Foresters Friendly Society

REPORT & ACCOUNTS **2007**

BOARD OF DIRECTORS

Non-Executive Directors
Glyn Carpenter MA C Dir (Chairman)
Andrew Pooley (Deputy Chairman)
Michael Clarke (Senior Independent Director)
Carl Genese
John Levett
Anthony Lovell FIET
Penny O'Nions

Executive Directors
Mark Rothery Dip CII (Chief Executive)
Paul Osborn ACA (Finance)
Neil Armitage MBA MCIM (Marketing)

Company Secretary
Jill Chipchase ACIS

ADVISORS

Actuarial Function Holder & With-Profits Actuary
Nigel F Silby FIA, Watson Wyatt Ltd

Independent Auditors
BDO Stoy Hayward LLP

Bankers
Royal Bank of Scotland PLC

The Ancient Order of Foresters Friendly Society Limited

Society Information
Registered Office
Foresters House, 29-33 Shirley Road, Southampton, Hampshire SO15 3EW
t: 023 80 229655 e: mail@forestersfriendlysociety.co.uk w: www.forestersfriendlysociety.co.uk

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

Foresters Friendly Society

Contents

Chairman's Report	4
Board of Directors	5-7
Directors' Report	8-18
Directors' Remuneration Report	19-20
Independent Auditors' Report	21
Income & Expenditure Accounts	
Technical accounts	22
Non-technical account	23
Balance Sheet	24
Notes to the Accounts	25-42

Chairman's Report

Dear Member

2007 was a year of change for the Society. At times it seems that we are facing permanent change and the Society has to adapt its traditions continually to its environment if it is to survive and to provide for future generations of Foresters.

This is my first report to you as Chairman of the Society. I had the great honour of taking over from Mike Baker, our first Chairman, following the High Court in Eastbourne in September. Mike's contribution to the Society has been immense, spanning many years as a member, court secretary, district committee and district chief ranger, executive councillor, order trustee, twice High Chief Ranger and of course as the first Chairman of the Society. It is a tough act to follow, but I will do my best.

2007 saw several innovations in the Society's governance. We welcomed Executive Directors onto the Board for the first time in the Society's history. Our Chief Executive, Mark Rothery, Finance Director, Paul Osborn, and Member Services Director, Graham Bloor, joined those of us elected from the membership to form the Board of Directors of the Society. This was followed in 2008 by Neil Armitage who joined as Marketing Director responsible for membership and development, after Graham Bloor left the Society. Also we welcomed our first co-opted member onto the Board. Penny O'Nions, who had been a member for several years and who has an extensive experience, having created and run more than one successful business, was invited to join the Board and her appointment was subsequently confirmed by the High Court. The Society's Chief Executive, Mark Rothery, gave notice to the Board in early 2008 that he wishes to leave the employment of the Society in May 2008 to explore an exciting opportunity elsewhere. Mark has been with the Society for 17 years, including 8 years as Chief Executive. Mark has served the Society with distinction, and I am sure that you will join with me in wishing Mark every success for the future. We have a documented 'Succession Plan' in place for these circumstances. The re-organisation of the senior management team that took place over 2006/7 means that the Society is well placed to deal with the loss or absence of any of its senior management.

2007 also marked the creation of a dedicated Investment Committee, under Penny O'Nions' chairmanship, to focus greater attention on our portfolio of investments, to ensure they match and support our liabilities and promises to our members, and to maximise the investment returns we enjoy.

Another key development in the year was the work undertaken by the Board on developing a clear strategy for the Society that would help us direct our efforts and energies for the benefit of members. The eight key strategic objectives, which are explained further on page 10 were discussed at High Court and received enthusiastic backing from the delegates.

The objectives define what the Society is and aims to provide for its members. It confirms that we are about more than just money and that our Court system is central to our membership 'offer'.

To ensure that we can now deliver on these objectives, the Board set in hand six projects. These cover:

- Service to Members;
- Role of Courts;
- Financial Controls;
- Treating Members Fairly;
- Investments; and
- Product Development.

These projects are all progressing well. The project on the role of Courts has been particularly well received. Comments from delegates at High Court and at Area Meetings have confirmed that Courts have, in the main, supported our intention to strengthen how Courts can operate to the benefit of their members and plan for themselves how they can improve their service. By the year end, the great majority of Courts had conscientiously completed a self assessment and we will commence working with Courts to support improvement in 2008.

Financially 2007 ended on a turbulent note with stock markets uncertain and commercial property values falling significantly for the first time in many years. This has inevitably hit the value of the Society's investments. Where we have enjoyed significant 'paper' gains due to rising valuations in recent years, the trend has now reversed, but the overall value of the Society has been maintained during the year. The underlying strength of the Foresters remains with a broad range of investments that spreads our risk against falling markets. Our Individual Capital Guidance (ICG) issued by our regulator, the Financial Services Authority, confirmed that the Society is financially strong and solvent, with significant reserves and substantial free assets. These are approximated in the accounts by the Fund for Future Appropriations (FFA). This fund has increased substantially in 2007 as we have been able to release reserves, at the same time that we have increased bonuses to our with profit policyholders. As I write this, the markets in 2008 remain uncertain in the short term, but the business of the Foresters is focused on the longer term. We are confident that we can ride out the present conditions and emerge strong for our members.

2008 promises much for the Society. We have advanced plans for new products, a new membership offer, a new website, and there will inevitably be other changes that will present both challenges and opportunities. As we move towards our 175th year, the Foresters remains an active and dynamic Society willing and capable of adapting its organisation, products and services to meet the changing needs of current and future members. I am proud indeed to be leading the Society and promise that I and the rest of the Board will work to secure continuing success in the future.

Glyn Carpenter, Chairman

26 March 2008

Board of Directors

Non-Executive Directors

Glyn Carpenter

(Chairman from 12 September 2007 & Deputy Chairman to 12 September 2007)

Glyn was elected to the Board in 2002, was 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 Institute of Directors in 2007. Glyn is a full time employee of the Audit Commission and has declared he has sufficient time and resources to conduct his duties for the Society.

Mike Baker

(Chairman - retired 12 September 2007)

Mike joined the Society in 1947 and has held a number of branch officer roles over the past thirty years. Mike spent the whole of his working life in accountancy roles with Esso Petroleum. He served on the Board from 1976 to 1982, and served as High Chief Ranger in 1982. He was elected as a Trustee in 1984 and served in that capacity until incorporation in 2003 when he was elected to the Board. He was appointed as Chairman of the Society in September 2004. Mike retired in 2007 due to reaching the required retirement age for Directors.

Andrew Pooley

(Deputy Chairman from 12 September 2007 & Senior Independent Director to 12 September 2007)

Andrew joined the Board in 2002. He has worked at the Royal Courts of Justice for over thirty years dealing with Chancery Companies and Bankruptcy. He has held a number of branch officer roles over the past twenty years. He is a member of the Remuneration Sub-Committee.

Michael Clarke

(Senior Independent Director from 12 September 2007)

Michael was re-elected onto the Board in September 2005 having previously been a member from 1995 – 2000. He served as High Chief Ranger in 1999/2000. He has held a number of branch officer roles over the past forty five years. He is a solicitor in a private practice with experience of Probate, Administration and Trust Law, Property Law, Criminal Law and Friendly Society Law.

Alex Battershill

(Resigned 16 January 2008)

Alex was elected to the Board in 2001 and has served on all the sub committees during the year. During his working life he was a Professional and Technological Officer at the Naval Base at Devonport, Plymouth, covering all aspects of naval engineering and internal audit. He retired ten years ago. Since becoming a member in 1973 he has been involved at all levels of the Society. He served as High Chief Ranger in 2005/6.

Board of Directors (continued)

Non-Executive Directors (continued)

John Levett

John was elected to the Board in 2003. He is a member of the Nomination and Remuneration Sub-Committees and is also Chairman of Foresters General Insurance. John was employed as Personnel and Administration Manager with British Rail and then Human Resources Manager with Railtrack until retirement. He joined the Society in 1954.

Michael Nightingale

(Retired 12 September 2007)

Mike was re-elected onto the Board in 2003 having previously been a member from 1987-1992. He was also appointed a member of the Audit and Risk Committee in May 2006. He served as High Chief Ranger 1991-1992. He has held a number of branch officer roles over the past forty years. He worked for the Inland Revenue for forty two years and was an accounts trained Inspector of Taxes retiring in March 1997.

Penny O'Nions

(Appointed 21 February 2007)

Penny was appointed as chairman of the newly created Investment Committee and is also a member of the Remuneration Committee. Penny has had wide experience of the financial sector including banking and financial management. She now runs her family group company offering investment and protection advice and services. Penny is also a regular contributor to "Working Lunch" on BBC TV and writes for the financial press.

Carl Genese

(Appointed 14 November 2007)

Carl was elected to the Board in September 2007 and has had a long history with the Society in a variety of roles. He has worked within the insurance industry for many years including overseas postings. He has recently been appointed to the Chairmanship of the Heritage Trust, is a Pension Trustee and a Court Secretary. Outside of the Society, Carl is also an elected Parish Councillor.

Anthony Lovell

(Appointed 14 November 2007)

Tony was elected to the Board in September 2007 and came to the Society by way of Tunstall where he served as a Non-Executive Director of Tunstall Assurance until transfer to the Society. He became a member of the, then, Tunstall Assurance and Collecting Society in 1964 and has been a committee member of Tunstall Court since inception in 2003. He is self employed and specialises in health and safety and quality systems. He is the Board's health and safety appointed champion.

Executive Directors

Chief Executive
Mark J Rothery

(Appointed 21 March 2007)

Mark has been Chief Executive of the Society since May 2000. He has worked for the Society since March 1991 in a variety of roles including Company Secretary, Internal Audit Manager and Compliance Officer. Prior to joining the Society, Mark worked at the Head Office of Britannic Assurance in Birmingham for eleven years. Mark was appointed as a Director in March 2007. Mark served as a director of the friendly society trade association (the AFS) from 1999 until 2005 when he served a year as President.

In 2002 he was appointed by the Financial Services Authority to its Smaller Business Practitioner Panel. He was appointed as Deputy Chairman of the Panel in 2004 and Chairman in 2006. Mark received the prestigious 'Director of the Year' award from a well known accountancy firm in 2004 in recognition of his success both in managing the Society and influence over the financial services sector generally. Mark tendered his resignation to the Board in February 2008 and will leave the Society in May 2008.

Finance Director
Paul Osborn

(Appointed 21 February 2007)

Paul joined the Society in 2006 and was appointed to the Board as Finance Director in February 2007. He is a chartered accountant with over 13 years experience in the friendly societies industry and over 10 years working for a London based firm of chartered accountants. Prior to joining Foresters, Paul worked for Teachers Provident Society holding senior positions in finance and investment.

Membership Services Director - Graham Bloor

(Appointed in 21 February 2007, resigned 21 March 2007)

Graham joined the Society as its first Membership Services Director and was appointed to the Board in February 2007. He has spent many years working in senior management roles within the financial services industry including Norwich Union Life. Graham resigned from the Society in March 2007.

Marketing Director
Neil Armitage

(Appointed 26 March 2008)

Neil has joined the Society as Marketing Director. 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. In 1995 he won a scholarship to study Strategic Marketing at Chicago's Northwestern University and from there he headed up the US subsidiary of a UK paper company.

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

Directors' Report

Introduction

The Society's Board of Directors (also known as the Committee of Management) present their report together with the audited accounts of The Ancient Order of Foresters Friendly Society (the Society) for the year ended 31 December 2007.

This report is the statutory report required by 'The Friendly Societies (Accounts and Related Provisions) Regulations 1994'. An additional, more detailed, report is produced for the Society's Annual General Meeting that is being held in September 2008.

The Board report in 2006 was the first that the Society had to report against compliance with best practice created by the Myners Review of the Governance of Life Mutuals. It was pleasing to report almost full compliance with these requirements. Development of the governance arrangements within the Society are continuing to evolve and there are a small number of areas identified later in this report where the Society has explained how and when it is expected to achieve complete compliance.

The Society has been through significant modernisation and change in recent years, during that period it has focused on membership growth by mergers and group business expansion. In the long-term, the Society will need to develop ways of achieving growth through recruiting more individual Foresters. During 2007 solid foundations were put in place to enable this activity to commence in early 2008 and we look forward to reporting on the success of these ventures.

The 'Statement of the Directors' Responsibilities' on page 13 details the Board's responsibilities for these accounts.

The Board Report to the AGM in 2007 identified a number of strategic projects that impact upon service to members and the role of Courts. The year 2008 will see progression of those projects. This recognises that across the whole Society, 2007 was a year of putting all the building blocks in place to create a successful platform for the future.

Business Objectives and Activities

The Society is a friendly society which incorporated under the 1992 Friendly Societies Act on the 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.

During 2007 the Directors continued to ensure that the Society built on the fundamental review of the Society's strategy, which commenced in 2006.

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 objective in eight basic strategic guiding principles. These are explained in detail on page 10 of this report.

The development and consideration of the Society's strategy will continue to dominate the Board's agenda and will therefore continue to evolve. The Board report to the AGM in 2007 concentrated on reporting on progress against these strategic aims. The directors considered that the AGM was very successful with meaningful engagement with members. Feedback from members present was also positive. The Board will continue to discuss strategy with members at Annual General Meetings and will seek other opportunities to engage with members.

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 2007, the key performance indicators focused on the financial results of the Society. Two of these key performance indicators are illustrated further in the membership and premium income graphs shown on pages 16 and 17 respectively in the Directors' Report.

The Board is the governing body of the Society. Each Non-Executive Director on the Board is a member of the Society and an FSA 'Approved Person'. During 2007 the Non-Executive Directors on the Board consisted of the Chairman, Deputy Chairman, Senior Independent Director and between five and seven other members.

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 20, 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 the Member Services Director.

The Board considers that it has the requisite balance of knowledge, skills and experience which fits the need 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. 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 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.

Directors' Report (continued)

Strategy

During 2007 the Board continued to develop the theme of eight strategic objectives being central to everything that the Society aspires to. As mentioned in the Chairman's report on page 4, these were at the core of the Board Report to the Society's AGM in September 2007 and the strategic direction being followed received great support from the delegates. There is a real sense that this is the right strategic model to adopt for an organisation as diverse as the Foresters.

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.

A brief outline of the significance of each of the above objectives to members can be found in the leaflet entitled 'A newly defined strategy for the Foresters'. This leaflet was circulated to all Courts during 2007 and also to all delegates at the AGM. Further copies of this leaflet are available from the Society's Company Secretary at the registered Head Office address and on the newly re-launched website at **www.forestersfriendlysociety.co.uk.**

Six critical strategic projects have been initiated to enable the Society to more fully deliver against the objectives. These are:

Project 1 - Service to Members
Purpose of Project: To consider all Society contact with members, evaluate current performance, identify areas for improvement and produce meaningful management information. To date this project produced a detailed recommendation for website content that linked to Project 6 below, a members service charter, and a member survey which identified that satisfaction levels with the Society were extremely good. This project remains ongoing and will consider communication with members as well as a review of non-contractual benefits.

Project 2 - Role of Courts
Purpose of Project: To develop a system to measure the achievement of individual courts as regards their contribution towards the Society achieving its strategic objectives. To date this project produced a scorecard system that has been communicated with courts by circular and at the AGM. This approach has received great support from courts to the extent that nearly all courts have completed a self assessment against the scorecard. An accreditation panel has been formed and trained and external reviews of courts will commence in 2008. Over the next three years all courts will be formally reviewed to help them plan for their future and deliver improved services to their members.

Project 3 - Financial Controls
Purpose of Project: To exert additional control over Society expenditure and develop better understanding of the impact of different development strategies. To date this project has included the introduction of more detailed responsibility based budgeting and also identified higher level costs that downward pressure can be applied to. Significant savings have already been achieved in relation to professional fees and computer costs. Further savings have been identified regarding the administration of former Tunstall and Leek business; these savings are likely to have the greatest impact in 2009. A Facilities Manager has been recruited to oversee cost efficiencies in the Society's Head Office.

Project 4 - Treating Members Fairly (TMF)
Purpose of Project: To consider all aspects of the Society's business that could impact upon the fair treatment of members. To involve all levels of Society staff in the consideration of TMF issues. TMF is now complete as a special project and is now embedded in the day to day operation of the Society. The Board monitors this by receiving management information on a monthly basis.

Project 5 - Investments
Purpose of Project: To re-consider asset and liability matching and the management of assets. This project is being run by a newly formed Investment Committee. This committee constantly reviews the Society's investments and reports into the Board.

Project 6 - Product Development
Purpose of Project: To sell more individual policies and to reduce the expense burden on existing policies by selling new policies which cover their direct costs and make a contribution towards overheads. To date this project has included a review of the existing product range and its distribution possibilities. It has also considered potential new products and opportunities for distribution. The Society's product range and image has been updated and a new website designed to assist members and potential members take out new policies. A new Marketing Director has also been recruited and it is expected that significant progress will be made to distribute individual products in 2008.

The above projects will contribute towards the establishment of key performance indicators to enable the Board and members to monitor how successful the Society is being. The Board is excited by the progress made in 2007 in embedding the strategic direction and looks forward to reporting on further significant progress during 2008.

Governance Arrangements

The names and profiles of those who served on the Board during the year and that of the Chief Executive are set out on pages 5, 6 and 7. Relevant transactions between the Society and the Directors and the Chief Executive are set out in Notes 7 and 20.

In previous years the Board established sub-committees to consider certain specialist areas in more detail than would be possible at a Board meeting. During 2007 an additional sub-committee was created to consider the Society's strategy for investments. 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 14 and 15.

The Board meets once every month. 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 that 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 and Deputy 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 members 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. The Board appointed Andrew Pooley as its first Senior Independent Director in 2005. On Andrew's elevation to Deputy Chairman in September 2007, Michael Clarke was appointed Senior Independent Director.

Society's Relationship with Members

As each Non-Executive Director of the Board is also a member 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'). The Annual General Meeting takes place over a three day period and includes detailed discussions between the Board and members on the performance of the Society. Non-Executive Directors attend many meetings with members during the year.

During 2005, the Board wrote to all members about the Society's delegate system and invited them to find out more about what was involved in becoming a Non-Executive Director of the Society. Members indicated a desire to retain the delegate system. This exercise directly led to the co-option of one Non-Executive Director in 2006 (formal FSA approval received in early 2007).

Directors' Report (continued)

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 2007, but development of the website took longer than anticipated and compliance is now expected to be achieved during 2008.
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 2008.
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 2008.
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.
A4.2	Is the Board satisfied that plans are in place for orderly succession for appointment to the Board and to Senior management?	The Board found it necessary to make a temporary appointment to chair the Audit and Risk committee as no appropriately qualified Non-Executive Director was in place. This has been addressed in 2008 by the co-opting of an external Non-Executive Director with appropriate qualifications.
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 2008.
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, but it recognises that this needs to be strengthened. It has developed plans to achieve this.

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 2007 Board Meetings and Sub-Committees:

	Board		Nominations Committee		Remuneration Committee		Audit & Risk Committee		Investment Committee	
Director	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended
Mike Baker	12	8	5	3	4	3	-	-	-	-
Alex Battershill	12	12	5	2	4	3	4	4	-	-
Graham Bloor	12	2	-	-	-	-	-	-	-	-
Glyn Carpenter	12	11	5	5	4	1	4	4	4	4
Michael Clarke	12	11	5	2	-	-	-	-	-	-
Carl Genese	12	4	-	-	-	-	-	-	-	-
John Levett	12	12	5	3	4	4	-	-	-	-
Anthony Lovell	12	4	-	-	-	-	-	-	-	-
Michael Nightingale	12	8	4	3	-	-	4	3	-	-
Penny O'Nions	12	12	-	-	4	1	-	-	4	4
Paul Osborn	12	12	-	-	-	-	-	-	4	4
Andrew Pooley	12	12	-	-	4	3	4	1	4	2
Mark Rothery	12	11	-	-	-	-	-	-	4	4

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.

Directors' Report (continued)

Nominations Committee

Glyn Carpenter - Chairman - appointed 12 September 2007
Mike Baker - Chairman - retired 12 September 2007
Alex Battershill - appointed 10 October 2007
John Levett - appointed 12 September 2007
Michael Clarke - retired 12 September 2007

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. 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 2008.

Audit and Risk Committee

Alex Battershill - Chairman - appointed 12 October 2007
Glyn Carpenter - resigned as Chairman 12 October 2007
Andrew Pooley - appointed 12 October 2007
Michael Nightingale - resigned 12 October 2007

The Audit and Risk Committee meets as and when required 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 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 auditor's 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.

Remuneration Committee

Mike Baker - Chairman - retired 12 September 2007
Glyn Carpenter - Chairman with effect from 12 September 2007
John Levett
Andrew Pooley - resigned 12 September 2007
Penny O'Nions - appointed 10 October 2007
Alex Battershill - resigned 12 September 2007

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 19 and 20.

Investment Committee

Penny O'Nions - Chairman - appointed 16 May 2007
Glyn Carpenter - appointed 16 May 2007
Andrew Pooley - appointed 10 October 2007
Mark Rothery - appointed 16 May 2007
Paul Osborn - appointed 16 May 2007

In May of 2007 the Board established an additional specialist committee to review and recommend the Society's overall investment strategy. In addition to the above membership the Committee invited an external investment consultant to give an independent view on decisions taken and the market in general. This contract is reviewed on an annual basis. The main responsibilities of the committee are to:

- Review and approve the investment management agreements and the appointment of external investment managers;
- To monitor the fund performance of all assets classes plus the total portfolio against performance measurement targets;
- To 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;
- to take into consideration the movements in the equity and property markets during the latter part of the year; and
- to tender the management of the investment and property portfolios and make recommendations to the Board.

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. This has seen the launch of a Health Cash Plan in conjunction with Paycare Limited which was made available to members of the Society throughout 2007. 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 2007 were:

J. Levett - Chairman
M. Nightingale
A. Lewis - Secretary
T. Robertson

Statement of Internal Control

The Board received a statement of internal control from the Chief Executive at its meeting in February 2008. This covers controls in relation to financial, operational, compliance and risk management systems. 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 misstatement or loss.

Complaints by Members

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.

Directors' Report (continued)

Membership

The total membership of the Society at 31 December 2007 was 165,099 (2006:170,254). This is made up of 90,604 (2006: 92,037) members of group schemes and 74,495 (2006: 78,217) individual members.

Investments

2007 was a very difficult year worldwide for investment markets. Higher interest rates, the US sub prime crisis and inflationary pressure all caused a great deal of uncertainty across all major asset classes, but particularly in the commercial property sector in the second half of the year. The Society has significant investments in commercial property and to be consistent with how it values all other investments, the Board made the decision last year to revalue the property portfolio annually. In 2007 the effect of the market fall required the Head Office property portfolio to be reduced by £1.7m, but this was offset by the Court properties, which created a gain of £1.0m. In 2006, total unrealised property gains were £14.1m.

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. However, they also recognised recent increases in the stock market were not sustainable and have restricted investment to £100k per month into both equities and fixed interest securities.

The stock market continued to produce positive returns in 2007 with the FTSE all share index returning 5.3% (2006: 16.8%). It is pleasing for the Board to report that the Society's investment advisors produced investment returns greater than the FTSE all share index, with equity returns totalling £3.2m (2006: £4.0m) in 2007. The Society is still slightly under invested in fixed interest securities but went some way to rectifying that in 2007 with a one-off investment of £3.0m, from the proceeds of a property sale. The Society is committed to investing policyholders' funds for the long term.

The Society' 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 in view of the fact that deposits from Courts are exposing members funds to an unregulated environment. For this reason the Society has been in regular communication with the three Investment Associations that it has deposits with, to ensure suitable controls and systems are in place.

Premium Income

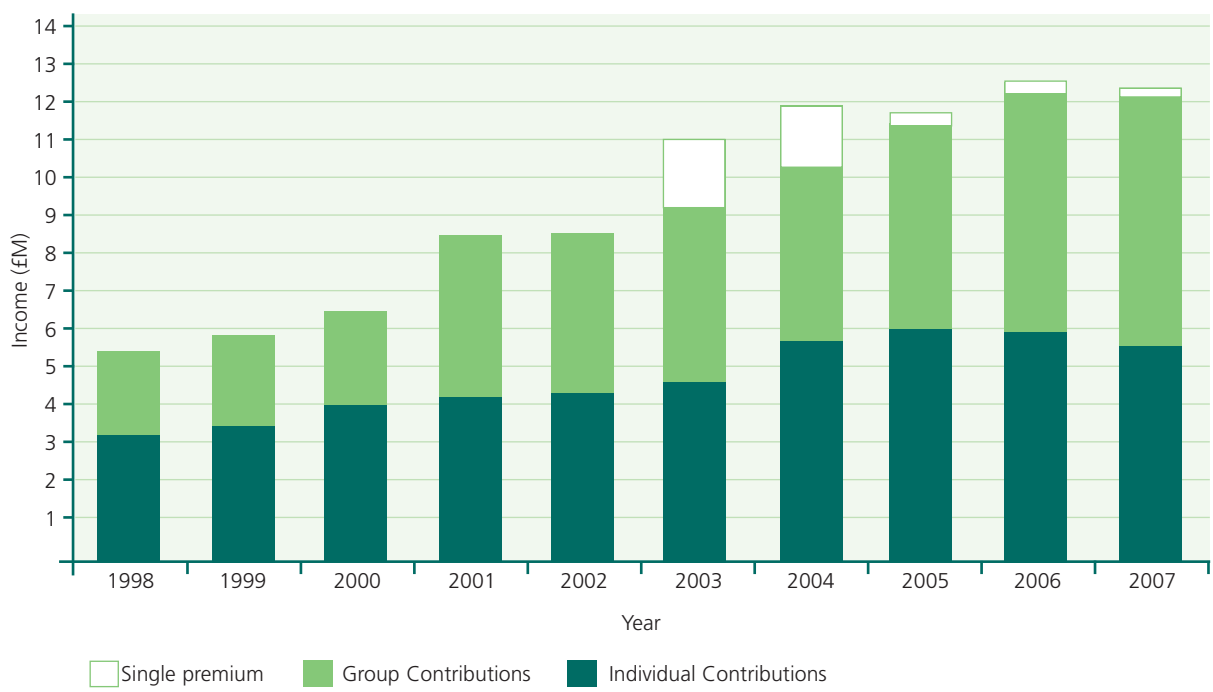
The Society's total gross premium income for 2007 amounted to £12.5m (2006: £12.6m). This comprises all premiums disclosed in these accounts, including those received on the island of Guernsey.

The slight fall in total premiums was due mainly to a fall in the individual business premium income because very little new business was written in 2007. However, group business premium income increased by £170k, 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 2007 the Society was providing insurances to the officers and families of thirty federations. 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. During 2007, the Board launched the Foresters Police Benevolent Fund 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 200 years.

As part of developing the Society's strategy it carried out a review of its current and future products, as explained further in project 6 on page 10. This review put a halt on marketing activity in 2007, which had a significant impact on the new business sold by the Society. This is reflected in the reduction of individual premium income figures shown in the table below. The Board is committed to developing and distributing new products to individual members in much larger numbers, and a significant amount of time and cost has gone into this development in the final quarter of 2007, to enable new business to be sold in 2008.

Total Gross Premium Income



It is encouraging to see the growth in the Society's premium income over the last ten years as shown in the table above. In 2007 individual contributions reduced slightly from 2006. It is important that individual business begins to match the success of group business in order to provide a secure future for the Society.

Directors' Report (continued)

Movement in Funds

The Technical income and expenditure accounts on page 22 explain the movement in the long term and general business insurance funds in the year. The technical income for long term business has fallen slightly in both premium income and investment income. The technical charges show an increase in claims due to a higher number of policies maturing, but also reflecting the increase in bonus rates in 2007. There were also significant reductions in both management expenses and the long term business provision in the year. The actions of the financial controls project had an impact in reducing insurance expenses. The long term business provision released £6.3m as the amount required to be set aside for the Society's sickness and death policies and future maintenance costs reduced. The method in calculating the sickness and death provision was changed in 2007 to better reflect the improved policy data. This explains £4.8m of the £6.3m write back. Further information is available in note 18. All of these movements have resulted in a transfer to the fund for future appropriations (FFA) of £5.8m (2006: transfer from FFA of £5.2m).

The non–technical account on page 23 highlights movements in the court, benevolent and non-insurance funds. In 2006 it benefited from triennial property revaluations of £10.5m, which in 2007 resulted in a loss of £1.3m as the commercial property market experienced a drop in market values. The transfer to the fund for future appropriations was £1.1m (2006: £9.1m).

The Balance Sheet on page 24 shows a strengthening in the fund for future appropriations of £6.6m to £51.9m and an increase in total assets of £3.3m to £183.2m at 31 December 2007.

Capital Resources

As explained in note 18, at 31 December 2007 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 £39.2m (2006: £31.0m).

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 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.

High Court Report

As in previous years, a more detailed 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 3rd August 2008.

Donations

The Society donated £3,500 (2006: £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 2007 Eastbourne received £500 and in 2006 Torquay received £500. The Society also donated £3,000 (2006: £3,000) to the Police Federation of Northern Ireland. No political donations were made in either year.

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. Their independence in providing non-audit services has been verified by attendance of senior BDO Stoy Hayward LLP staff at a meeting of the Audit and Risk Committee. The non-audit services provided include payroll and tax computations. The Society is satisfied that such services have not threatened the independence of BDO Stoy Hayward LLP in performing their statutory audit responsibilities.

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 2007 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
26 March 2008

Directors' Remuneration Report

Introduction

This report sets out the remuneration policy for the members of the Society's Board. It details the various elements of their remuneration in 2007, 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 15. 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 2007.

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 appointed for a three year period by the members at High Court. 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.

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 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 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 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. The Chief Executive is a member of the Foresters final salary pension scheme, with other Executive Directors members of the Group Personal Pension Scheme. 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 Chief Executive is for a contractual notice period of 12 months by the Board or 3 months by the Chief Executive. All other Executive Directors have employment contracts subject to notice periods of 3 months by either party. Unless notice to terminate the contract has been given all Executive Directors' contracts continue automatically until the age of 65.

Directors' Remuneration Report (continued)

	Salary/ Fees	Salary as Court Official	Bonuses	Benefits	Pension Contributions	Total	2006
Non Executives	£	£	£	£	£	£	£
G Carpenter	16,481	-	-	-	-	16,481	11,518
M Baker	19,009	300	10,000	-	-	29,309	16,841
A Pooley	12,888	3,192	-	-	-	16,080	10,841
A Battershill	12,000	700	-	-	-	12,700	9,991
M Clarke	12,000	-	-	-	-	12,000	7,551
J Levett	13,088	1,722	-	-	-	14,810	9,793
M Nightingale	9,040	199	-	-	-	9,239	7,894
P O'Nions	12,000	-	-	-	-	12,000	-
C Genese	3,554	900	-	-	-	4,454	-
A Lovell	3,554	-	-	-	-	3,554	-
J Anderson	-	-	-	-	-	-	17,031
M Harris	-	-	-	-	-	-	3,415
Executives							
M Rothery	86,520	-	13,000	11,027	15,401	125,948	125,634
P Osborn	72,100	-	5,000	9,464	7,210	93,774	-
G Bloor	5,574	-	----	2,527	557	8,658	-
	277,808	**7,013**	**28,000**	**23,018**	**23,168**	**359,007**	**220,509**

After Mr Baker's retirement, the Board determined that the Society should pay a bonus of £10,000 to reflect his outstanding services to the Society over a number of years. This was not determined or paid to Mr Baker whilst he was a serving Director but has been included above to reflect best practice.

Directors' Pension Benefits

Non-Executive Directors do not receive any pensionable benefits from the Society. The Chief Executive is a member of the Foresters final salary pension scheme, as described in note 20 on pages 38 to 40. 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 31.12.07	Years of Service	Pension Accrued during 2007	Accrued pension at 31.12.2007	Transfer value of accrued pension at 31.12.06	Increase in transfer value in the year	Transfer value of accrued pension at 31.12.07
			£	£	£	£	£
M Rothery	46	17	1,006	19,684	164,342	28,236	192,578

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 2007 and that at the end of 2006. 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. All other Executive Directors are members 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.

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 2007 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 Directors' Report for the year ended 31 December 2007.

Respective responsibilities of the Directors and Auditors

The Board's 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 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 Board 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 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 the Report and Accounts and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the 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 Board 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 2007 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 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

26th March 2008

Income and Expenditure Accounts for the Year Ended 31 December 2007

Technical Account - Long Term Business

	Notes	2007 £'000	2006 £'000
Earned premiums, net of reinsurance			
Gross premium written		**10,934**	11,064
Outward reinsurance premiums		**(292)**	(152)
	2	**10,642**	10,912
Investment income	3	**3,281**	3,629
Unrealised gains on investments		**89**	1,243
Total Technical Income		**14,012**	15,784
Claims incurred, net of reinsurance			
Claims paid: Gross amount		**(11,931)**	(10,149)
Reinsurers' share		**(47)**	182
		(11,978)	(9,967)
Change in provision for claims: Gross amount		**(228)**	(268)
Net claims incurred	4	**(12,206)**	(10,235)
Long term business provision			
Gross amount		**6,294**	(7,398)
Reinsurers' share		**-**	-
	5	**6,294**	(7,398)
Other Expenditure			
Net operating expenses	6	**(2,533)**	(3,213)
Investment expenses and charges	3	**(86)**	(68)
Taxation attributable to Long Term Business	8	**19**	(19)
		(2,600)	(3,300)
Total Technical Charges		**(8,512)**	(20,933)
Surplus deficit of technical income over technical charges		**5,500**	(5,149)
Transfer from (to) non-technical account		**253**	(53)
Transfer (to) from fund for future appropriations	17	**(5,753)**	5,202
Balance on Technical Account		**-**	-

Technical Account - General Business

Technical Income			
Earned income (gross)		**1,603**	1,524
Investment income		**78**	77
Total Technical Income		**1,681**	1,601
Technical charges			
Claims incurred (gross)		**(1,652)**	(1,329)
Transferred from (to) general business provision	18	**94**	(159)
Net operating expenses		**(123)**	(113)
Total Technical Charges		**(1,681)**	(1,601)
Balance on Technical Account		**-**	-

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 25 to 42 form an integral part of these accounts.

Non-Technical Account

	Notes	2007 £'000	2006 £'000
Income			
Investment income	9	**10,871**	11,497
Unrealised gains on investments		**-**	11,414
Unrealised gains on Court investments		**984**	433
Discretionary fund donations and levies		**292**	92
Total Income		**12,147**	23,436
Expenditure			
Net operating expenses		**(2,913)**	(2,338)
Court operating expenses		**(2,030)**	(1,637)
Investment expenses and charges	9	**(1,220)**	(549)
Discretionary benefits paid and approved Court distributions		**(1,689)**	(1,334)
Total Expenditure		**(7,852)**	(5,858)
Excess of income over expenditure for the financial year		**4,295**	17,578
To Discretionary Fund	15	**(285)**	(6,453)
(To) from Long Term Business Technical Account		**(253)**	53
To Mainland Court Funds	16	**(2,549)**	(1,949)
To Court Funds – Guernsey	16	**(85)**	(91)
To Fund for Future Appropriations	17	**(1,123)**	(9,138)
Balance on the Non-Technical Account		**-**	-

Statement of Total Recognised Gains and Losses for the year ended 31 December 2007

	2007 £'000	2006 £'000
Surplus (deficit) on Technical Account	**5,753**	(5,202)
Surplus on Non-Technical Account	**1,042**	9,138
Pension schemes actuarial (loss) gain	**(251)**	439
Total Recognised Gains and Losses	**6,544**	4,375

The notes on pages 25 to 42 form an integral part of these accounts.

Balance Sheet as at 31 December 2007

Assets	Notes	2007 £'000	2006 £'000
Investments			
Land and buildings	10	**97,873**	102,492
Investment in subsidiary	12	**10**	10
Other financial investments	12	**69,776**	61,189
		167,659	163,691
Debtors			
Debtors arising out of insurance operations		**1,279**	1,233
Other debtors	11	**903**	1,232
		2,182	2,465
Other Assets			
Tangible assets	13	**658**	802
Stocks of goods for resale		**48**	51
Certificates of deposit		**4,420**	3,846
Cash at bank and in hand		**6,569**	7,654
		11,695	12,353
Prepayments and accrued income			
Accrued interest and rent		**915**	945
Deferred acquisition costs	14	**611**	308
Other prepayments and accrued income		**171**	143
		1,697	1,396
Pension asset	20&21	-	54
Total Assets		**183,233**	179,959
Liabilities			
Reserves			
Discretionary Funds	15	**10,520**	10,235
Court Funds	16	**61,106**	58,472
		71,626	68,707
Fund for future appropriations	17	**51,869**	45,244
Technical provisions			
Long term business provision		**52,490**	58,784
Claims outstanding		**1,296**	1,038
General business provision (Guernsey)		**2,380**	2,474
	18	**56,166**	62,296
Provision for other risks and charges	19	-	19
Creditors			
Creditors arising out of re-insurance operations		**300**	175
Other creditors including taxation and social security		**1,500**	1,670
		1,800	1,845
Accruals and deferred income		**1,656**	1,848
Pension liability	20&21	**116**	-
Total Liabilities		**183,233**	179,959

The notes on pages 25 to 42 form an integral part of these accounts.

The accounts were approved by the Board on 26 March 2008 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 reassurance 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 4.

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 considered not materially different to an accruals basis. Interest on fixed interest securities, deposits and rents are 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 investment associations and credit institutions are carried at their historical cost.

Deposits with investment associations represents cash invested along with cumulative interest and bonuses paid and are held in three investment associations:

- The Leeds District of the Ancient Order of Foresters' Investment Association;
- The Sheffield & Hallamshire District of the Ancient Order of Foresters Investment Association; and
- The Derby and Derbyshire Foresters Investment Association.

Notes to the Accounts (continued)

f) Investments (continued)

Investment Associations are specially authorised societies under the Friendly Societies Act 1896. The objective of these associations is 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.

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 accounts.

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 2007, by qualified professional valuers working for the Society, Aston Rose Limited, Chartered Surveyors. Court managed properties were valued at 31 December 2007 by Court 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) 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 accounts.

i) Stocks

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

j) 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 2007 amounted to £38,522 (2006: £39,196). More information on the scheme is given in note 20. The last formal valuation took place as at 6 April 2004. There was a scheme deficit at that date of £329,800 on a current funding basis. The plan is to eliminate this deficit by the current employer contributions of 17.8% over the period between June 2004 and May 2009.

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 2007 amounted to £14,571 (2006: £25,185). More information on the scheme is given in note 21.

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.

j) Pension Schemes (continued)

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.

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 accounts for the year ended 31 December 2007 amounted to £79,885 (2006: £57,627).

k) 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 18. 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.

l) 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:

Fixtures and fittings - 4 to 10 years
Motor vehicles - 4 to 5 years

m) Operating Leases

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

n) 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.

o) General Business Provision

The general business provision has been taken as the fund balance held against the business.

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.

Notes to the Accounts (continued)

2 Earned Premiums - Long Term Business

	2007 £'000	2006 £'000
Gross premiums written	10,934	11,064
Outward reinsurance premiums	(292)	(152)
Total Earned Premiums	10,642	10,912
Gross premiums written:		
Life cover business		
Regular premiums	3,141	3,399
Pensions business		
Regular premiums	137	148
Investment and savings		
Single premiums	238	334
Regular premiums	502	414
Industrial business		
Regular premiums	239	265
Group business		
Regular premiums	6,677	6,504
	10,934	11,064
The above includes premiums in respect of participating business	3,299	3,437
Gross new business premiums (annualised)		
Life cover business		
Regular premiums	65	-
Investment and savings		
Single premiums	238	334
Regular premiums	499	132
Group Business		
Regular premiums	-	54
	802	520

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.

3 Investment returns

a) Investment Income - Long Term Business

Income from land and buildings	617	685
Income from listed investments	1,260	1,428
Income from other investments	332	271
Gains on the realisation of investments	1,072	1,245
	3,281	3,629

b) Investment Expenses and Charges - Long Term Business

Investment management expenses and charges	86	68

4 Claims Incurred - Long Term Business

	2007 £'000	2006 £'000
Gross claims payable	11,746	10,072
Reinsurers' share	47	(182)
Cost of administration	413	345
	12,206	10,235

5 Change in Technical Provisions - Long Term Business

Gross change in long term business provision	(6,542)	7,478
Bonuses	(4)	(27)
Pension annuity guarantee	252	(53)
	(6,294)	7,398
Reinsurers' share	-	-
	(6,294)	7,398

6 Net Operating Expenses

a) Long Term Business		
Acquisition costs	750	663
Change in deferred acquisition costs	(303)	23
Administrative expenses	2,086	2,527
	2,533	3,213
b) Net operating expenses includes:		
Fees payable to the society's auditor for the audit of the annual accounts	164	204
Other services supplied pursuant to legislation - FSA Returns	25	24
Total audit fees	189	228
Auditor's remuneration for non-audit services	28	18
Commission paid	310	323
Depreciation on tangible fixed assets	238	209
Operating lease rental charges	43	48
c) Operating leases		
Annual commitments under operating leases for motor vehicles which expire between one and five years	27	40

Notes to the Accounts (continued)

7 Staff Costs

	2007 £'000	2006 £'000
a) Employees		
i) Staff Costs:		
Wages and salaries	1,602	1,631
Social security costs	165	154
Other pension costs	147	128
	1,914	1,913
ii) Average number of persons employed:	Number	Number
Board and Senior Management	11	11
Administration and other	61	62
Area Co-ordinators	18	18
	90	91
b) Board emoluments	£	£
Remuneration	302,821	181,617
Benefits in kind	23,018	10,965
Pension scheme contribution	23,168	14,952
	349,007	207,534

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

	£	£
The Chairman to 12 September 2007 (2006 full year)	19,309	16,541
The Chairman from 12 September 2007	6,481	-
The High Chief Ranger	19,309	9,391
The Chief Executive	110,547	111,394

The Chief Executive was appointed to the Board in March 2007. The Chairman was also the High Chief Ranger in 2007 and his remuneration excludes a £10,000 bonus paid after his retirement, as disclosed in the Remuneration Report. The emoluments of the other members (including benefits in kind but excluding pension contributions) were in the following scale:

	Number	Number
£nil-£5,000	2	1
£5,001-£10,000	2	6
£10,001-£15,000	4	1
£15,001-£20,000	2	-
£85,001-£90,000	1	-

8 Taxation

Deferred tax (see note 19)	(19)	19

There was no current tax charge in either 2007 or 2006 due to the losses the Society is carrying forward. At 31 December 2007 these losses stood at £4,820k (2006:£4,870k)

9 Non-Technical Investment Returns

	2007 £'000	2006 £'000
a) Investment Income		
Income from land and buildings	**5,706**	5,990
Income from listed investments	**308**	93
Income from other investments	**586**	497
Gains on the realisation of investments	**2,799**	3,645
Gains on realisation of investments - Courts	**38**	172
Income from mainland court investments	**494**	582
Other income - mainland Courts	**817**	402
Other income - Guernsey Court	**123**	116
	10,871	11,497
b) Investment Management Expenses and Charges		
Investment expenses and charges	**345**	549
Unrealised losses on investments	**875**	-
	1,220	549

10 Land and Buildings

Market Value	Freehold £'000	Long Leasehold £'000	Ground Rent £'000	Occupied by Society £'000	Court Properties £'000	Total £'000
At 1 January 2007	83,890	9,514	47	1,855	7,186	**102,492**
Disposals	(3,392)	-	(34)	-	(505)	**(3,931)**
Revaluation	(1,504)	(224)	-	75	965	**(688)**
At 31 December 2007	**78,994**	**9,290**	**13**	**1,930**	**7,646**	**97,873**
Cost						
At 1 January 2007	66,175	8,662	15	1,887	1,115	**77,854**
Disposals	(3,191)	-	(2)	-	(113)	**(3,306)**
At 31 December 2007	**62,984**	**8,662**	**13**	**1,887**	**1,002**	**74,548**

All investment properties, except the Court properties, were valued by Messrs Aston Rose as at 31st December 2007 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 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 properties have been revalued by a number of professional independent valuers on the same basis as indicated above.

11 Other Debtors

	2007 £'000	2006 £'000
Trade debtors	**430**	584
Other debtors including taxation recoverable	**473**	648
	903	1,232

Notes to the Accounts (continued)

12 Other Financial Investments

	2007		2006	
	Market Value £'000	Cost £'000	Market Value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	**36,071**	**28,804**	33,529	27,171
Debt securities and other fixed income securities	**23,281**	**23,460**	17,726	18,034
Investments listed on UK recognised investment exchange	**59,352**	**52,264**	51,255	45,205
Loans secured by mortgages	**967**	**967**	1,201	1,201
Other investments	**102**	**102**	103	103
Deposits in Investment Associations	**8,872**	**8,872**	8,185	8,185
Court held other investments - mainland	**34**	**34**	36	36
Court held other investments - Guernsey	**449**	**449**	409	409
	69,776	**62,688**	61,189	55,139

The Society has a number of deposits in three organisations known as 'Investment Associations'. These Associations are all registered as Specially Authorised Societies under the Friendly Society Act 1896. The objective of these Associations is to receive the funds of registered friendly societies and their branches and to invest the same for their benefit. In accordance with the Society's accounting policy the carrying value represents cash deposited including rolled up interest and bonuses. The most recent audited financial results of the Investment Associations reported the following financial information:

Financial information for the year ended 31 December 2006	Profit (loss) for the year £'000	Net Assets £'000
The Leeds District of the Ancient Order of Foresters' Investment Association	358	14,339
The Sheffield & Hallamshire District of the Ancient Order of Foresters Investment Association	144	808
The Derby and Derbyshire Foresters Investment Association	(15)	13,850

The listed investments were valued by Tilney Investment Management, Citigroup Quilter, Brown Shipley and Legal and General at market value at 31 December 2007. Mortgages and other investments are included at their book cost.

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 Tangible Fixed Assets

	Motor Vehicles £'000	Fixtures & Fittings £'000	Total £'000
Cost			
As at 1 January 2007	26	1,561	1,587
Additions	-	94	94
As at 31 December 2007	**26**	**1,655**	**1,681**
Depreciation			
As at 1 January 2007	24	761	785
Charge for the year	2	236	238
As at 31 December 2007	**26**	**997**	**1,023**
Net Book Value			
31 December 2007	**-**	**658**	**658**
31 December 2006	2	800	802

14 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 £611k (2006: £308k) on the balance sheet represents the Zillmer asset at 31 December 2007, which has been added back so as to gross up the long term business provision and the deferred acquisition costs.

15 Discretionary Funds

	2007 £'000	2006 £'000
These comprise those funds with specific purposes as determined by the Society.		
At 1 January	**10,235**	3,782
Transfer from Non-Technical Account	**285**	6,453
At 31 December	**10,520**	10,235
These funds are comprised as follows:		
Convalescent Home Benefit Fund	**95**	102
War Memorial Benevolent Fund	**334**	318
Foresters Lifeboat Fund	**12**	9
150th Anniversary Educational Awards Fund	**316**	320
Court Reserve Fund	**9,443**	9,348
High Court Relief Fund	**100**	14
Police Benevolent Fund	**102**	-
Subsidiary Benefit Funds	**118**	124
At 31 December	**10,520**	10,235

In 2007 the Police Benevolent Fund was set up to provide extra benefits to everyone in the police group schemes insured by the Society.

16 Court Funds

	Mainland Courts £'000	Guernsey Court £'000	Total £'000
At 1 January 2007	58,072	400	**58,472**
Transfer from non-technical account	2,549	85	**2,634**
At 31 December 2007	**60,621**	**485**	**61,106**

17 Fund for Future Appropriations

	2007 £'000	2006 £'000
At 1 January	**45,244**	40,869
Transfer from (to) from technical account	**5,753**	(5,202)
Transfer from non-technical account	**1,123**	9,138
Pension schemes actuarial gain	**(251)**	439
At 31 December	**51,869**	**45,244**

Notes to the Accounts (continued)

18 Technical Provisions

	Long Term Business	Pension Annuity Guarantee	Bonus	Guernsey General	Claims	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	57,248	553	983	2,474	1,038	**62,296**
Transfer (from) to technical account	(6,542)	252	(4)	(94)	258	**(6,130)**
At 31 December 2007	**50,706**	**805**	**979**	**2,380**	**1,296**	**56,166**

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 2007 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.

	2007			2006
Capital Statement Table	**Non-Participating**	**With-Profits**	**Total**	Total
	£'000	**£'000**	**£'000**	£'000
Qualifying capital				
Fund for Future Appropriations (FFA)	**6,532**	**45,337**	**51,869**	45,244
Regulatory adjustments:				
Assets	**-**	**(1,552)**	**(1,552)**	(1,164)
Liabilities	**-**	**(1,291)**	**(1,291)**	(1,078)
Total available capital resources	**6,532**	**42,494**	**49,026**	43,002
Capital requirement			**(9,778)**	(11,973)
Overall surplus capital			**39,248**	31,029
Analysis of members' liabilities				
With-profits	**-**	**34,581**	**34,581**	34,352
Non-participating	**17,909**	**-**	**17,909**	24,432
	17,909	**34,581**	**52,490**	58,784
Claims outstanding	**760**	**536**	**1,296**	1,038
General business provision (outside the UK)	**2,380**	**-**	**2,380**	2,474
Total technical liabilities	**21,049**	**35,117**	**56,166**	62,296
Total technical liabilities 2006	27,354	34,942	62,296	

18 Technical Provisions (continued)

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 2007 amount to £3.7m (2006: £5.6m). 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 2007:

- a fall in property prices of 20%;
- a fall in equity of 10%; and
- the more onerous of an increase or decrease of 0.91% on fixed interest yields.

All three tests are applied at once at 31 December 2007. The total regulatory capital requirements for the Society amount to £9.8m (2006: £12.0m) of which the RCR comprises £3.7m (2006: £5.6m) and the Long Term Insurance Capital Requirement (LTICR) comprises £6.1m (2006: £6.4m).

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 £49.0m (2006: £43.0m).

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 main 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.

Notes to the Accounts (continued)

18 Technical Provisions (continued)

Technical provisions

Following changes last year to the mortality assumptions in light of an internal review of the Society's experience, a further five year review carried out in 2007 supported this new basis. Our mortality assumptions therefore remain unchanged from last year. A further five year review of morbidity experience led to a refining of the percentages applied to the standard CMIR 12 inception and recovery rates. Our valuation interest rate remained unchanged from last year. The principal assumptions used in the technical provisions calculated on a regulatory basis were:

Class of business		Mortality tables used		Valuation Interest Rate pa	
		2007	2006	2007	2006
Order Insurance Fund (£21m)				%	%
With profit contracts (Taxable)	Males Females	**90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)**	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	**2.50%**	2.50%
With profit contracts (Non-taxable) and Non profit contracts	Males Females	**90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)**	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	**3.00%**	3.00%
Pension business	Males Females	**90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)**	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	**3.75%**	3.75%
Pure Endowment Fund (£10m)					
With profit contracts (Non-taxable) and Non profit contracts	Males Females	**90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)**	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	**3.75%**	3.75%
Sick and death fund (£7m)					
Non profit contracts (Non-taxable)	Males Females	**90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)**	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	**3.25%**	3.25%
Transfer fund (£12m)					
Industrial business With profit (Non-taxable)	Males Females	**ELTM 14 ELTM 14**	ELTM 14 ELTM 14	**3.50%**	3.50%
Industrial business Non profit (Non-taxable)	Males Females	**ELTM 14 ELTM 14**	ELTM 14 ELTM 14	**3.75%**	3.75%
With profit contracts (Taxable)	Males Females	**90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)**	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	**3.00%**	3.00%
Non profit contracts	Males Females	**90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)**	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	**3.25%**	3.25%
With profit contracts (Non-taxable)	Males Females	**90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)**	90% A67/70Ult 100% A67/70Ult (minus 4 years to actual age)	**3.75%**	3.75%

Asset mix at the valuation date

	2007	2006
	%	%
Cash	**4**	3
Fixed interest	**14**	11
Equities	**22**	24
Property	**60**	62
	100	100

18 Technical Provisions (continued)

Movement in available capital	2007 £'000	2006 £'000
Total available capital at 1 January	**43,002**	38,280
Changes in valuation assumptions	**4,833**	(4,100)
New business and other factors	**1,191**	8,822
Total available capital at 31 December	**49,026**	43,002

The method used in the valuation assumptions to value policies within the Sick & Death Fund has changed in 2007. The approach used for 2007 has calculated claim reserves more accurately for these policies by valuing each of the payments up to the end of the maximum benefit period. This method also measures claim inceptions from the valuation date until the expiry of the policy. For 2006, policies with a maximum benefit payment period, the value of the benefits was set to be the difference between:

- an active life annuity assuming claims incept at the end of the chosen deferred period with payments continuing whilst sick until the expiry of the policy; and
- an active life annuity assuming claims incept at the later deferred period corresponding to the chosen deferred period plus the maximum benefit period with payments continuing whilst sick until the expiry of the policy.

This allowed for claims incepting from the valuation date until the expiry of the policy. This approach has proved to be conservative with the proportion of assumed claims in force at a point in time for the first annuity being on average larger than for the second annuity.

The liabilities for the sick and death fund have reduced from £7.4m at 2006 to £1.9m at 2007. The change in method accounted for around £4.8m of the £5.5m reduction in liabilities. Around £0.4m of the balance of the change in liabilities was due to data improvements with around £0.3m due to policy movements and the change in basis.

19 Provisions for Other Risks and Charges

Deferred Taxation	2007 £'000	2006 £'000
Movements in provision		
At 1 January	**19**	-
Charge in technical account	**(19)**	19
At 31 December	-	19
Provision for deferred tax is made up as follows:		
Unrealised gains on Investments	**728**	1,008
Acquisition costs	**(163)**	(180)
Company losses	**(897)**	(797)
Undiscounted provision	**(332)**	31
Discount	-	(12)
Deferred tax asset not recognised in the balance sheet	**332**	-
	-	19

In accordance with Financial Reporting Standard 19 Deferred Taxation, the Society is required to disclose any deferred tax that has not been provided for in the balance sheet. The Society has an unprovided deferred tax asset of £332k.

Notes to the Accounts (continued)

20 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 (FRS17). The actuarial valuation as at 6 April 2004 was updated to the accounting date by an independent qualified actuary in accordance with FRS17. As required by FRS17, 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 FRS17 assumptions used for the scheme:

Assumptions	31 December		
	2007	2006	2005
Price Inflation	**3.2% pa**	2.9% pa	2.9% pa
Discount rate	**5.9% pa**	5.1% pa	4.7% pa
Pension increases (LPI)	**3.1% pa**	2.9% pa	2.9% pa
Salary growth	**4.7% pa**	4.4% pa	4.4% pa

On the basis of the assumptions used for life expectancy, a male person aged 65 at the accounting date would be expected to live a further 23.6 years (2006: 20.2 years).

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 FRS17 liabilities and the deficit of assets below the FRS17 liabilities (which equals the gross pension liability).

Asset distribution and expected return

	31 December					
	2007		2006		2005	
	Expected return	**Fair value £'000**	Expected return	Fair value £'000	Expected return	Fair value £'000
Equities	**7.6%pa**	**756**	7.5% pa	2,528	7.3%pa	2,245
Bonds	**5.1%pa**	**1,751**	4.5% pa	218	4.0%pa	231
Annuity policies	**5.9%pa**	**1,953**	5.1% pa	1,581	4.7%pa	1,554
Other	**5.9%pa**	**84**	5.0% pa	169	4.7%pa	247
Total		**4,544**		4,496		4,277
Balance Sheet						
Total fair value of assets		**4,544**		4,496		4,277
Present value of liabilities		**(4,704)**		(4,465)		(4,594)
Gross pension (liability) asset		**(160)**		31		(317)
Deferred tax		**22**		(4)		-
Net pension (liability) asset		**(138)**		27		(317)

20 Pension Scheme - Ancient Order of Foresters (continued)

Over the year to 31 December 2007, contributions by the Society of £39,000 (2006: £39,000) were made to the scheme, in addition to the PPF levy of £7,000 (2006: £nil). The Society has agreed to pay annual contributions of 17.8% pa of total pensionable salaries in respect of accruing benefits.

Movement in surplus during the period:

	Year to 31 December	
	2007	2006
	£'000	£'000
Gross surplus (deficit) in scheme at start of year	**31**	(317)
Current service cost (employee and employer)	**(64)**	(60)
Contributions (employee and employer)	**57**	50
Other net finance income	**53**	40
Actuarial (loss) gain	**(237)**	318
Gross (deficit) surplus in scheme at end of year	**(160)**	31

Analysis of the amount charged to operating profit:

	Year to 31 December	
	2007	2006
	£'000	£'000
Current service cost and total operating charge	**53**	49

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:

	Year to 31 December	
	2007	2006
	£'000	£'000
Expected return on pension scheme assets	**279**	255
Interest on post retirement liabilities	**(226)**	(215)
Net return to credit to finance income	**53**	40

Analysis of Amount recognised in statement of total recognised gain and losses (STRGL):

	Year to 31 December	
	2007	2006
	£'000	£'000
Actual return less expected return on scheme assets	**(144)**	39
Experience gains and (losses) arising on scheme liabilities	**-**	(29)
(Loss) or gain due to changes in assumptions underlying the present value of scheme liabilities	**(93)**	308
Actuarial (loss) gain recognised in the STRGL	**(237)**	318

Notes to the Accounts (continued)

20 Pension Scheme - Ancient Order of Foresters (continued)

History of experience gains and losses is:

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

21 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 2004 and updated to 31 December 2007 by a qualified independent actuary. The scheme is closed to new entrants.

Assumptions

	31 December		
	2007	2006	2005
Price inflation	**3.2% pa**	2.9% pa	2.9% pa
Discount rate	**5.9% pa**	5.1% pa	4.7% pa
Pension increases	**3.1% pa**	2.9% pa	2.9% pa
Salary growth	**4.7% pa**	4.4% pa	4.4% pa

Asset distribution and expected return

	31 December					
	2007		2006		2005	
	Expected Return	**Fair Value £'000**	Expected Return	Fair Value £'000	Expected Return	Fair Value £'000
Equities	**7.6% pa**	**714**	7.5% pa	726	8.0% pa	684
Gilts	**4.5% pa**	**725**	4.5% pa	712	4.0% pa	646
Cash	**5.5% pa**	**12**	5.0% pa	10	4.5% pa	29
		1,451		1,448		1,359
Balance sheet						
Total fair value of assets		**1,451**		1,448		1,359
Present value of liability		**(1,425)**		(1,417)		(1,451)
Gross pension asset (liability)		**26**		31		(92)
Deferred tax		**(4)**		(4)		-
Net pension asset (liability)		**22**		27		(92)

Movement in surplus during the period	Year to 31 December 2007 £'000	2006 £'000
Surplus (deficit) in scheme at beginning of period	31	(92)
Total service cost	(28)	(34)
Contributions	24	24
Other finance income	13	12
Actuarial gain	(14)	121
Gross surplus in scheme at end of the period	26	31

The full actuarial valuation at 31 December 2004 showed an increase in surplus from £5,000 to £27,000. 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 £420 (2006: £nil). As a result, the current service cost will increase as a proportion of the salary roll as the members of the scheme approach retirement.

Analysis of the amount charged to operating profit:	Year to 31 December 2007 £'000	2006 £'000
Current service cost and total operating charge	28	34

Analysis of the amount credited to other finance income:	Year to 31 December 2007 £'000	2006 £'000
Expected return on pension scheme assets	83	80
Interest on pension scheme assets	(70)	(68)
Net return	13	12

Analysis of Amount recognised in statement of total recognised gain and losses (STRGL):	Year to 31 December 2007 £'000	2006 £'000
Actual return less expected return on scheme assets	3	24
Experience gains (losses) arising on the scheme liabilities	-	-
Changes in assumptions underlying present value of the Scheme liabilities	(17)	97
Actuarial (loss) gain recognised in STRGL	(14)	121

Notes to the Accounts (continued)

21 Pension Scheme - Tunstall (continued)

History of experience gains and losses is:	31 December				
	2007	2006	2005	2004	2003
Actual less expected return - £'000	**3**	24	120	42	68
as a percentage of assets	**-%**	2%	9%	4%	6%
Experience gain (losses) on the liabilities - £'000	**-**	-	402	-	(142)
as a percentage of liabilities	**-%**	-%	28%	-%	(10)%
Total amount recognised in STRGL - £'000	**(14)**	121	236	(19)	(128)
as a percentage of liabilities	**(1)%**	9%	16%	(1)%	(9)%

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.

22 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 and the Senior Management Team amounted to £7,242 (2006: £33,641) in respect of the Society's products.

23 Creditor Payment Policy

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

24 With-Profits Actuary

Mr Nigel Silby of Watson Wyatt Ltd held the With-Profits Actuary role throughout 2007. In accordance with section 77 of the Friendly Societies Act 1992 the Society has requested him to provide certain particulars and he has confirmed the following information:

- That neither Mr Silby nor his family were members of the Society throughout the year;
- Neither he nor his family have any pecuniary interests in the Society; and
- The aggregate amount fees paid to Watson Wyatt in 2007 were £324,828 (2006: £314,495) exclusive of Value Added Tax.

The Ancient Order of Foresters Friendly Society Limited

29-33 Shirley Road, Southampton, Hampshire SO15 3EW
t: 023 80 229655 e: mail@forestersfriendlysociety.co.uk w: www.forestersfriendlysociety.co.uk
Authorised and regulated by The Financial Services Authority. Incorporated Friendly Society No. 511F. FSA Registration No. 110029