheet

Total fair value of assets	1,281	1,451	1,448
Present value of liability	(1,088)	(1,425)	(1,417)
Gross pension asset (liability)	193	26	31
Deferred tax	(26)	(4)	(4)
Net pension asset	<u>167</u>	<u>22</u>	<u>27</u>

Movement in surplus during the period

	Year to 31 December	
	2008 £'000	2007 £'000
Surplus (deficit) in scheme at beginning of period	26	31
Total service cost	(22)	(28)
Contributions	24	24
Other finance income	(2)	13
Actuarial gain	167	(14)
Gross surplus in scheme at end of the period	<u>193</u>	<u>26</u>

The full actuarial valuation at 31 December 2007 showed an increase in surplus from £27,000 to £56,000 on the funding basis. It has been agreed with the employer that contributions of £2,000 per month will be made from 1 January 2006 in addition to the PPF levy of £481 (2007: £420). As a result, the current service cost will increase as a proportion of the salary roll as the members of the scheme approach retirement.

22. Pension Scheme - Tunstall (continued)

Analysis of the amount charged to operating profit

Current service cost and total operating charge

Year to 31 December	
2008	2007
£'000	£'000
22	28

Analysis of the amount credited to other finance income

Expected return on pension scheme assets

Interest on pension scheme assets

Net return

Year to 31 December	
2008	2007
£'000	£'000
82	83
(84)	(70)
(2)	13

Total amount recognised in statement of total recognised gain and losses (STRGL)

Actual return less expected return on scheme assets

Experience gains (losses) arising on the scheme liabilities

Changes in assumptions underlying present value of the Scheme liabilities

Actuarial (loss) gain recognised in STRGL

Year to 31 December	
2008	2007
£'000	£'000
(237)	3
-	-
404	(17)
167	(14)

History of experience gains and losses

Actual less expected return - £'000's
as a percentage of assets

Experience gain (losses) on the liabilities - £'000's
as a percentage of liabilities

Total amount recognised in STRGL - £'000's
as a percentage of liabilities

2008	2007	31 December		
		2006	2005	2004
(237)	3	24	120	42
(19%)	-%	2%	9%	4%
(19)	-	-	402	-
(2%)	-%	-%	28%	-%
167	(14)	121	236	(19)
15%	(1%)	9%	16%	(1%)

The scheme is now closed to new entrants and under the method used to calculate pension costs in accordance with FRS17, the current service cost will tend to increase as the average age of Membership increases.

Notes to the Accounts (*continued*)

23. Related Party Disclosures

Control

The Society is controlled by its members, in particular through the Annual Meeting of delegates at the High Court.

Transactions

The Board, the Chief Executive or their immediate family held various policies on standard terms (including the right to bonuses where appropriate) throughout the year. The aggregate premiums payable for the year by the Directors amounted to £10,794 (2007: £7,242) in respect of the Society's products.

24. Creditor Payment Policy

The Society's policy is to settle creditors within the credit terms specified, unless the transaction is subject to dispute.

25. With-Profits Actuary and Actuarial Function Holder

Mr Nigel Silby of Watson Wyatt Ltd held the Actuarial Function Holder and With-Profits Actuary roles up until 30 June 2008, when Mr Silby retired from Watson Wyatt Ltd. Mr Gavin Lock, also of Watson Wyatt Ltd was appointed on 1 July to carry out both roles. In accordance with section 77 of the Friendly Societies Act 1992 the Society has requested both Mr Silby and Mr Lock to provide certain particulars and they have confirmed the following information:

- That neither or their family's were members of the Society throughout the year;
- Neither Mr Silby or Mr Lock, or their family's, have any pecuniary interests in the Society; and
- The aggregate amount fees paid to Watson Wyatt in 2008 were £511,338 (2007: £324,828) exclusive of Value Added Tax.

26. Contingent Liabilities

On 7 November 2008 an accident occurred in one of the Society's Court held properties that resulted in the death of one of the tenants. This is currently undergoing investigation as a claim for damages has been received. Based upon legal advice received to date and through discussions with the Society's insurer, the Directors have concluded that it is not possible to determine the quantum of any liability at this time, but have confirmed that an incident of this nature is ordinarily covered by insurance policies held.

27. Approval of Financial Statements

These financial statements were approved by the Board on 25 March 2009.



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