

Report and Financial Statements

for the year ended 31st December 2008

BRITISH FRIENDLY SOCIETY LIMITED

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BRITISH FRIENDLY SOCIETY LIMITED
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Committee of Management 2008

Richard English – Chairman.

Brian Dawkes – Vice Chairman, until retirement on 16 May.

Fiona Gregory – Vice Chairman, since 16 May.

Nick Bayley

Mark Charlton

Tony Dormer

Mike Harding – Chief Executive and Secretary.

Geoff Windsor – Until retirement on 16 May.

Actuarial Function Holder and With-Profits Actuary

Matt Saker FIA, Watson Wyatt Limited, 21 Tothill Street, Westminster, London, SW1H 9LL.

Auditors - External

Moore Stephens, Chartered Accountants, 30 Gay Street, Bath, BA1 2PA.

Auditors - Internal

Bently Jennison, St. Matthew's House, 6 Sherwood Rise, Nottingham, NG7 6JF.

Bankers

Barclays Bank plc, Cardinal Point, Newall Road, Heathrow Airport, Hounslow, Middlesex, TW6 2AH.

NatWest Bank plc, 81 High Street, Bedford, MK40 1NE.

Solicitors

Lovells, Atlantic House, Holborn Viaduct, London, EC1A 2FG.

Taylor Walton, 28-44 Alma Street, Luton, LU1 2PL.

Authorised and Regulated by the Financial Services Authority. Registered No 110013.

Incorporated under the Friendly Societies Act 1992. Registered No. 392F.

Member of the Association of Friendly Societies.

Member of the Association of Mutual Insurers.

ANNUAL REPORT OF THE COMMITTEE OF MANAGEMENT FOR 2008

The Committee of Management [CoM] is pleased to submit the Annual Report and Financial Statements for the year ending 31 December 2008. Their names – and that of the Chief Executive/Secretary - are shown on page 1, and they all served throughout 2008, with the exception of Brian Dawkes and Geoff Windsor, who both retired from the Committee on 16 May 2008.

PRINCIPAL ACTIVITY

The principal activity of the Society continued to be the provision of sickness cover for its members in times of illness or accident and, for those members with a Century, Holloway or a BA In Work Plan, a capital sum on retirement. The Society no longer offers new mortgages to members and the portfolio is therefore reducing due to existing mortgages being redeemed. The provision of loan facilities to members continued, with loans being provided through the subsidiary company, BFS Member Services Limited. The CoM is of the opinion that all activities performed during the year by the Society and its subsidiary have been carried out within their respective powers.

SUBSIDIARY COMPANY

The results of the subsidiary company are disclosed in Note 6 to the full Financial Statements. As at 31 December 2008 the Directors were Richard English, Mike Harding, and Fiona Gregory. The Company has no employees and no remuneration was paid to the Directors.

BUSINESS REVIEW

For the third consecutive year, premium income reached a record high, indicating how much existing members value what the Society has to offer. Part of this success was again due to successful campaigns encouraging members to review their cover. Members also considered it to be a more simple process now they can apply to increase their cover by telephone. New business from BA employees slowed during 2008 and a decision was made to dispense with the promotions team at Heathrow and Gatwick. We will continue to administer the existing BA policies and, during 2008, we were able to offer the Century Plan to BA employees which we will continue to do.

During 2008, the loan facility afforded to members continued to be successful, with a larger percentage of members than usual electing to benefit from our competitive rates. Indeed, it seems that the coming year will prove even more successful in this respect, bearing in mind the response following an article in our December 2008 newsletter.

The long term strategic aims of the Society over the next five years are to:

- Maintain solvency levels.
- Grow the membership.
- Grow funds under management.
- Increase trading surplus.
- Reduce costs per member.
- Maintain/improve value for money returns to members and treat members fairly.

During 2008 we began a key project to investigate a new distribution channel for our products. °This work continues and we expect to know by the summer of 2009 if this is likely to be a viable proposition for the Society.

At 31 December 2008 our total membership stood at 16,382 compared with 17,030 at 31 December 2007 and we contained the ordinary expenses to 13.2% of our total income, compared with 13.67% in 2007.

APPORTIONMENT AND INTEREST

After consulting our With-Profits Actuary, your CoM has declared the following rates for 2008:

Apportionment

Apportionment for full members is again maintained at £1.20 per unit.

Apportionment for commuted members and members under the age of 5 is again maintained at £1.80 per unit.

Interest

In the 2007 Annual Report mention was made of the turbulence in the financial markets during the latter part of that year. The situation deteriorated during 2008, with the FTSE 100 falling over 30% - the worst year since the creation of the index in 1985.

Overseas markets also suffered the global credit contraction and oncoming recession during the year, causing their respective indices to also fall heavily in local currency terms; the US market returned -36.8%, which was the worst performance since the Great Depression in 1931, Japan -42.1% and Europe -42.6%. Other asset classes such as commercial property, corporate bonds and hedge funds also found the environment to be extremely challenging. Indeed correlations of all those asset classes moved closer together, thus reducing the benefits of diversification. The 'credit crisis' caused the demise of a number of distinguished institutions such as Lehman Brothers, Bradford & Bingley and Halifax to name but a few.

The Society cannot be immune from the effects of this global 'credit crisis'. Our focus, as always, has been to look after the long term benefit of our members and we continue to concentrate on retaining a sound capital and solvency position. During 2008 we have continued to

protect and maintain members' capital accounts, and we believe the actions taken will allow us to take advantage when market conditions improve.

Due to the unprecedented falls in the FTSE 100, a decrease in property values and a large reduction in the returns on our cash investments, on the advice of the Society's Actuary, a 0% interest rate has been declared for 2008. This aligns with our aim of steering a sound course through the current financial turbulence via careful management and stewardship of the Society's assets under management.

STATEMENT OF SOLVENCY

At the end of the year the Society maintained its solvency in excess of the required margin for its relevant class of business.

TREATING CUSTOMERS FAIRLY

The Society is committed to maintaining high standards of integrity and fairness in its dealings with members and ensures that all documentation and literature is clear, fair and not misleading. Systems and documented procedures are in place to ensure that, if any member is dissatisfied, such problems will be handled with due care and sensitivity and will be thoroughly and impartially investigated. It is pleasing to be able to report that the Society received 74 unsolicited letters of appreciation from members in respect of the high level of service provided.

CORPORATE GOVERNANCE

The Association of Friendly Societies [AFS] and the Association of Mutual Insurers [AMI] jointly drew up recommendations for good corporate governance in the form of an annotated version of the Combined Code for Corporate Governance suitable for mutual insurers. The annotated Combined Code follows the requirements for public companies, modified to more closely suit the nature of our businesses. Although the Code is voluntary, mutual insurers, like the British Friendly Society, are expected to follow the guidance in the Code, or explain why they do not. The Society is fully committed to high standards of corporate governance and this report describes how the principles of good governance have been applied within the business.

Committee of Management

From January to 16 May 2008, the Society's CoM comprised the Chairman, who is a non-executive, six other non-executive members and one executive member, being the Chief Executive of the Society. Following the retirement of two non-executive members at the AGM on 16 May, the number of non-executives has been reduced to five. In view of the size of the CoM it is not deemed necessary to appoint sub committees. Certain requirements are contained within the Annotated Combined Code on Corporate Governance to determine whether a non-executive director can be considered independent. Richard English has served on the CoM since 1978 and it is considered that, in view of his knowledge and experience, he continues to be a valued member of the CoM. In order to comply with the Annotated Combined Code he is subject to annual election. Your CoM considers that the remaining non-executive directors were independent throughout 2008, and a brief CV of each member of the CoM eligible to stand for election is given below:

Nick Bayley

Born in 1960, Nick joined the Committee in January 2008. With 21 years' of Sales and Marketing experience in the Financial Services sector, Nick has held a number of roles - from Independent Financial Adviser [IFA] to National Sales Manager - responsible for generating £30m in annual revenue. He has worked for Barclays and The Woolwich, where he managed teams of up to 150 IFAs and set up the UK's first IFA Training Academy. Nick now divides his time between working with Momentum and providing consultancy services to banks and building societies. He is married with two teenage children and his hobbies include rugby coaching, skiing, running and golf.

Mark Charlton DMS MBA

Born in 1968, Mark joined the Society in 1984 and was elected to the Committee in 2000. Having worked in middle management for the Department for Work and Pensions for several years, he transferred to the Highways Agency in April 2006 as a Traffic Officer. In November 2007, Mark returned to the Department for Work and Pensions and is now in charge of internal and external Accommodation and Performance processing issues for the Carlisle Benefit Delivery Centre. Mark also runs his own business as a consultant to local coach operators running regulated services. He is married to Denise and his hobbies are DIY, gardening and driving.

Tony Dormer BA ACMA

Born in 1948, Tony joined the Committee in January 2006. After studying economics at Newcastle University, he was employed by British Airways from 1970 to 2004, working in the finance and commercial areas, and has been Chief Executive of British Airways' Clubs since 2004. Tony is married, with 2 children and his interests include football, steam railways and real ale.

Richard J English

Born in 1946, Richard joined the Society in 1969. He was elected to the Committee in 1978, was Treasurer of the Society from 1995 until Incorporation on 1st January 1997 and has been Chairman of the Society in 1986/87 and from 2001 to date. He has represented the Society at Holloway Union Conferences and, now, Association of Friendly Society Conferences. Richard was the Managing Director of a Norwich wholesale company and retired in 2004. He is married, with two grown up children and three grandchildren and his interests include caravanning, bowls, tennis, skiing and golf.

Fiona Gregory

Born in 1958, Fiona joined the Society in 1995, was elected to the Committee in 2001 and acted as Solicitor to the Society for many years. She qualified as a Solicitor in 1982 and as a Notary Public in 1995. Fiona is now a Consultant Solicitor. She is married to Andrew and is child-free. Her interests include collecting late Victorian and early 20th century watercolours, gardening, theatre and managing a small portfolio of investment properties.

Michael Harding

Born in 1950, Michael joined the staff of the Society in 1970 as an Accounts Clerk. He progressed through various departments, becoming involved with matters at Committee level in 1976. He was appointed as Assistant to the General Secretary in the 1980's and, subsequently, General Secretary. In 1997, Michael was appointed as the Society's Compliance Officer. In June 1998 he was appointed Acting Chief Executive and Chief Executive in May 1999 at which time he joined the Committee. He is married to Yvette, has three grown up children and his interests include cricket, football and music.

The CoM meets on a regular basis, usually monthly and the attendance during 2008 was as follows:

NAME	NUMBER OF CoM MEETINGS ATTENDED
Richard English, Chairman	13
Brian Dawkes, (Vice Chairman until retirement on 16 May)	6
Nick Bayley	11
Mark Charlton	13
Tony Dormer	12
Fiona Gregory (Vice Chairman from 16 May)	13
Michael Harding (Chief Executive)	13
Geoff Windsor (Retired on 16 May 2008)	3

The CoM collectively determines the strategic direction of the Society - subject to available resources - and ensures an excellent standard of corporate governance is maintained. Implementation of the strategy and the management of day-to-day activities of the Society are delegated to the Chief Executive, who works closely with his senior executive team to discharge that responsibility.

A comprehensive report, together with financial information and evidence of how the Society has performed against Key Performance Indicators, is circulated to the CoM on a monthly basis. Contributions are made from members of the executive team, as appropriate, who meet regularly to manage the business.

COM REMUNERATION REPORT

The CoM is responsible for the remuneration package for themselves and the Executive Director. A process of annual appraisal is in place for the CoM with a view to maintaining a high standard of individual and collective performance. This appraisal process is conducted by the Chairman and involves individual interviews with the members of the CoM. The non-executive directors do not receive bonus payments or have service contracts. Their remuneration consists of payment for attending meetings, seminars and training sessions, and for other work related to the Society. Details of the remuneration are shown below:

NAME	FEE / SALARY £000's	BONUS £000's	BENEFITS £000's	2008 BENEFITS £000's	2007 BENEFITS £000's
Richard English, Chairman	16		2	18	18
Brian Dawkes, (Vice Chairman to 16 May)	6			6	16
Nick Bayley	14			14	N/A
Mark Charlton	12			12	10
John Dale (Resigned in July 2007)	N/A	N/A	N/A	N/A	6
Tony Dormer	12			12	11
Fiona Gregory (Vice Chairman from 16 May)	14			14	12
Michael Harding (Chief Executive)	55	1	15	71	68
Geoff Windsor (Retired on 16 May)	4		1	5	11
Total	133	1	18	152	152

In accordance with the Annotated Combined Code on Corporate Governance, we are required to highlight any areas where we have not complied with the guidance given and explain the reasons why. There are two such areas and those questions [Q] are shown below, together with our explanation [E]:

Q: Is there a strong presence on the board of both executive and non-executive directors to ensure that power and information are not concentrated in one or two individuals?

E: Although there is only one executive on the CoM, three other executives provide information for submission to the Committee. They also attend and fully participate in every monthly CoM meeting.

Q: Is a significant proportion of executive directors' remuneration structured so as to link rewards to corporate and individual performance?

E: Whilst a bonus system exists within our salary structure, which is linked to corporate and individual performance, this does not form a significant proportion of the Executive's remuneration.

RESPONSIBILITIES OF THE COMMITTEE OF MANAGEMENT

Under the Friendly Societies Act 1992, the CoM is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Society and of the income and expenditure of the Society for that period. In preparing those financial statements, the CoM is required to:

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

The members of the CoM are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Society and to enable them to ensure that the financial statements comply with the Friendly Societies Act 1992. They are responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and protection of fraud and other irregularities.

EXTERNAL AUDITORS

A resolution to re-appoint the external auditors – Moore Stephens – will be proposed at the forthcoming Annual General Meeting General Meeting.

APPRECIATION

Firstly I would like to voice my appreciation for the support and dedication shown by my colleagues on the CoM and, as always, thank our staff for their hard work during 2008 and for continuing to maintain the Society's ethos of caring for our members.

RICHARD ENGLISH
Chairman

13 March 2009

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRITISH FRIENDLY SOCIETY LIMITED

We have audited the financial statements of the British Friendly Society Limited for the year ended 31 December 2008, which comprise the Income and Expenditure Account, Balance Sheet, principal accounting policies and the related notes 1-17. These financial statements have been prepared under the accounting policies set out therein. We are also required to report on the Report of the Board of Management for the year ended 31 December 2008.

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

Respective responsibilities of the Committee of Management and auditors

The Committee of Management's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Responsibilities of the Board of Management on page 6.

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

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

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

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

Basis of opinion

We conducted our audit in accordance with International Auditing Standards issued by the Auditing Practices Board (UK and Ireland). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Committee of Management in the preparation of the financial statements, and of whether 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 of the state of the Society's affairs as at 31 December 2008 and of the income and expenditure of the Society for the year then ended and have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

In our opinion the Report of the Committee of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the accounting records and the financial statements for the year.

MOORE STEPHENS

Chartered Accountants and Registered Auditors

30 Gay Street, Bath, BA1 2PA

13th March 2009

INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 £'000	2007 £'000
TECHNICAL ACCOUNT			
- LONG TERM BUSINESS			
Earned premiums, net of reinsurance:			
Gross premiums written		4,462	4,359
Investment income:	1	5,237	4,538
Gains on investments:			
Unrealised increase in property values	6b	(800)	(440)
Realised and unrealised gains on investments		(9,644)	940
Other technical income - forfeitures	10	97	72
Total technical income		(648)	9,469
Claims incurred, net of reinsurance:			
Sickness benefits to members		(818)	(933)
Change in Long-term Business Provision	11	(767)	(1,433)
Bonuses and rebates	10	(2,906)	(6,854)
Net operating expenses			
Acquisition	2a	(193)	(249)
Administration	2b	(1,118)	(1,056)
Investment Management		(181)	(160)
Realised and unrealised losses on investments		-	-
Net surplus for the year	3	(6,631)	(1,216)
Transfer (to)/from Fund for Future Appropriations	9	6,631	1,216
Balance on Technical Account		-	-
- Long-term Business		-	-

The above results relate wholly to continuing activities.

The Society had no recognised gains or losses other than those included in the movements on the Technical Account and therefore no separate statement of recognised gains and losses has been presented.

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	TOTAL 2008 £'000	TOTAL 2007 £'000
ASSETS			
Investments			
Investment in subsidiary undertaking	6a	-	-
Land and buildings	6b	3,880	4,680
Other financial investments	6c	86,058	94,576
		<hr/> 89,938	<hr/> 99,256
Other assets			
Tangible fixed assets	7	137	167
Debtors: arising out of direct insurance operations	8	6	13
Cash at bank and in hand		2,556	1,106
Prepayments and accrued income			
Accrued investment income		836	959
Other prepayments		48	28
Total assets		<hr/> 93,521 <hr/>	<hr/> 101,529 <hr/>
LIABILITIES			
Fund for Future Appropriations	9	6,684	13,315
Members' Funds	10	73,251	75,371
Technical Provisions	11	12,878	12,111
Creditors	12	708	732
		<hr/> 93,521 <hr/>	<hr/> 101,529 <hr/>

These financial statements were approved by the Committee of Management at their meeting held on 14 March 2009 and were signed on their behalf by:

R J ENGLISH
Chairman

M S HARDING
Chief Executive & Secretary

The accompanying accounting policies and notes form an integral part of these financial statements.

PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations') made under the Friendly Societies Act 1992 and with applicable accounting standards in the United Kingdom and with all material provisions of the Statement of Recommended Practice (SORP) on 'Accounting for Insurance Business' issued by the Association of British Insurers in 2003. A summary of the more important accounting policies, which have remained unchanged from the previous year, is set out below:

Basis of accounting

The accounts have been prepared under the historical cost convention, modified by the revaluation of certain assets as required by the Regulations.

The Society has taken advantage of the exemption not to produce consolidated financial statements on the grounds that its subsidiary, BBFS Member Services Limited, is not material.

Premiums

Premiums are accounted for on a receivable basis and originate wholly within the United Kingdom. New business premiums are recognised when the policy liability is set up and the premium is due for payment.

Investment income

Income from investments is included, together with the related tax credit, in the Technical Account - Long Term Business. Account is taken of dividend income when the related investment goes 'ex-dividend' and other investment income is included on an accruals basis.

Claims and benefits

Claims payable on maturity are recognised when the claim becomes due for payment and on death are accounted for on notification. Surrenders are accounted for at the earlier of the payment date or when the policy ceases to be included within the long-term business provision. Where claims are payable and the contract remains in force, the claim or instalment is accounted for when due for payment.

Realised and unrealised gains and losses

Realised gains and losses, being the difference between the net sale proceeds and the valuation at the previous Balance Sheet date or cost of acquisition if later, are included within Gains or Losses on investments in the Technical Account - Long Term Business. Unrealised gains and losses are reported in the Technical Account - Long Term Business.

Acquisition costs

The Regulations require the Society to expense acquisition costs over current and future accounting periods in line with margins in matching revenues. The Society makes provision for the cost of acquisition in the margins in the first year of the contract. Consequently management feel that acquisition costs should not be deferred.

Bonuses

Reversionary bonuses are recognised in the Technical Account - Long-term Business when declared and terminal bonuses when paid or when policies are commuted.

Pension scheme arrangements

The Society operates a defined contribution scheme, the assets of which are held separately from those of the Society in an independently administered fund.

Taxation

The Society is not subject to Corporation Tax on the business it transacts.

PRINCIPAL ACCOUNTING POLICIES (continued)

Investments

Investment are stated in the accounts as follows:

Investment property - current valuation based on the open market value of the property, as valued annually by an independent surveyor. Office premises occupied by the Society and included in investments are valued assuming vacant possession.

In accordance with SSAP 19 'Accounting for investment properties' no depreciation is charged on freehold investment properties.

Quoted fixed interest and equity investments - closing year-end mid-market values.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset on a straight line basis over its estimated useful life. The rates in force are as follows:-

Computer software	5 years
Computer hardware	5 years
Office equipment	3 - 10 years
Motor vehicles	4 years

Fund for Future Appropriations

The Fund for Future Appropriations represents amounts which have yet to be allocated to policyholders. Transfers to and from the Fund reflect the excess or deficiency of revenues (including premiums and investment gains and losses) over expenses (including claims) in each accounting period.

Long-term Business Provision

The Long-term Business Provision is computed by the Society's Actuary, having due regard to the actuarial principles laid down in the Life Framework Directive (Council Directive 92/96/EC).

Cashflow statement

Under Financial Reporting Standard 1 the Society is exempt from the requirements to prepare a cashflow statement on the grounds that all major cash flows arise from long-term insurance business and are for the benefit of the long-term fund.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS
AT 31 DECEMBER 2008

1. INVESTMENT INCOME	2008	2007
	£'000	£'000
Income from loans with subsidiary	53	49
Income from land and buildings	577	348
Income from listed investments	2,014	1,773
Income from other investments	2,593	2,368
	5,237	4,538
2. NET OPERATING EXPENSES	2008	2007
	£'000	£'000
a) Acquisition costs:		
Staff costs	105	107
External consultants	13	17
Staff recruitment and training	75	125
	193	249
b) Administration costs:		
Staff costs	410	400
Committee fees and expenses	102	108
Actuarial Function Holder's fees	122	79
Legal and professional fees	55	63
Depreciation of fixed assets	72	71
Maintenance of software and equipment	65	56
Other administration costs	292	279
	1,118	1,056
Net operating costs	1,311	1,305
3. NET SURPLUS FOR THE FINANCIAL YEAR	2008	2007
	£'000	£'000
Is stated after charging:		
Depreciation charge for the year	72	71
Auditor's remuneration (inclusive of VAT):		
Audit	25	25
In respect of costs of Reviewing Actuary	4	5
Actuarial Function Holder's fees (inclusive of VAT)	122	79

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

4. STAFF NUMBERS AND COSTS

The average monthly number of persons employed by the Society in the year was as follows:

	2008	2007
Committee of Management	7	7
Staff - Administration	13	15
	20	22

The aggregate payroll costs were as follows:

	2008 £'000	2007 £'000
Wages and salaries	482	484
Social Security costs	50	49
Other Pension costs	58	58
	590	591

5. COMMITTEE OF MANAGEMENT EMOLUMENTS

	2008 £'000	2007 £'000
Total emoluments	152	152

The emoluments of the Chairman were £17,642 (2007 - £18,373), and the highest paid member of the Committee received £71,518 (2007 - £67,310). The emoluments of the members of the Committee fell into the following bands:

	2008	2007
£ 5,001 - £ 10,000	2	2
£ 10,001 - £ 15,000	4	3
£ 15,001 - £ 20,000	1	2
£ 65,001 - £ 70,000	-	1
£ 70,001 - £ 75,000	1	-

The Chief Executive is a member of the Committee of Management

6. INVESTMENTS

a) Subsidiary undertaking

The Society owns 100% of the ordinary share capital of BFS Member Services Ltd, a company registered in England and Wales, which are stated at a cost of £100.

The financial statements of the company show a loss of £1,955 (2007 - £2,214) for the year to 31 December 2008. The net liabilities of the subsidiary amounted to £(8,125) (2007 - £(6,170)) at the year-end.

In the opinion of the Committee of Management the aggregate value of the investment in the subsidiary is not less than the amount at which the investment is stated in the Society's Balance Sheet.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2008

6. INVESTMENTS (continued)

b) Freehold land and Buildings		Investment Property £'000	Office Property £'000	Total 2008 £'000	Total 2007 £'000
At valuation	At start of the year	4,330	350	4,680	5,120
	Unrealised gain	(765)	(35)	(800)	(440)
	At end of the year	3,565	315	3,880	4,680

The Society's freehold land and buildings were valued at 31 December 2008 by Mr D J Tillison FRICS, MCI.Arb of Douglas Duff, Chartered Surveyors, Bedford. Other investment assets are stated at market value.

The Society occupies property valued at £315,000 (2007 - £350,000) at 31 December 2008.

c) Other Financial Investments		2008 £'000	2007 £'000
Dated	Government Securities	21,078	20,809
	Building Society deposits	12,500	23,500
	Bank deposits	11,000	15,500
Undated	Unit Trusts / OEICs	27,830	17,878
	Equities	10,116	15,083
	Secured mortgages	808	965
	Loan to subsidiary	643	579
	Cash awaiting reinvestment	2,083	262
		86,058	94,576
Total of listed investments included above		59,024	53,770

7. TANGIBLE ASSETS

		Furniture & Equipment £'000	Motor Cars £'000	Total 2008 £'000
Cost	At 1 January 2008	895	26	921
	Additions	42	-	42
	Disposals	-	-	-
	At 31 December 2008	937	26	963
Depreciation	At 1 January 2008	749	5	754
	Charge for the year	65	7	72
	Disposals	-	-	-
	At 31 December 2008	814	12	826
Net book value	At 31 December 2008	123	14	137
	At 31 December 2007	146	21	167

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
AT 31 DECEMBER 2008

8. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2008	2007
	£'000	£'000
Members	-	11
Amounts owed by subsidiary undertaking	6	2
	6	13

9. FUND FOR FUTURE APPROPRIATIONS

	2008	2007
	£'000	£'000
Balance at 1 January 2008	13,315	14,531
Transfer from technical account - long term business	(6,631)	(1,216)
Balance at 31 December 2008	6,684	13,315

10. MEMBERS' FUNDS

	2008	2007
	£'000	£'000
Interests and Apportionment		
Interest on members' balances	-	4,101
Apportionment	2,628	2,558
Interest and apportionment paid to withdrawn members	278	195
	2,906	6,854
Withdrawals during the year		
Deaths	1,080	886
Retirements	419	516
Resignations and lapses	1,951	1,271
Other withdrawals	1,479	643
Apportionments forfeited - taken to income	97	72
	5,026	3,388
Net increase in member funds during the year	(2,120)	3,466
Balance at start of the year	75,371	71,905
Balance at end of the year	73,251	75,371

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
AT 31 DECEMBER 2008

11. LONG TERM BUSINESS PROVISIONS

	2008	2007
	£'000	£'000
Balance at 1 January 2008	12,111	10,678
Transfer (to)/from technical account - long term business	767	1,433
Balance at 31 December 2008	12,878	12,111

12. CREDITORS AND ACCRUALS

	2008	2007
	£'000	£'000
Creditors arising out of direct insurance operation	518	433
Unearned premiums	-	35
Other creditors including taxation and social security	26	19
Accruals and deferred income	164	245
	708	732

13. PENSION COSTS

The Society operates a staff pension scheme based on defined contributions where by the Society contributes between 10% and 15% of the basic salary of qualifying members. There were no contributions outstanding at the end of the year (2007 - £nil).

14. CAPITAL COMMITMENTS

At 31 December 2008 the Society had contracted for expenditure on computer software amounting to £nil (2007 - £19,729). This amount has not been provided for in these accounts.

15. COMMITTEE MEMBERS' LOANS AND TRANSACTIONS

There were no amounts outstanding at either 31 December 2008 or 31 December 2007 in relation to loans to members of the Committee of Management and related parties.

The register of loans to members of the Committee of Management is available for inspection at the registered office of the Society.

16. WITH-PROFITS ACTUARY

Statement in accordance with Rule 9.36 of the Accounts and Statements Rules.

The Society has made a request to the With-Profits Actuary to furnish it with particulars specified in Rule 9.36 of the Accounts and Statements Rules and the particulars furnished pursuant to the request are identified below:

- a) The With-Profits Actuary of the Society for the period 1 January 2008 to 31 December 2008 was M C Saker FIA, an employee of Watson Wyatt Limited. He was not a member of the Society or the subsidiary of the Society at any time during the year.
- b) He had no pecuniary interest in any transactions with the Society subsisting at any time during the period.
- c) The only remuneration was the fees for professional services paid to Watson Wyatt Limited for the services provided by the firm, and the sum payable in this respect amounted to £103,611 (2007 - £98,010) exclusive of Value Added Tax.
- d) The With-Profits Actuary did not receive, nor will receive, any other pecuniary benefit.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 31 DECEMBER 2008

17. CAPITAL STATEMENT

The following summarises the capital resources and requirements of the British Friendly Society as determined for UK regulatory purposes:

The Society does not write with-profits to the scale required to calculate a realistic balance sheet. Therefore the capital statement below covers all their life assurance business. There are no specific constraints on the capital of the Society.

As the Society has no shareholders, all capital belongs to its members.

Life Business UK non-participating	2008	2007
	£000s	£000s
Total capital resources before deductions	6,684	13,315
Adjustments to assets	(174)	(195)
Total available capital assets	6,510	13,120

Total available capital resources are 119% of the Capital Resources Requirement.

Risk Management

Risk Management has a regular place on agendas for the Committee and Senior Management Team meetings. Additionally, the Society uses its Financial Condition Report and Individual Capital Assessment to monitor current and potential risks that could affect its solvency adversely.

Capital Management

The Society's Free Asset position is regularly reviewed to ensure it maintains an acceptable level of solvency.

As the capital belongs to the members, if the Society sees large changes in its available capital due to the morbidity experience of the members, it will amend the level of profit allocation and bonus payable to its members accordingly.

Basis for setting technical provisions

A gross premium valuation is used for calculating the Society's liabilities, aside from the capital accounts which are valued at face value. Negative reserves were allowed for policies where future income exceeded outgo on a prudent basis.

Interest Rate	2.00% p.a. (2007 - 3.50% p.a.)
Morbidity rates	varying % of CMIR12 (varying by age, sex and deferred period) (2007 - higher additional female loading used)
Mortality Rates	60% of AM/AF92 (2007 - 80% of AM/AF92))

Morbidity – the inception annuity approach is used, with rates split by age, sex and deferred period. The rates are reviewed annually to allow for emerging experience.

Persistency – lapses are assumed at 3.00% for non-commuted members only within the valuation.

Interest rates – a matching rectangle was used to match the admissible assets to the Society's liabilities. A prudent margin was then included.

Expenses – the Society's expenses were analysed between acquisition and maintenance expenses and allow a prudent allowance for future years as a percentage of future premiums.

Options & Guarantees – the Society has no options or guarantees and accordingly holds no reserves for them.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS (continued)
AT 31 DECEMBER 2008

Analysis of change

There has been an increase in the available capital resources from 31 December 2007 to 31 December 2008. This is mainly due to the change in admissible assets over the period and the valuation basis and methodology.

An analysis of change is set out below:

Basis	Change in Available Capital £000s	Available Capital £000s
2007 available capital resources	13,120	13,120
New business reserves and acquisition expenses	(340)	12,780
Change in reserving methodology to calculate net premium reserves	(4,920)	7,860
Change in valuation interest rate	(5,127)	2,732
Change in additional female loading for sickness claim inception	868	3,600
Change in per policy expense assumption	4,491	8,091
Change in expense inflation assumption	4,325	12,416
Change in morbidity rates	(100)	12,316
Change in closure reserve	75	12,391
Change in IBNR	(50)	12,341
Bonuses paid/awarded	(2,906)	9,435
Change in other liabilities (e.g. surrenders, deaths)	5,062	14,497
Change in admissible assets	(7,987)	6,510
2008 available capital resources	6,510	

Sensitivity analysis

The table presented below demonstrates the sensitivity of available capital to movements in assumptions.

Variable	Change in Variable	Change in Available Capital £000s
Morbidity	+10%	(768)
Morbidity	-10%	731
Expenses	+10%	(1,698)
Expenses	-10%	1,625
Interest	+1% per annum	739
Interest	-1% per annum	(1,232)

Variable	Change in Variable	Change in Market Value of Assets £000s
Fixed Interest	-10%	(2,393)
Equities	-10%	(1,189)
Property	-10%	(388)

In a situation where morbidity increased by the levels in the table above the Society would review its allocation of profits accordingly.

The available capital is relatively sensitive to expenses. It is insignificantly affected by mortality.

When interest rates change, any movement in the available capital is partially offset by an opposite change in asset values. This has not been reflected in the value change above.

PAST CHAIRMEN OF THE SOCIETY

1902/3 R.A. Matthews; 1904 E. Parry Jones; 1905 Geo. R. Mason; 1906 W.T. Banks; 1907 J. Colton Hall; 1908 C.E. Watson; 1909 E.S. Summer; 1910 B. Percy; 1911 C.E. Shroeder; 1912 F. Harrison; 1913 T. McIlwrick; 1914 R.H. Ellis; 1915 A.H. Walton; 1916 A.W. Green; 1917 W.F. Brooks; 1918 T. Hammersley; 1919 J.J. Hanson; 1920 E. Penny; 1921 C.E. Dazell; 1922 W.H. Tomlin; 1923 E.J. Towler; 1924 Fred W. Chalker; 1925 J. Pollitt; 1926 A.E. Allin; 1927 H.W. Harrie; 1928 J.G. Sinton; 1929 H.E. Crocker; 1930 B.O. Jones; 1931 H.E. Penny; 1932 A. Booer; 1933 H.M. Johnson; 1934 R.C. Ashworth; 1935 A. Gooderidge; 1936 J. McIntyre; 1937 F. Clarke; 1938 F. J. Tilley; 1939 Chas. Ashton; 1940 B. Bevington; 1941 J.H. Richards; 1942 A. Lamb; 1943 F. Powell; 1944 J. Stephens; 1945 T. Taylor; 1946 T.H. Shearer; 1947 A.F. Reuter; 1948 R.I. Davies; 1949 J.I. Eadie; 1950 F.C. Stone; 1951 Frank Taylor; 1952 G. Stanley Atkinson; 1953 Percy Jones; 1954 C.H. R. Williamson; 1955 L. Tracey; 1956 T.E. Sargent; 1957 A.A. Griffiths; 1958 W.H. Weston; 1959 H. Young; 1960 C. Irvine; 1961 H. Berry

YEAR	NAME	BRANCH	ELECTED AT
1962	S.E. Moore	Bournemouth	Southport
1963	R. Murray	Edinburgh	Weston-super-Mare
1964	F. Leslie Ellis	Sutton Coldfield	Aberdeen
1965	H. Haworth	Nottingham	Jersey
1966	P. Notman	Bristol	Buxton
1967	L. Norman Wilson	Dudley & District	Blackpool
1968	G. Robinson	Blackpool	Gt Yarmouth
1969	D.A.V. Willis	Weston-super-Mare	Jersey
1970	W.J.L. Twomey	Bromley	Bournemouth
1971	A.G. Marsh	Enfield & Barnet	Harrogate
1972	R. Parker	Jersey	Brighton
1973	R. Chambers	Cardiff	Jersey
1974	C.H. Lister	Maidstone	Blackpool
1975	A.D. Alden	Norwich	Plymouth
1976	F.C. Bradley	York	Scarborough
1977	W. Mallinson	Leeds	Nottingham
1978	Derick C. Smith	Basingstoke	Brighton
1979	J.B. Luccock	Bradford	Bournemouth
1980	S.T. Paskins	Birmingham	Jersey
1981	P.F. Ward	Hull	Blackpool
1982	N.F. Hanson	Eccles	Buxton
1983	S.J. Marks	Metropolitan Furniture	London
1984	A.L. Attack	Wakefield	Bristol
1985	D.A. Snoad	Harrow	Blackpool
1986	R.J. English	Norwich	Solihull
1987	Miss P. Kirkwood	Belfast	Coventry
1988	R. Luke	Leicester	Dunblane
1989	R. Luke	Leicester	Plymouth
1990	Llewellyn Garner	Warrington	Solihull
1991	D.A. Cullington	Colchester	Dunblane
1992	J.W. Shea	Bromley	Solihull
1993	T. Creighton	Belfast East	Plymouth
1994	T. Creighton	Belfast East	Solihull
1995	T. Creighton	Belfast East	Llandrindod Wells
1996	A. L. Attack	Wakefield	Portsmouth
1997	A. L. Attack	Wakefield	Solihull
1998	A. L. Attack	Wakefield	Plymouth
1999	A. L. Attack	Wakefield	Solihull
2000	A. L. Attack	Wakefield	Daventry
2001	R. J. English	Norwich	Solihull
2002	R. J. English	Norwich	Daventry
2003	R. J. English		Hinckley
2004	R. J. English		Bedford
2005	R. J. English		Bedford
2006	R. J. English		Bedford
2007	R. J. English		Bedford
2008	R. J. English		Bedford

PAST PRESIDENTS OF THE BRITISH COMMERCIAL TRAVELLERS SICK BENEFIT AND THRIFT SOCIETY

1922 H.G. Bouch; 1923 S.L. Jordan; 1924 F.S. Ingham; 1925 A. Leon Forseter; 1926/27 Wm. E. Tickle; 1928 Thos. Young; 1929 A.E. Hodgson; 1930 W.H. Mursell; 1931 M.R. Wilson; 1932 J.S. Taylor; 1933 G.C. Hamilin; 1934 S.L. Jordan; 1935 J.F. Pyrah; 1936/37 H.G. Bouch; 1938 F.J. Seward; 1939/43 J.S. Taylor; 1944 Wm. Tickle; 1945 H.W. Jaggard; 1946 F.C. Reynolds; 1947 G. Parker; 1948 F.E. Constant; 1949 G. Jones; 1950 H.H. Thomas; 1951 R.T. Griffiths; 1952 P.L. Browning; 1953 H.A. Pippett; 1954 H.E. Clark; 1955 W. Bycroft; 1956 G.E. Corney; 1957 F.W. Mills; 1958 F.E. Constant; 1959 D.A. Weaver; 1960 P.M. Bennett; 1961 W.E. Tickle; 1962 E.B. Scott; 1963 W. Cleland; 1964/65 H.E. Brown; 1966 E. Emens; 1967/68 J.W. Walkinshaw; 1969 F.W. Mills.

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