

COMMUNICATION

WORKERS

FRIENDLY
SOCIETY LTD

REPORT & ACCOUNTS

FOR YEAR ENDED
31 DECEMBER 2008

BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

John Baldwin - Chair
David Norman MA (Oxon) – Deputy Chair
Jeannie Drake CBE - Senior Independent Non-Executive Director
 (Appointed 24 April 2008)
Chris Bennett
Roger Cawse JP, MA (Exon), DMS, FCIB
Andrew Kerr BSoc.Sc FIA
Mick Stoner

EXECUTIVE DIRECTORS

Nigel Briggs BA (Hons), MSc – Chief Executive
 (Appointed 26 June 2008)
Nigel Stewart – Sales and Marketing Director (Appointed 25 November 2008)
Paul Pashley – Company Secretary and Corporate Services Director
 (Appointed 02 February 2009)

PROFESSIONAL ADVISERS

Watson Wyatt LLP - Actuaries
Insight - Investment Managers
Redington Partners – Investment Advisers
Mazars LLP - Independent Auditors
Mutual One – Internal Auditors

COMMUNICATION

WORKERS

FRIENDLY SOCIETY LTD

COMMUNICATION WORKERS FRIENDLY SOCIETY LIMITED

The Society is a member of the Association of Friendly Societies. Policyholders are protected under the Financial Services Compensation Scheme.

Authorised and Regulated by the Financial Services Authority.

Incorporated on 5th April 1994 with the Registry of Friendly Societies
 Registration No. 471F

Registered Office:
 150 The Broadway
 London
 SW19 1RX

Website: www.cwfs.co.uk



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CHAIRMAN'S REPORT



Welcome to the 2008 Report and Accounts. CWFS has a long tradition of providing savings and loans to workers in the communications sector and this remains a key purpose of the Society. The Society is however at a crucial point in its history and it faces challenges on a number of fronts. In particular, not only has the last six to nine months been a period of great volatility in both the stock and bond markets alike, but as you will be aware from the recent letter sent by the Society's Chief Executive, we are also in on-going discussions with HMRC over certain tax related matters. In light of the HMRC issue, we took the decision to temporarily suspend sales of our policies and loans but, looking forward, we remain committed to enhancing the range of products and services we offer our members and of addressing any associated changes this requires.

In rising to these challenges, I highlight below the steps taken to strengthen the Society's Board, to improve our systems and controls, and to develop a clear strategy for the future, all of which demonstrate the significant progress the Society has made over the last year.

Governance

Towards the end of 2008 a number of changes were made to the composition of the Board. These included the appointment of a new Sales & Marketing Director, Nigel Stewart, as an Executive Director, together with the decision to request both Peter Mayne and Steve Smith to stand down from the Board. I am happy to say that both Peter and Steve continue to play a full part in the Society in their roles as introducer and sales advisor respectively, and I would like to take this opportunity to thank both of them for their contribution to the Board over many years. Though some of these decisions were not easy ones to make, I believe that the changes, together with the appointment of Paul Pashley as Company Secretary and Corporate Services Director in 2009, will further strengthen the Society's governance arrangements.

Systems and controls

As the HMRC issue has highlighted, the management team is working hard to identify and address any historical weaknesses that might exist in the Society's systems and controls. For example, during 2008 we undertook an extensive review, using external consultants, of the way in which we manage your investments. Following this we appointed independent investment advisers and made a number of changes to the mix of investments held. Reassuringly, the thoroughness of our approach had the effect of increasing the FSA's confidence in the way the Society was being managed, resulting in it moving the Society to the FSA Small Firms Division for supervision purposes.

Over the course of 2008 the Board also took a conscious decision to invest in the development of the Society's long-term capability. In particular, in addition to increasing the number of advisors, a number of new staff members were brought in to ensure that we continue to meet our members' expectations as well as the expectations of those who regulate us.

Strategy

The impact of the credit crunch and the ensuing recession have emphasised the role that smaller, affinity or mutual based companies play. As a Board we are actively seeking ways in which we can develop a wider range of relevant products and how we can extend our appeal to other workers in the communications sector. Inevitably this may mean that the Society has to work with other firms in order to enhance the service we provide, and as a Board we remain committed to responding to the current unprecedented economic uncertainty in the way that best meets the needs of our members.

In conclusion, at a time when many firms have had to close or to take other drastic measures, I am pleased to report that the most recent valuations of the Society's assets and liabilities by the Society's Actuary provide reassurance that the Society can look to the future optimistically. Most importantly, as 2008 has demonstrated, I believe that our members can be confident that the Society is being run and managed in their best interests.

In the following section the Chief Executive reviews some of the more operational aspects of the Society's performance during 2008.

John Baldwin

Chair

CHIEF EXECUTIVE'S REPORT

In this section of the 2008 Annual Report & Accounts, I focus on the Society's performance from a member and operational perspective. I explain how we have sought to embed Treating Customers Fairly (TCF), I show how the Board's decision to recruit new financial advisors allowed the Society to significantly increase its new business compared to last year, and I look at the steps we took to manage your investments. I conclude by showing the overall financial position of the Society at the end of 2008.

Treating Customers Fairly

Over the course of 2008, the Society has made significant progress in its efforts to further embed TCF. In the Autumn edition of Friends, for example, we included a copy of the Society's new TCF policy statement and throughout 2008 we have considered many important business decisions from the perspective of our members. The following is a list of some of the ways in which we have demonstrated our commitment to TCF during the course of 2008.

- training and awareness for all members of staff and the Board on TCF
- forming a With-Profits Committee to formally ensure that all significant decisions are considered from the perspective of existing members
- producing a risk appetite statement for the Society's investments
- restructuring some of the roles within Head Office in order to enable the Society to provide a better service to its staff and members, and to raise the profile of regulatory compliance throughout the Society
- commissioning an independent review of our literature and financial promotions
- updating our internal policies on the use of third party suppliers and the protection of members' data, and updating and testing our Business Continuity Plans
- using management information to identify those areas where members might not be receiving the quality of service they might expect
- reviewing our approach to underwriting to ensure that the philosophy we adopt remains fair to all our members
- enhancing the management information pack provided to the Board to enable it to assess the Society's progress towards embedding TCF
- identifying a range of new products and services that will add to the Society's ability to meet the needs of its members.

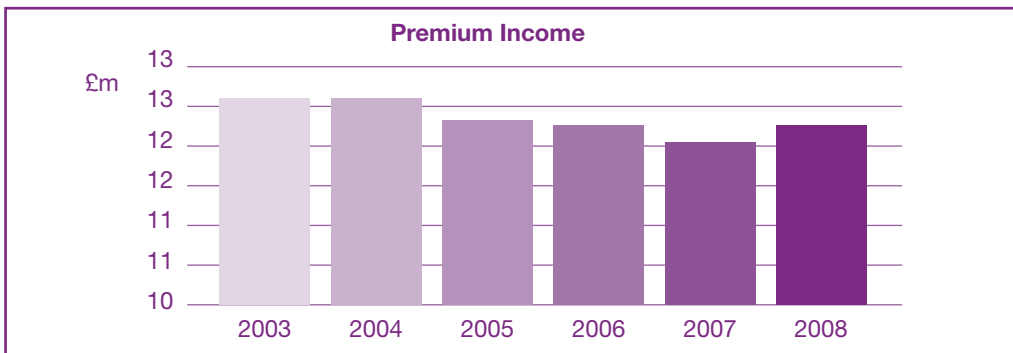
We still have further improvements to make but we remain of the view that any initiatives we consider should always be proportionate to the size and nature of our business. Some of the areas where we need to undertake further work in order to comply with our TCF policy include:

- job profiles, incorporating TCF performance measures, which have been created but not yet implemented
- training and development, which needs to be more fully documented
- Principles and Practices of Financial Management (PPFM), and the customer friendly version, which need updating to reflect the outcome of the investment risk review undertaken in 2008
- procedures and processes, which need to be documented more consistently and thoroughly
- cheque payments, which we intend to replace by offering direct BACS transfers instead
- call handling data, which is awaiting the implementation of an updated telephony system.

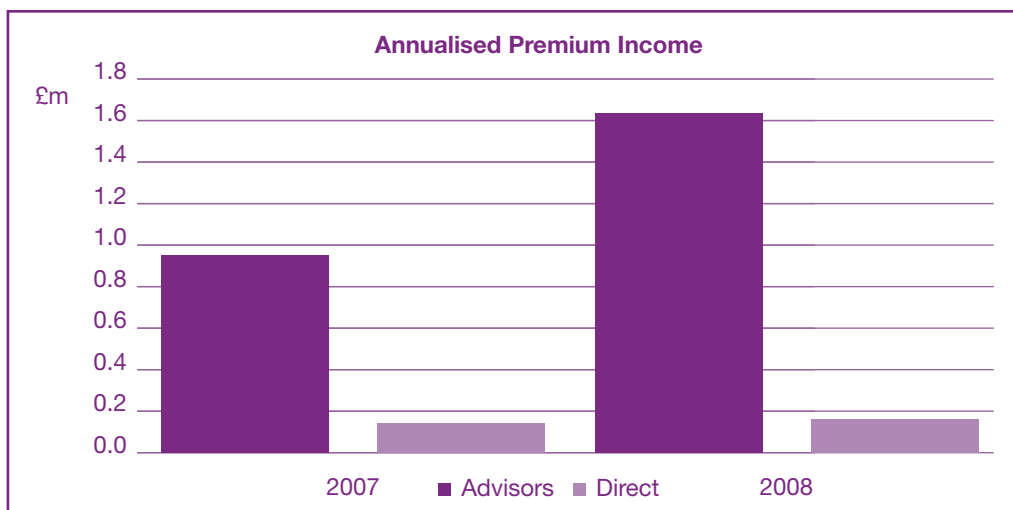
In general, despite the lack of some data on service levels, the feedback from our members continues to suggest that the service provided by the Society is mostly good or excellent. In addition, although there was an increase in the number of complaints received during 2008, this mainly reflected the outcome of improved training and guidance provided to staff on how to identify and capture non-escalated complaints.

Premium Income

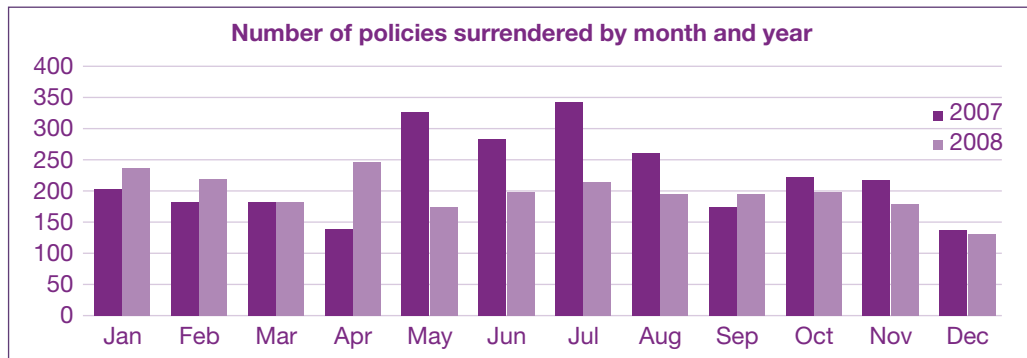
Premium income is the money the Society receives from its members via payroll deduction or direct debit. The following graph illustrates the gradual reduction in the Society's premium income over the period 2003 to 2007, and the increase in premium income during 2008. This pleasing turnaround was due to the combined effects of a significant increase in new business and reductions in the level of in-force business being surrendered.



New business is measured by what is referred to as Annualised Premium Income (API), which is simply twelve times the monthly premium. As illustrated below, in 2008 new business API was £1,790,572, an increase of 67% over the equivalent figure in 2007. This was based on total sales of 5,646 policies, a 75% increase on 2007. The increase in new business was brought about by the appointment of a number of new financial advisors and by increases in the level of sales made by the existing advisors. Crucially, although some of the new advisors came from outside of the communications sector, they have still been able to promote our savings plans as effectively as the existing advisors.



Premium income is also affected by the number of policies that either mature or are surrendered, and it is pleasing to note that over the course of 2008 the volume of surrenders fell when compared to 2007. The following chart provides a monthly comparison of surrenders across the two years.



Investment Performance

As already highlighted, during 2008 the Society undertook a substantial review of the way in which its investments were managed. This review considered all the risks associated with the management of these investments as well as of the controls in place to ensure that these risks were minimised. As a result, the Society has improved the governance of these investments by reconstituting the Investment Committee with new terms of reference and by appointing new independent investment advisers to assist the Investment Committee in its decision making.

Using a technique referred to as Asset Liability Matching (ALM), the Investment Committee has started to reduce the level of unrewarded risk being taken by the Society on behalf of its members. This process may take some time to complete fully, but over the long-term it should reduce the amount of money the Society needs to put to one side to cover possible future risks. This in turn will provide more money to invest in potentially higher returning assets, to support the growth of the business or to provide higher returns to members by way of increased bonuses.

In the meantime the Society has not been immune to the significant shocks experienced in the world's financial markets. The UK Stock Exchange, as measured by the FTSE All-Share index, fell by over 30% over the course of the year, and at one point was over 40% down, commercial property prices fell sharply, and the markets for company credit became extremely ill-liquid. In response to these events, the Board took the decision at the end of the third quarter to sell the Society's entire holding of equities and to invest the proceeds in government debt or gilts instead. Once the Board felt the equity markets had started to stabilise a decision to repurchase a smaller amount of equities was made.

As a result of these bold decisions, the return on the Society's holdings of equities over the course of the year was limited to a fall of 13.2%. The Society's bond portfolio did not fare so well, reducing in value by 17% during the year, although this was offset to a degree by the decision to buy gilts which in itself resulted in a 10% gain. Finally, the property held by the Society was revalued at the year end at just over £10m, nearly a 30% fall in value compared to the previous year, meaning that taking rental income into account the Society's return on property was -23%.

Overall the funds backing our members' policies fell by 13.7% over the course of the year, a reduction which would have been far larger if the Board had not taken the actions it did. Nevertheless, like all financial services organisations, the reduction in the value of our funds under management has affected the payment of policy bonuses and the annual bonus has been reduced to 0.5% of the sum assured and 0.5% of the accumulated bonus. The Board has also decided to exercise its discretion not to pay any terminal bonuses until the financial markets have recovered.

Financial Strength and Outlook of the Society

As referred to in the Chairman's report, our operational expenses increased in 2008 as the Board invested in the long-term capability of the Society. The reason for this is simple: we needed to take a fresh look at the way we do business, the products that we offer our members and the way in which we manage our members' money. In order to allow the Society's employees to continue to provide the type of service our members expect in an increasingly regulated environment, we have both increased the number of people working at our head office and we have sought the assistance of a range of external advisers and consultants. At the same time we have also invested in the professional development of all of our employees with the intention of continuing to offer our members products that are compliant and relevant to the times in which we operate.

Over the year administration and related expenses increased by 27% compared to the previous twelve months, of which 14% was due to project related costs. This reflects both the additional expenditure required in response to several regulatory requests, as well as an increase in activity in pursuit of our plans to grow the business. Operational expenses are likely to remain higher in 2009 before reducing again in 2010.

Despite the increased expenditure, economic downturn and difficult market conditions, the Society remains financially sound. The financial strength of the society is illustrated by the amount of free capital it holds and in particular by a measure referred to as the solvency ratio. The solvency ratio at the end of 2008 was 6.5%, and although this represents a fall on previous years, it still demonstrates a more than adequate level of capital to support the Society's plans.

At the time of writing, significant progress has been made as a result of our discussions with HMRC and I will be writing shortly to our members to update them on the outcome of these discussions. Although the sales team is still off the road, plans to re-launch our savings plan are well under way.

The Society remains subject to the volatility of the financial markets, and a further decline in asset values would impact the Society significantly. However, we are now in a much better position to identify and respond proactively to emerging developments and I am confident that we have made significant improvements in the governance and structure of the Society such that we are able to carefully monitor those factors impacting, or likely to impact, the Society. By way of example, we are currently divested of equities as a prudent management response to the prevailing economic conditions.

Our members can rest assured that the directors will not act in a way that would put members' benefits at undue risk, and that plans to expand the business or diversify activities would not be undertaken without appropriate capital headroom being available at the time it is required. The Directors are clear about their responsibilities to the members of the Society and are prepared to take any action necessary to secure members' interests should events, many of which are uncertain, not turn out as expected.

Finally, I would like to thank everyone involved with the Society for continuing to support what I believe to be a tremendous organisation.

Nigel Briggs

Chief Executive

CORPORATE GOVERNANCE

INTRODUCTION

This section of the financial statements deals with the issue of corporate governance. It seeks to help members understand:

1. what corporate governance is and why it is important
2. the Society's stance on corporate governance
3. the measures the Society took to improve its corporate governance
4. any areas of corporate governance the Society still needs to address
5. the role of the Board in enabling good corporate governance
6. the Board's Committees and the role they play as part of the governance framework.

What is corporate governance and why is it important?

Corporate governance refers to the way in which the Directors of a company or organisation oversee the way in which it is managed. In practice this means ensuring that business activities are undertaken competently in the best interests of the company's stakeholders, and that Directors and staff act with integrity at all times.

As a mutual organisation, the Society is not exempt from these requirements. Indeed, if anything, governance is even more important because the actions of the Society's Executive Directors are not subject to scrutiny by external shareholders. As such the Board of CWFS needs to ensure that, in addition to external bodies such as the Financial Services Authority, the management of the Society is being conducted in the members' best interests.

Often, governance is seen as the need to abide by a set of rules or processes. While this has a place, good governance is as much about putting in place an appropriate framework; it is about creating the right culture in which everyone employed by or working for the Society seeks to follow best practice.

Following a review of the governance arrangements of mutual life insurers by Paul Myners, it was recommended that all such insurers adopt an Annotated Combined Code of Corporate Governance (Combined Code). This is a framework of best practice that suggests ways in which the Boards of mutual insurers should be organised and managed so as to ensure good corporate governance.

At present the Combined Code is voluntary, and it tends to specify not what the Society has to do, more what it ought to do, in order to ensure good corporate governance. That said, the Board of a mutual insurer is required to state in its financial statements where it does not comply with a particular provision of the Combined Code, and the reasons why the Board feels such non-compliance is justified.

What is the Society's stance on corporate governance?

As reported in last year's Annual Report and Accounts, the Board is committed to implementing the requirements of the Combined Code as far as is practical. Following further discussions relating to corporate governance during the course of 2008, the Board reaffirmed its commitment to move to a position in which it complies fully with all the requirements of the Combined Code apart from where, on an exceptional basis only, it would be inappropriate to comply.

What measures has the Society taken to improve corporate governance?

During 2008 the Society has extended the degree to which it complies with the Combined Code, particularly in respect of the balance between Non-Executive Directors (NEDs) and Executive Directors on the Board. In particular:

- During 2008 the Society's Chief Executive was invited to join the Board and two other Executive Director positions were created. One of these positions was filled in November 2008 by Nigel Stewart, the Society's new Sales and Marketing Director, the other position being filled in 2009 by our new Secretary and Corporate Services Director, Paul Pashley. At the same time the Board also made the difficult but necessary decision that going forward no employees, other than Executive Directors, should be entitled to be members of the Board. Accordingly at the end of 2008 Peter Mayne resigned from the Board, with Steve Smith leaving the Board in 2009.
- During the course of 2008 the Board, through the work of the Nomination Committee, has continued to review the independence of Directors. In this respect the Nomination Committee has specifically considered independence in respect of length of service, relationship with Communication Workers Union (CWU) and current or previous executive service with CWFS. The Committee is satisfied the two directors who have served for nine years are able to be classified as independent, subject to other factors, given their performance on the Board over the last 12 months. The Board has also considered that two Board members currently employed by the CWU should also be classified as independent as neither are responsible for policy making within the union. In respect of current or past executive service for CWFS, the Nomination Committee has concluded that one director should not be regarded as independent due to his previous position as Acting Chief Executive.
- At its March 2008 meeting, the Board agreed to change the composition of the Nominations, Remuneration and General Purposes Committee so that it contained Independent Non Executive Directors only. During the year, the Board also elected Jeannie Drake to become the Society's first Senior Independent Director.
- At its December 2008 meeting, the Board approved an update to its Terms of Reference, including the establishment of a With-Profits Committee to better represent the interests of members on matters involving the use of discretion in the management of the with-profits fund. Similarly, at the same meeting, the Board made several changes to the Investment Committee, including the adoption of a new set of Terms of Reference, in order to improve the effectiveness of the Committee.
- As part of the Society's TCF efforts, the opportunity was also taken to improve the relevance of information presented to the Board, particularly in the area of budgetary control.
- Finally, the Board also considered and adopted a number of new policy statements relating to the management of activities such as data security and the use of third party suppliers.

In light of the above, the Society remains fully compliant with the requirement of the Combined Code which states that at least half of the Board should be made up of Directors who can be classified as Independent. The composition of the CWFS Board as at the end of 2008, together with a statement of which Directors are classified as Independent, is recorded on pages 17, 18 and 19.

What areas of corporate governance does the Society still need to address?

Despite the progress made, at the end of 2008 there were, and still are, a number of areas in which the Society was not, and is not, fully compliant with the requirements of the Combined Code. These include:

- the inclusion of one Non-Executive Director (NED) not classified as Independent on the Risk and Audit Committee
- the absence of a formal, annual assessment of Directors' time commitments and the absence of a formal and tailored induction process for new NEDs
- the lack of a formal bonus scheme for Executive Directors, including provisions to prevent rewards, on the departure of a Director, for underperformance
- the need to document appropriate arrangements for succession planning.

The Board remains committed to complying fully with the requirements of the Combined Code in regards of the each of the above, and the only reason it has not done so is because it is continuing to put in place the framework within which the appropriate changes can be made. In particular, further progress has been made since the year end as evidenced by:

- the Board's decision, following requests by some of the Society's members at last year's AGM, to change the arrangements at the 2009 AGM to enable members to vote for the election or re-election of directors individually
- the introduction of a rigorous appraisal process, using independent assessors, for all directors of the Board that enables the Chairman to formally review their contribution and effectiveness on an individual basis.

Whilst the Society did not have a formal Member Relations Strategy in place throughout 2008, the Board remains fully committed to maintaining appropriate channels of communication through the use of the Society's in-house magazine, regular contact by the Society's advisors and ad hoc focus groups and surveys. In addition, at its March 2009 meeting, a new Member Relations Strategy was considered and approved by the Board.

The only other area in which the Society does not comply with the Annotated Code is in not exercising its rights as an institutional investor to vote on the actions taken by the organisations in which it invests. The Board's current view is that at the present time this is a disproportionately onerous requirement for a small firm such as the Society, and that accordingly it will rely on its investment managers to act in accordance with their own governance arrangements in this regard.

Role of the Board

The Board provides oversight of the corporate governance framework and is responsible for making all major decisions affecting the operation of the Society and its members. In some cases the Board delegates certain decisions to one of its Committees or to the Executive Team. In order to exercise suitable oversight of its delegated powers, the Board and its Committees act in accordance with a clear and appropriate apportionment of responsibilities as laid down in the Board's Terms of Reference.

In updating its Terms of Reference at the end of 2008, the Board defined its responsibilities as:

- defining, monitoring and reviewing the strategy and objectives of the Society as well as compliance with the requirements of the Financial Services Authority
- approving any amendments or new initiatives not included within the Business Plan
- appointing the management team, agreeing the remuneration of the Senior Managers and approving any significant changes to the organisation's structure
- appointing an Actuary, reviewing the Actuary's performance and recommendations, and setting annual premium and bonus rates on the basis of the Actuary's advice
- approving all purchases and sales of Society property
- reviewing the most significant risks affecting the Society and the action being taken to manage or mitigate such risks
- approving the Annual Report and Accounts and the significant regulatory returns
- approving the Principles and Practices of Financial Management for the Society's long term funds
- reviewing the independence of the external auditors.

In fulfilling its responsibilities, the Board has due regard to the advice of the Society's professional advisers.

Throughout 2008 the Board operated four standing Committees, these being:

- the Risk and Audit Committee
- the Nomination, Remuneration and General Purposes Committee
- the Investment Committee
- the Treating Customers Fairly Committee.

At the end of 2008, the Board approved a change to its Terms of Reference which included changes to the type and composition of its Committees. As a result the Board now operates five Committees, these being:

- the Audit, Risk and Compliance Committee
- the Nominations Committee
- the Remuneration Committee
- the With-Profits Committee
- the Investment Committee.

Full Terms of Reference of the current standing Committees are available on request to members. In addition, and where appropriate, other Committees are set up from time to time to deal with specific issues.

Board Committees

The responsibilities of each of the Committees that existed during the course of 2008 are detailed below. The Committees play an important role in allowing smaller groups of Board members to consider issues in more detail than would otherwise be possible at a meeting of the entire Board.

Risk and Audit Committee

The responsibilities of the Risk and Audit Committee were to advise the Board on the following matters:

- the adequacy of the Society's systems and controls
- the preparation and supervision of the Society's monitoring program
- the salient aspects of reports received from the internal audit function and recommendations for improvement in the monitoring program
- the effectiveness of the Society's system of monitoring and reporting, including an assessment of the scope of work performed by the internal audit function, the nature and timing of monitoring reports and the adequacy of resources available to the internal audit function
- the adequacy of management information and other reports made available to the Board
- the Society's current accounting policies and consideration of the necessity for any changes, particularly as a result of the introduction of new accounting standards
- the Annual Report and Accounts prior to approval by the Board
- any major problems arising which might have a detrimental impact upon the Society's solvency position or reputation
- the outcome of meetings with the Society's auditors, including discussion on the scope of any matters arising from the audit.

During the course of 2008, the Risk and Audit Committee considered all internal reports submitted and followed up on areas that required mitigating action. The Committee received reports on various operational issues and regularly reviewed the follow up actions carried out by management. Particular focus is placed on those reports where, Mutual One, the Society's professional Internal Audit provider, considered that the weaknesses identified were of a significant nature case. Where this is the case the Committee ensured that follow up audits were conducted to ensure that corrective action had been taken.

On behalf of the Board, reviews of the effectiveness of material controls were conducted during the period under report. These focused on information technology, finance and investments, governance and regulation and core operational processing. At the end of the year, other than the issues identified in respect of the tax status of our policies, there were no material issues of significance outstanding.

Nomination, Remuneration and General Purposes (NRGP) Committee

The responsibilities of the NRGF Committee included:

- nominating for Board approval, candidates to fill vacancies on the Board and Committees
- succession planning – taking into account the challenges and opportunities facing the Society and the skills and expertise needed on the Board in the future
- reviewing the structure, size and composition of the Board, including its skills, knowledge and experience, and making recommendations with regard to any changes
- setting the remuneration of Society staff, including productivity bonuses
- setting the remuneration of the Board, the Chief Executive Officer and the Senior Managers
- commission payments to financial advisors, and travel and subsistence payments to the Board, staff and advisors
- appraising the Chief Executive Officer's performance
- changing and varying contracts of employment.

During 2008 the NRGF considered those directors who were due for nomination at the 2008 AGM. The committee also received and considered a report from the Chief Executive on the restructuring of some Head Office roles to improve overall efficiency. Later in the year the Committee discussed and agreed the approach to the 2008 pay negotiation with the GMB Union, considered bonuses to be awarded in respect of performance, reviewed the executive team's remuneration package and considered the composition of the new Board committees.

Investment Committee (subsumed into the Board for the duration of the Investment Risk Review)

At a high level, the Investment Committee's responsibilities involved, and continue to involve:

- approving the agreements between asset managers and the Society and any variations to them
- monitoring the investment performance of the funds
- reviewing the investment strategy within the agreed policy in conjunction with the appointed actuary and investment managers
- reporting findings on investment strategy to the Board through the Chief Executive Officer
- reviewing the investment manager's reports
- reviewing transfers of funds from the investment portfolio to the cash funds of the Society
- monitoring the performance of the investment manager.

Treating Customers Fairly (TCF) Committee

The objectives of the TCF Committee included:

- preparing on an annual basis a budget that will enable the Society to meet its TCF obligations
- collating evidence of TCF related work on an on-going basis, undertaking and reviewing its appropriateness in light of laid down plans, and recommending remedial action where required
- overseeing periodic audits of TCF activity and liaising with the internal audit function about the content, scope and timing of audits
- reviewing specific issues that arise with a view to identifying any changes that may be required, and investigating / developing recommendations in order for them to be implemented
- cascading TCF related plans and initiatives internally, and considering options for customer engagement and communication in respect of the Society's customer ethos and TCF progress
- ensuring that the Board is provided with regular progress reports on the introduction / development of TCF within the Society on a monthly basis.

Meetings and attendance

In 2008, the Board timetable included twelve scheduled meetings, of which eleven were convened. Also, the Board can meet on an ad hoc basis to address specific issues if required. The Board held two such meetings in 2008 to discuss issues relating to the management of the Society's investments.

In terms of the Board's Committees:

- the Risk and Audit Committee was scheduled to meet four times in 2008 on a regular cycle which it did
- the Investment Committee was scheduled to meet four times and had met twice in 2008 ahead of the investment risk review, as a result of which the Committee was temporarily suspended and its activities carried out by the Board
- the NRGF Committee was scheduled to meet at least once in 2008 but met twice during the year
- the TCF Committee was scheduled to meet on a monthly basis but met four times only.

DIRECTOR INDEPENDENCE AND MEETING ATTENDANCE – 2008

Board Members	Board <i>Chair J Baldwin Number of meetings held</i>	Investment Committee <i>Chair P Mayne Number of meetings held</i>	R & A Committee <i>Chair M Stoner Number of meetings held</i>	NRGF Committee <i>Chair R Cawse Number of meetings held</i>	TCF Committee <i>Chair C Bennett Number of meetings held</i>
Total of Meetings Held	11	2	4	2	4
J Baldwin * Independent NED	9 (11)		2	2	
C Bennett ** Independent NED	7 (11)		2		3
R Cawse Independent NED	9 (11)			2	
A Kerr Independent NED	8 (11)	1		1	
D Norman Independent NED	8 (11)	1	2		
P Mayne NED (resigned Nov 2008)	9 (11)	2			
S Smith NED**	8 (10)				3
M Stoner NED	10 (11)		4		
J Drake SID	7 (8)			2	

Figures in brackets relate to number of Board meetings it was possible for a Director to attend.

* C Bennett is a CWFS policyholder. He represents members' interests in the With Profits Committee – a position recently endorsed in FSA publications.

** S Smith verbally indicated his intention to resign from the Board prior to the December 2008 meeting and so was not required to attend.

John Baldwin (Chair - Independent Non Executive)

John Baldwin was appointed to the Board in 1999 and was appointed Chair of the Society in June 2007. John is a member of the Employment Tribunals panel and a Trustee of the UCW 2001 and CWU 2000 pension schemes. In Europe, John is a member of the UNI Europa Executive Committee and the Vice President of the Post Social Dialogue Committee, and internationally, he is a substitute member of the UNI World Executive and was a trustee for One World Action.

David Norman (Deputy Chair – Independent Non Executive Director)

David was elected to the Board in 2003 after having served as a co-opted member from 1999. He was educated at the London School of Economics and Oxford University. Originally appointed General Treasurer of the Post Office Engineering Union in 1978, he served the CWU in that capacity until his retirement in 2002. A former director of Unity Bank, his extensive experience includes chairmanship of the Finance and Property Committee of Ruskin College, Oxford and a member of the Audit Committee of Southend Borough Council. David was appointed Deputy Chair in October 2008. He is currently the Chair of the Audit, Risk and Compliance Committee.

Jeannie Drake CBE (Senior Independent Non Executive Director)

Jeannie served as a co-opted member of the Board from 2003 before being formally appointed to the Board in 2008. Jeannie retired from her position as Deputy General Secretary of the CWU to pursue a role as Board Member of the Personal Accounts Delivery Authority where she is currently Acting Chair. She is also a Trustee of the O2 Pension Scheme Trustee Board and an Alliance & Leicester Trustee. Previously Jeannie was a Commissioner for the Equal Opportunities Commission. Jeannie is currently Chair of the Investment Committee.

Roger Cawse (Independent Non Executive Director)

Roger was appointed to the Board in 2007 and elected at the AGM in 2008. Roger was Managing Director of Exeter Friendly Society (EFS) having previously held the post of Chief Executive at EFS for 16 years. Prior to this, Roger had a successful career in banking and finance where he was, before his time at EFS, the Director of Operations, Total Quality Management for TSB. He also wrote the original Committee of Management Handbook distributed by the Association of Friendly Societies. Roger is also a Justice of the Peace. Roger is currently Chair of the Nominations and Remuneration Committees.

Andrew Kerr (Independent Non Executive Director)

Andrew was appointed to the Board in 2007 and elected at the AGM in 2008. Andrew is a qualified Actuary who runs his own consultancy. His current client is a major mutual financial services firm. Prior to this, Andrew was the Change Director at Royal Sun & Alliance, as well as Life and Group Manager for Worldwide Life. Andrew began his career at Pearl Assurance, then Coopers & Lybrand. Andrew is currently Chair of the With-Profits Committee.

Mick Stoner (Non Executive Director)

Mick joined the Board in 1993. Mick has a good understanding of the needs of our members having represented them for a number of years as a Union official. He has served as Chair of the Society and has held controlled functions which required FSA approval. Mick has also performed the role of Acting Chief Executive. Mick has sat on many of the Board's standing committees and during 2008 was Chair of the Risk and Audit Committee. Due to his previous role as Acting Chief Executive Mick is not considered an Independent Non-Executive.

Chris Bennett (Independent Non Executive Director)

Chris has been a member of the Society since 1984 and joined the Board of Directors in 2004. He has been a member and Chair of the Investment Sub Committee, and he is currently on the Remuneration and Nominations Committees. He has served on various other committees established to deal with specific issues, notably the production of a set of revised rules for the Society as required by the Myners Review and the introduction of the Treating Customers Fairly (TCF) initiative. Chris has been a regular CWFS delegate at meetings of the Association of Friendly Societies (AFS) and he has participated in numerous training events covering the introduction of Corporate Governance and TCF.

Nigel Briggs (Chief Executive)

Nigel has previously held senior management roles with CIS and Shepherds Friendly Society and was appointed to the Board of CWFS in 2008. Nigel is responsible for providing the strategic and operational leadership for the Society and his role is to ensure that the Society looks after our members' best interests both in terms of returns on investments and the quality with which CWFS services its members. Nigel is an active member of the Association of Friendly Societies and has an extensive knowledge of Friendly Societies.

Nigel Stewart (Sales and Marketing Director)

Nigel Stewart has held a number of marketing roles both within and outside the financial services sector including working for Royal Bank of Scotland. Nigel joined CWFS in November 2008 and is responsible for overseeing the Society's sales team and for the implementation of its marketing strategy. Nigel will be instrumental in the development of our TCF standards within our product development processes and for ensuring that our sales team not only meets members' expectations but continues to operate within the regulatory framework.

Paul Pashley (Corporate Services Director)

Paul has enjoyed an extensive career in retail financial services including holding senior positions within both the Woolwich and Barclays. He spent an early part of his career in a mutual building society; more recently he has been working on financial services strategy. Paul joined CWFS in February 2009 and has responsibility for the Society's compliance, legal, human resources and governance. Paul will be working on raising the standards within the organisation and helping to shape the Society to best meet the challenges of the future.

DIRECTORS' REMUNERATION REPORT

The remuneration of the Chair and the other Board members is determined by the NRGF Committee. The principles adopted by the Board in determining the fees are that they should be competitive, appropriate to attract and retain Board members of the necessary calibre, and reflect the responsibilities and time involved in dealing with CWFS matters.

The information on directors emoluments set out below is subject to audit.

The amount of each director's emoluments paid during 2008 is set out below:

	Salaries £'s	Fees £'s	Total 2008 £'s	Total 2007 £'s
Chairs				
Mr Steve Smith* (Jan 07-May 07)	–	–	–	7,500
Mr John Baldwin (From Jun 07)	–	22,500	22,500	10,500
Vice-Chairs				
Mr Steve Smith * (Jun 07-Dec 07)	–	–	–	8,167
Other NEDs/Independent NEDs				
Mr Peter Mayne **	–	35,667	35,667	12,833
Mr Michael Stoner	–	18,000	18,000	9,055
Mr John Baldwin (Jan 07-May 07)	–	–	–	6,166
Mr David Norman	–	18,000	18,000	13,167
Mr Steve Smith *	–	12,833	12,833	–
Mr Chris Bennett	–	18,000	18,000	16,610
Mr Roger Cawse	–	18,000	18,000	6,000
Mr Andrew Kerr	–	18,000	18,000	6,000
Miss Jeannie Drake	–	18,000	18,000	10,000
Mr Michael Cowen (Jan 07-May 07)	–	–	–	20,833
Mr Tommy O'Reilly (Jan 07-Nov 07)	–	–	–	24,500
Chief Executives/Executive Directors				
Mr Nigel Briggs	156,000	–	156,000	50,000
Mr Nigel Stewart	9,010	–	9,010	–
Mr Michael Stoner	–	–	–	33,295
Other Services				
Mr Michael Cowen	–	–	–	460
TOTAL	165,010	179,000	344,010	235,086

* In addition Mr Steve Smith received a salary and commission of £47,550 from his role as a financial advisor and a payment of £5,167 in January 2009 relating to 2008 for director's remuneration.

** In addition Mr Peter Mayne received a salary and commission of £39,490 from his role as a financial advisor. Also included in the above fees for Peter Mayne is a payment of £24,000 following his resignation from the Board.

The Chief Executive also received a pension contribution of £18,300 and the use of a fully expensed company car.

As a mutual organisation the Society does not operate any share option schemes. Also the Society does not operate any long term incentive schemes for directors.

NEDs/Independent NEDs are initially elected for a maximum period of 3 years without re-election. There are no contractual provisions for compensation payable upon early termination of the contracts.

THE REPORT OF THE BOARD OF DIRECTORS

In accordance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994, the Board of Directors of the Communication Workers Friendly Society Limited presents the Annual Report and Statement of Accounts for the year ended 31 December 2008. The Statement of the Responsibilities of the Board of Directors is set out on page 22.

BOARD OF DIRECTORS

Full details of the composition and responsibilities of the Board of Directors are included in the section on Corporate Governance.

BUSINESS OBJECTIVES AND ACTIVITIES

The Society's aim is to provide financial benefits to members working in the communications industry. The Society is committed to making these benefits available on a mutual basis by providing members with an opportunity to participate in the growth of the Society.

The activities of the Society during 2008 related to the provision of and advice on adult and children's savings and sickness benefit insurance and the provision of loans to members.

In the opinion of the Board of Directors, the Society carried out its activities during 2008 within its specified powers.

BUSINESS REVIEW AND FUTURE DEVELOPMENT

The Society is committed to improving and broadening the range of products it is able to offer its members. The Society is actively investigating the introduction of new products. Further details regarding the development of the Society are explained in the Chairman's Report.

MARGIN OF SOLVENCY

As at 31 December 2008 the Society had exceeded the required margin of solvency as prescribed by the FSA.

RISK IDENTIFICATION AND ASSESSMENT

The Society maintains a risk register to identify and document the key risks it faces, and the controls it has in place to mitigate such risks. This is reviewed and discussed by the Risk and Audit Committee and considered by the whole Board at least once a year. These are also reviewed by the Actuary.

OUTSOURCED PROVIDERS

As a relatively small financial services provider, the Society relies heavily on external suppliers to provide advice and carry out a number of operational activities. The Society has in place a policy to ensure that maximum benefit is derived from these arrangements.

INTERNAL AUDIT FUNCTION

During 2008 the services of Mutual One were engaged to perform many of the internal audit activities. This position has now been placed on a more formal basis and Mutual One is now contracted to provide a full internal audit service to the Society. A plan is presented to and approved by the Risk & Audit Committee in order to provide assurance relating to the level of coverage and the effectiveness of the Society's system of internal controls.

AUDITOR OBJECTIVITY AND INDEPENDENCE

The non-audit services provided by Mazars LLP are closely connected with its audit work. The objectivity and independence of Mazars LLP is safeguarded by restricting its non-audit services to this type of activity.

STATEMENT OF GOING CONCERN

After making enquiries the Directors are of the view, at the time of approving the financial statements, that the Society has adequate resources to continue in operational existence for the foreseeable future. The Board, therefore, considers the adoption of the going concern basis to be appropriate in preparation of the financial statements.

ACTUARIES

On 31 December 2004, the appointed Actuary became the Actuarial Function Holder and With-profits Actuary. Mr C George, a partner in Watson Wyatt undertakes this role. The Society has requested him to furnish the Society with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr George has confirmed that neither he nor his family, nor any of his partners were members of the Society, nor have they any financial pecuniary interests in the Society, with the exception of fees paid to Watson Wyatt for professional services, which amounted to £240,375 (before VAT) in 2008 (2007: £211,390 before VAT).

AUDITOR

A resolution to re-appoint Mazars LLP will be proposed at the forthcoming Annual General Meeting on 8th June 2009.

CHARITABLE DONATIONS

In total £3,300 (2007: £4,450) was donated to charitable causes during 2008. No political donations were made.

	£
Communication Workers Union- Celtic Charity Event	2,000
Communication Workers Union- Humanitarian Aid	1,000
Elizabeth Glaser Aids Foundation	250
Trinity Hospice	50
	<u>3,300</u>

MEMBERS' COMPLAINTS POLICY

The Society aims to provide the highest possible level of service to its members. If any member has a complaint it is the Society's policy to investigate and resolve all complaints promptly and fairly.

In the unlikely event that a complaint cannot be resolved to the member's satisfaction, the member will be made aware of the option to appeal to the Financial Ombudsman Service. Complaints falling outside the Ombudsman Scheme will be handled in accordance with the Society's rules. Full details can be obtained from the Society's Secretary.

DISCLOSURE OF INFORMATION TO AUDITORS

The Directors who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's Auditors are unaware; and each Director has taken all the steps they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Society's Auditors are aware of that information.

John Baldwin

Chairman

26th March 2009

STATEMENT OF RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Friendly Societies legislation requires the Board of Directors to prepare a set of Accounts for each financial year which give a true and fair view of the state of the affairs of the Society as at the end of the financial year and of the income and expenditure of the Society for that period. In preparing those Accounts, the Board of Directors is required to:-

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

The Board of Directors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and to enable it to ensure that the Accounts comply with The Friendly Societies Act 1992. The Board has general responsibility for taking such steps as are reasonably open to it to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Report of the Directors in accordance with the Friendly Societies Act 1992 and the regulations made under it.

The Board of Directors is responsible for the maintenance and integrity of the Society's website.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF COMMUNICATION WORKERS FRIENDLY SOCIETY

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We have audited the financial statements of Communication Workers Friendly Society Limited for the year ended 31 December 2008 which comprise the Income and Expenditure account, the Balance Sheet and related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited. We are also required to report on the Report of the Board of Directors for the year ended 31 December 2008.

This report is made solely to the Society's members, as a body, in accordance with 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND AUDITORS

The Board of Directors' 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 Directors. The Society has chosen to comply with the Annotated Combined Code of Corporate Governance issued by the Association of Mutual Insurers and the Association of Friendly Societies. This code is intended to assist mutual insurers in having regard to the Financial Reporting Council (FRC) Combined Code.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). The Society has also instructed us to review the Society's compliance with provisions C1.1, C2.1 and C3.1 to C3.6 of the Annotated Combined Code.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited are properly prepared in accordance with The Friendly Societies Act 1992 and the regulations made under it. In addition we report to you if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit. We also report to you our opinion as to whether the Report of the Board of Directors 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 review whether the Corporate Governance statement reflects the Society's compliance with the eight provisions of the Annotated Combined Code that we have been instructed to review by the Society and we report if it does not. We are not required to consider whether the Board of Directors' statements on internal control covers 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 read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Report, the Chief Executive's Report, the Corporate Governance Statement, the Report of the

Board of Directors and the unaudited part of 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.

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 judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Society's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion:

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

Mazars LLP
Chartered Accountants and Registered Auditors
Tower Bridge House
St Katharine's Way
LONDON E1W 1DD

Date 31st March 2009

INCOME AND EXPENDITURE ACCOUNT

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For Year Ended 31 December 2008

TECHNICAL ACCOUNT – LONG TERM BUSINESS	Note	2008 £'s	2007 £'s
Gross earned premiums	2	12,266,207	12,058,465
Investment income	3	5,426,811	5,803,567
Realised gains on investments	3	-	3,921,507
Unrealised gains on investments	3	-	-
TOTAL TECHNICAL INCOME		17,693,018	21,783,539
Gross claims paid	4	12,225,415	10,522,643
Change in provision for claims	5	(368,065)	(28,557)
		11,857,350	10,494,086
Change in other technical provisions:			
Long term business provision	5	816,950	1,878,583
Net operating expenses	6	3,995,284	2,852,341
Investment expenses	3	198,512	67,703
Realised losses on investments	3	10,560,928	-
Unrealised losses on investments	3	12,749,844	6,013,446
TOTAL TECHNICAL CHARGES		40,178,868	21,306,159
NET TECHNICAL INCOME/(CHARGE)		(22,485,850)	477,380
Actuarial (gain) in pension asset/liability	17	51,000	68,000
Tax credit/(charge) attributable to the long term business	7	591,045	135,301
Transfers to the Fund for Future Appropriations	5	(21,843,805)	680,681

There are no recognised gains or losses for the financial year other than shown above.
All the above amounts are in respect of continuing activities.

BALANCE SHEET

At 31 December 2008

ASSETS	Note	2008 £'s	2007 £'s
Investments			
Land and Buildings	8	10,020,465	14,066,521
Other financial investments	8	90,457,122	107,309,815
		100,477,587	121,376,336
Debtors			
Members or policyholders		1,293,910	1,461,097
Other debtors	9	1,081,138	570,719
		2,375,048	2,031,816
Other Assets			
Tangible assets	10	138,302	145,457
Cash at bank and in hand		1,942,955	2,615,591
		2,081,257	2,761,048
Prepayments and Accrued Income			
Deferred acquisition costs		755,408	591,492
Other prepayments and accrued income		64,542	52,464
		819,950	643,956
TOTAL ASSETS EXCLUDING PENSION ASSETS		105,753,842	126,813,156
Pension asset	17	107,000	56,000
TOTAL ASSETS		105,860,842	126,869,156
LIABILITIES			
Fund for Future Appropriations	5	13,482,377	35,326,182
Technical Provisions			
Long term business provision	5	91,177,677	90,360,727
Claims outstanding	5	209,051	577,116
		91,386,728	90,937,843
Creditors			
Accruals and deferred income		678,571	535,137
Other creditors including taxation and social security	11	313,166	69,994
		991,737	605,131
Provisions for Liabilities and Charges	12	–	–
TOTAL LIABILITIES EXCLUDING PENSION LIABILITY		105,860,842	126,869,156
Pension liability	17	–	–
TOTAL LIABILITIES		105,860,842	126,869,156

Approved by the Board of Directors on 26 March 2009 and signed on its behalf by
Paul Pashley
 Secretary

NOTES TO THE ACCOUNTS

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For Year Ended 31 December 2008

I ACCOUNTING POLICIES

Basis of Preparation

The accounts have been prepared in accordance with the provisions of the Friendly Societies (Accounts and Related Provisions) Regulations 1994. They have also been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation to market value of investments, including land and buildings and comply with the Statement of Recommended Practice issued by the Association of British Insurers.

The following accounting policies have been applied in dealing with items which are considered material to the Society's accounts.

Gross Earned Premiums

Premiums are accounted for on an accruals basis excluding taxes and duties levied.

Claims

Claims incurred comprise claims paid in the year, together with changes in provisions for outstanding claims at the year-end. Claims are accounted for when they are notified and approved by the Society. Claims paid include related internal and external claims handling costs.

Long Term Business Provision

The long-term business provision is determined by the Actuarial Function Holder following his annual investigation of the long-term business. This valuation is on a modified statutory solvency basis and the calculation uses the net premium valuation method. The principal assumptions used in making this provision were an interest rate of 3% p.a. and rates of mortality and other claims based on recent experience but including a prudent margin. Adjustments to the statutory valuation produced under chapter 1.2 of the prudential sourcebook for insurers are made to eliminate certain reserves, in particular the resilience reserve and closure reserve. Provision is made only for previously declared annual bonuses; no explicit provision is made for future annual or final bonuses.

Investment Income

All income from listed stocks and shares is included in the accounts when the security becomes ex-dividend. Other investment income including rents is accrued up to the balance sheet date. Realised gains and losses are calculated on the difference between the net sales proceeds and the original cost of acquisition.

Unrealised Gains and Losses on Investments

All unrealised gains and losses are included in the Technical Account for Long-Term Business. Unrealised gains and losses on investments represent the difference between the valuation of the investments at the balance sheet date and their purchase price, or if they have previously been valued, their valuations at the last balance sheet date. Changes in the fair value of derivative contracts are recognised immediately in unrealised gains and losses on investments. The movement in unrealised gains and losses includes an adjustment for the reversal of previously recognised gains and losses on investments disposed of in the accounting period.

Acquisition Costs

Acquisition costs comprise direct costs, such as acquisition commissions, and indirect costs of obtaining and processing new business. They are allocated to categories of policies based on available management information. The costs of acquiring new insurance contracts and the renewal of existing insurance contracts which are incurred during a financial year, but which relate to a subsequent financial year, are deferred to the extent that they are recovered out of future revenue margins. Such costs are disclosed as an asset in the balance sheet and amortised in accordance with a prudent assessment of the expected pattern of receipts of future revenue margins over the period during which the relevant contracts are expected to remain in force.

Bonuses

Reversionary bonuses are recognised in the Technical Account for Long Term Business when declared and terminal bonuses when paid.

Fund for Future Appropriations

The Fund for Future Appropriations incorporates amounts which have yet to be allocated to participating members. 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 arising from business in the Society's long-term business fund.

Taxation

The charge for taxation for long-term business is based on the result of the application of the rules for the taxation of Friendly Societies. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19. Deferred taxation assets are only recognised where it is more likely than not that they will be recoverable in the foreseeable future.

Tangible Fixed Assets

Depreciation is calculated to write off the cost or valuation of all tangible fixed assets over their estimated useful lives in equal instalments as follows:

Office Equipment	3 years
Computer Equipment/Software	3 years
Motor Vehicles	2 years

Investments

Investments are stated in the financial statements as follows:

Listed investments are stated at fair value using closing bid values on 31 December 2008.

Derivatives are initially recognised at cost on the date on which a derivative contract is purchased and are subsequently re-measured at fair value using quoted prices.

Land and buildings are valued at open market value. Independent professionally qualified valuers carry out valuations every year.

Under The Friendly Societies Act 1992, land and buildings are required to be depreciated over their expected economic lives. No depreciation is provided on owner occupied land and buildings as it is considered by the Board of Directors that the useful economic life and residual

value are such that depreciation would be immaterial. The owner occupied land and buildings is reviewed for impairment and the last external valuation was 7 January 2009. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle, set out in FRS15, that depreciation should be provided in respect of such investments. The Board of Directors 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.

Small loans and deposits with credit institutions are included at their fair value.

Net gains and losses arising on the revaluation of land and buildings and on changes in the fair value of investments are presented under unrealised gains on investments or unrealised losses on investments.

Pensions

Communication Workers Friendly Society Limited operates two defined benefit schemes: the UCW Pension 2001 scheme and the CWFS Pension Scheme. In accordance with FRS 17, the pension liability recognised on the balance sheet is the present value of the CWFS Pension Scheme's liabilities less the value of its assets.

The pension cost for the scheme is analysed between current service cost, past service cost and net return on pension scheme. 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 the introduction of, or improvement to, retirement benefits, are recognised in the technical account on a straight-line basis over the period in which the increase in benefits apply.

Net expected return on the pension asset comprises the expected return on the pension scheme assets less interest on scheme liabilities. The actuarial gains and losses which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date are included as a separate line in the Technical Account - Long Term Business immediately above the line for Transfer to or from the Fund for Future Appropriations and are reflected in that transfer.

The Society's share of the UCW Pension 2001's assets and liabilities cannot be easily separated out. As permitted by FRS17, the scheme is accounted for by the Society as if it were a defined contribution scheme.

2 PREMIUMS WRITTEN	2008 £'s	2007 £'s
All premiums relate to direct insurance contracts written in the UK		
(a) Gross earned premiums		
Regular premiums		
Life & Savings Plan (with profits)	11,807,964	11,602,268
Sickness Benefit Scheme	136,987	141,658
Children's Savings Plan (with profits)	321,256	314,539
	12,266,207	12,058,465
(b) Total annualised premiums new business written		
Life & Savings Plan	1,961,298	1,208,655
Sickness Benefit Scheme	8,509	1,628
Children's Savings Plan	64,175	24,507
	2,033,982	1,234,790
3 INVESTMENT INCOME SUMMARY	2008 £'s	2007 £'s
Income from land and buildings	820,390	863,667
Income from listed investments	4,129,572	4,385,871
Income from other investments	476,849	554,029
Investment income	5,426,811	5,803,567
Net gains on realisation of investments		
Net unrealised (losses) / gains on investments	–	3,921,507
Net investment management expenses	(12,749,844)	(6,013,446)
Net (losses) on realisation of investments	(198,512)	(67,703)
	(10,560,928)	–
Net investment (loss)/return included in the Technical Account - Long Term Business	(18,082,473)	3,643,925
Included within net losses on realisation of investments is a gain on sale of derivatives of £521,450 (2007: loss of £191,670 included within net gains).		
4 GROSS CLAIMS	2008 £'s	2007 £'s
Claims:		
Deaths	328,127	274,575
Maturities	7,182,969	5,935,430
	7,511,096	6,210,005
Surrenders	4,714,319	4,312,638
	12,225,415	10,522,643

5 RESERVES AND PROVISIONS		£'s	£'s	£'s
	Long-Term Business Provision		Fund for Future Appropriations	Provisions for Claims
At 1 January 2008 – (previously reported)	90,360,727		35,326,182	577,116
Changes in provision	–		–	(368,065)
Transfer from technical account	816,950		(21,843,805)	–
At 31 December 2008	91,177,677		13,482,377	209,051
The long term business provision includes a £854,941 declared bonus for 2008 (2007: £1,760,000).				
6 EXPENSES			2008 £'s	2007 £'s
(i) Net operating expenses				
Acquisition costs			1,240,848	751,958
Change in deferred acquisition costs			(163,916)	(14,809)
Administrative expenses			2,918,352	2,115,192
			3,995,284	2,852,341
Administrative costs, excluding VAT, include:				
Appointed Actuary and other actuarial fee			240,375	211,390
Auditors' remuneration:				
Audit of the financial statements			49,000	47,000
Audit related costs			38,700	29,975
Audit of the FSA Return			10,500	10,170
Accounting related costs			5,000	7,200
			103,200	94,345
(ii) Net Investment Expenses and Charges				
Investment management fees			380,920	330,105
Rebate of investment charges on monies invested in funds managed by the investment manager			(182,408)	(262,402)
Investment management expenses	Notes 3		198,512	67,703

7 TAXATION	2008 £'s	2007 £'s
The Society is subject to corporation tax in respect of the taxable life assurance business it transacts. The charge for the year is made up as follows:		
UK Corporation tax:		
Current year at 20% (2007-20%)	(616,707)	200,202
Tax on franked investment income	–	–
Adjustment in respect of previous years	–	(171)
Total current tax charge/(credit)	(616,707)	200,031
Deferred tax:		
Timing differences	25,662	(335,332)
Tax credit attributable to the long term business	(591,045)	(135,301)

The society is in discussions with HMRC concerning the tax treatment of products sold over a number of years. The outcome of these discussions is as yet unknown and no allowance has been made for the potential financial impact in the amounts charged to taxation. However, the directors have reviewed the level of prudence within the long term business provision in the context of the uncertainties involved and are satisfied that any additional costs likely to arise are sufficiently covered.

8 INVESTMENTS	Value		Historical Cost	
	2008 £'s	2007 £'s	2008 £'s	2007 £'s
Land & Buildings				
Property occupied by the Society	1,020,465	1,881,520	1,582,367	1,582,367
Investment Property	9,000,000	12,185,001	8,626,402	11,811,402
Total	10,020,465	14,066,521	10,208,769	13,393,769
Other financial investments				
Shares and other variable yield securities and units in unit trusts	86,776,114	99,959,985	87,427,968	103,899,924
Derivatives	–	509,275	–	787,470
Loan Secured by Mortgage	40,000	60,000	40,000	60,000
Other Small Loans	2,989,285	2,994,604	2,998,874	2,994,604
Deposit with credit institutions	651,723	3,785,951	651,723	3,785,951
	90,457,122	107,309,815	91,118,565	111,527,949

All shares and other variable yield securities and units in unit trusts are listed on a UK recognised investment exchange.

Land and buildings are a mixture of freehold and long leasehold. At the balance sheet date freehold property was valued at £7,775,000 and leasehold property was valued at £2,245,465.

The Society's head office was valued on an open market basis with vacant possession on 7 January 2009 by Drivers Jonas - Chartered Surveyors, in accordance with the practice statements of the Royal Institute for Chartered Surveyors 'Appraisal and Valuation Manual'.

Investment Property was valued on an open market basis in December 2008 by Drivers Jonas.

9 OTHER DEBTORS	2008 £'s	2007 £'s
Corporation Tax	981,875	365,206
Deferred Taxation (Note 12)	–	25,662
Other Debtors	99,263	179,851
	1,081,138	570,719

10 TANGIBLE ASSETS	Computer Equipment & Software £'s	Office Equipment £'s	Motor Vehicles £'s	Total £'s
Cost				
At 1 January 2008	342,485	158,353	22,155	522,993
Additions	30,013	27,114	24,951	82,078
Disposals	–	–	(22,155)	(22,155)
At 31 December 2008	372,498	185,467	24,951	582,916
Less Depreciation				
At 1 January 2008	200,166	155,215	22,155	377,536
Depreciation in year	76,413	4,503	8,317	89,233
Disposals	–	–	(22,155)	(22,155)
At 31 December 2008	276,579	159,718	8,317	444,614
Net Book Value 31 December 2008	95,919	25,749	16,634	138,302
Net Book Value 31 December 2007	142,319	3,138	–	145,457

11 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY		
	2008 £'s	2007 £'s
Corporation tax	–	–
Other taxes and social security	313,166	69,994
Other creditors	313,166	69,994

All creditors are due in less than one year.

12 DEFERRED TAXATION	2008 £'s	2007 £'s
Deferred taxation is provided on timing differences, the individual components of which are detailed below:		
Investment properties	(596,522)	(87,142)
Depreciation in excess of capital allowances	(32,734)	(15,718)
Non-trade loan relationship	(182,315)	–
Capital Losses	(1,417,104)	–
Gains arising on unit trust deemed disposals	142,891	47,969
Unrealised gains on equity	–	222,039
Deferred acquisition costs	(368,479)	(192,810)
Basic life assurance and general annuity business excess management expenses	(395,425)	–
Deferred taxation (asset)/liability	(2,849,688)	(25,662)
Unrecognised		
Unrealised losses on investment properties	596,522	–
Basic life assurance and general annuity business acquisition	368,479	–
Decelerated capital allowances	32,734	–
Non-trade loan relationship expenses	182,315	–
Basic life assurance and general annuity business excess management expenses	395,425	–
Capital losses	1,274,213	–
Recognised loss	2,849,688	–
Deferred taxation (asset)/liability	–	(25,662)

The Society has unrecognised deferred tax assets of £2.8m (2007 £nil) as the availability of future taxable profits against which to offset these assets is uncertain.

13 BOARD OF DIRECTORS AND STAFF	2008 £'s	2007 £'s
a) Remuneration of Staff		
Staff costs comprise		
Salaries and Wages	1,325,956	781,967
Social Security Costs	120,329	76,206
Pension Costs	236,092	152,875
Total Emoluments	1,682,377	1,011,048
The average number of employees is as follows:		
Administration	17	14
Sales & Marketing	16	10
Total	33	24
b) Emoluments of Directors		
Information concerning directors' emoluments and loans and transactions is given in the Directors' Remuneration Report.		

14 INSURANCE LIABILITIES AND CAPITAL	2008 £'000	2007 £'000
Capital Statement		
Available capital resources in respect of life assurance business		
Fund for Future Appropriations	13,482	35,326
Adjustment to assets	(1,192)	(852)
Total available capital resources	12,290	34,474
Net technical provisions in balance sheet	91,387	90,938

The Society has one UK with-profits fund for which the available capital is determined in accordance with the regulatory regime prescribed by the FSA, under which liabilities to policyholders include declared bonuses and an implicit allowance for future bonuses allowed for in the interest rate. The Society is a mutual and, as such, does not have any shareholders.

The available capital resources include an estimate of the value of the Society's estate, included as part of the Funds for Future Appropriation. The estate represents the surplus in the fund that is in excess of any constructive obligation to policyholders. It represents capital resources of the with-profits fund and is available to meet regulatory and other solvency requirements and, in certain circumstances, additional liabilities that may arise.

The Society is required to hold sufficient capital to meet the minimum solvency requirement and individual capital assessment ('ICA') determined in accordance with FSA regulations. Additional capital is required to cover risks as set out in the capital management section below. At 31 December 2008 the Society's available capital was 195% of the minimum solvency requirement.

Sensitivity of Liabilities and Capital

The key sensitivity for the Society is market risk, in particular market movements in equity and property markets. Other sensitivities are mortality and morbidity, lapses and expenses.

Capital Management Policies

Under the Financial Services Authority requirements, the Society has developed an Individual Capital Assessment process (ICA) to identify and quantify material capital risks. The Society is developing a risk framework under the Risk and Audit Committee to monitor and manage risks identified by the ICA process.

Analysis of Liabilities

Policy liabilities are shown in the capital statement.

Valuation Basis

The general principles and methods adopted in the valuation for the Life and Savings contract (covering 98% of in-force business) were as follows:

- Method - net premium valuation was used
- Valuation interest rate - 3% (2007 - 3%)
- Mortality - AM92 for policies where the sum assured is payable on death (2007 - AM92), a Society specific table for policies where the sum assured is payable on death, ill-health or compulsory redundancy.

Movement in Capital Resources

An approximation of the movements in 2008 is given below:

	2008
	£'000
Balance at 1 January 2008	34,474
Investment profits	(20,400)
Insurance profits	600
Change in valuation basis	(100)
Cost of bonus less margins for bonus	(1,300)
New business	(600)
Other items	(384)
Balance at 31 December 2008	12,290

15 FINANCIAL INSTRUMENTS	Assets at fair value through profit or loss held for trading / designated		Loans and receivables		Total	
	2008	2007	2008	2007	2008	2007
(i) Financial Assets by Category	£	£	£	£	£	£
Shares and other variable yield securities and units in unit trusts	86,776,114	99,959,985	–	–	86,776,114	99,959,985
Derivatives	–	509,275	–	–	–	509,275
Loan secured by mortgage	40,000	60,000	–	–	40,000	60,000
Other small loans	2,989,285	2,994,604	–	–	2,989,285	2,994,604
Deposit with credit institutions	651,723	3,785,951	–	–	651,723	3,785,951
Premiums due from members or Polyholders	–	–	1,293,910	1,461,097	1,293,910	1,461,097
Cash at bank and in hand	–	–	1,942,955	2,615,591	1,942,955	2,615,591
Other debtors	–	–	99,263	179,851	99,263	179,851
	90,457,122	107,309,815	3,336,128	4,256,539	93,793,250	111,566,354

No financial assets have been pledged as collateral.

(ii) Financial Liabilities by Category

At 31 December 2008 and 31 December 2007 there were no financial liabilities other than those arising from insurance contracts.

15 FINANCIAL INSTRUMENTS (cont.)

(iii) Net Gains or Losses on Financial Assets and Liabilities	2008	2007
Financial assets at fair value through profit and loss held for trading		
- designated	(15,335,374)	3,807,168
- held for trading (derivatives)	521,450	(469,865)
	(14,813,924)	3,337,303
Loans and receivables at amortised cost	155,629	210,937
Net (losses)/gains on financial assets	(14,658,295)	3,548,240
Net (losses)/gains from land and buildings	(3,225,666)	163,388
Net investment management expenses	(198,512)	(67,703)
Net investment (loss)/return (note 3)	(18,082,473)	3,643,925

Net gains or losses comprised investment income and realised and unrealised gains. There were no impairment losses of financial assets during the year (2007: £Nil).

(iv) Carrying Value of Financial Assets

There is no difference in fair value and carrying value for loans and receivables.

(v) Valuation Techniques*Assets of fair value*

The fair value of shares and other variable yield securities and units in unit trusts and derivatives are established using quoted bid prices at 31 December. For loans secured by mortgage, other small loans and deposits with credit institutions the fair value has been established using valuation techniques which have prudent regard to the realisable value and, where appropriate, based on market observable interest rates.

Loans and receivables

Loans and receivables are valued at amortised cost.

(vi) Nature and Extent of Risks Arising from Financial Instruments

The risks arising from financial instruments are dealt with in Note 16 Risk Management.

16 RISK MANAGEMENT

The Society creates value for its members by managing the performance of the overall fund in line with the Society's investment strategy.

The Society's risk management process is included in its principles of governance. The Society's management regularly reviews the key risks affecting the Society and monitors the actions put in place to ensure they are commensurate with risk appetite and control objectives. This is reviewed at least quarterly with the Risk and Audit Committee and the Investment Committee.

The Society has identified the following sources of potential risk as part of evaluating its capital adequacy. The exposure to these risks is assessed below. Sensitivities are calculated on a reasonable basis and are not tests of capital adequacy.

(i) Insurance Risk

Insurance risk is the risk arising upon fluctuations in the timing, frequency and severity of insurance events that occur in the Society's insurance products relative to the initial expectations of the Society. Insurance risk is dealt with in Note 14.

(ii) Operational Risk

The Society considers the operational risks affecting it and the mitigation options and management techniques available to reduce the financial impact of these risks to an acceptable level.

During the year the Risk and Audit Committee carried out a full review of operational risks to better enable management to focus on fewer key risks that include dependence on a single distribution relationship, failure of IT infrastructure or security, over reliance on key personnel, ineffective investment strategy and, in common with the sector, regulatory censure.

(iii) Financial Risk

Due to the adverse market and economic conditions all aspects of financial risk at the year-end were managed directly by the Board of the Society rather than by the Investment Committee.

(a) Credit Risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their obligations.

The Society is exposed to credit risk principally and indirectly due to its exposure to debt securities and other fixed income securities through its holdings in corporate and government fixed income collective investment funds managed by the Society's investment managers. The aggregated credit risk exposure by credit rating for these funds is as follows:

	Credit Rating									
	Investment Grade				Speculative Grade					
31 December	AAA	AA	A	BBB	BB	B	CCC or less	Not rated	Cash	Fair value £m
2008	36.0%	4.4%	27.7%	19.6%	3.9%	0.8%	0.3%	4.5%	2.8%	65.9
2007	12.3%	7.0%	34.7%	31.6%	3.1%	2.3%	0.5%	7.1%	1.4%	52.0

The corporate bond fixed income fund £36.2m (2007: £52.0m) is managed with a bias towards income and is, therefore, overweight in securities rated A and BBB, but risk is reduced by being overweight in durations of 10 years and under. Its target is to out-perform the Merrill Lynch Sterling Non-Gilt, All Stocks Index by 1% per annum before the deduction of annual management fees and expenses over rolling three year periods.

The government bond fixed income fund £29.7m (2007: nil) is managed with a bias towards investments rated AAA as no less than 50% of the fund can be held in sterling denominated conventional government bonds. Its target is to out-perform the FTSE-A All Stocks Gilts Index by 0.75% per annum before the deduction of annual management fees and expenses over rolling three year periods.

Within the investments that are not rated, those assessed by the fund manager as being of equivalent to investment grade amount to 3.8% (2007 5.4%) of the overall fair value of corporate and government fixed income funds.

The funds also include asset backed securities of approximately £6.8m (2007: £3.6m) or 7.5% (2007: 3.4%) of the financial assets at fair value, that are all investment grade. Their value is dependent upon the financial performance of an underlying portfolio of high quality assets. The holdings contain no direct exposure to sub prime mortgages, US or otherwise.

The Society does not use credit derivatives to manage credit risk.

The Society is also exposed to credit risk through the premiums due from members or policyholders of £1,293,910 (2007 £1,461,097) and other small loans of £2,989,285 (2007 £2,994,604).

The other small loans are loans made to members. The credit risk is managed by securing these on the value of the policy. At 31 December 2008 approximately £531,000 (2007: £560,000) was not covered by surrender value, but credit risk is not significant as the Society collects repayments by deduction from salary over 12 months and no material amounts are owed by members who have left the employment of the Royal Mail. No significant amounts are either impaired or past due but not impaired.

The premiums due from members and policyholders was entirely owed for collection of premiums by deduction from salary by Royal Mail payroll and paid a month in arrears. No premiums are past due.

(b) Liquidity Risk

Liquidity risk is the risk that the Society is unable to meet payments due on policies and other obligations as they fall due. The Society has minimal liquidity risk as it has sufficient surplus assets to ensure it can meet these liabilities and maintains over 80% (2007: over 80%) of its assets in cash, deposits with credit institutions and readily realisable securities.

(c) Market Risk

Market risk is the risk of the loss of value of financial assets and liabilities due to fluctuations in currency exchange rates, interest rates and other prices.

The principal market risks for the financial assets of the Society are a fall or rise in equity values and a fall or rise in interest rates.

The Society is also exposed to the risk of a loss of value in its land and buildings from a fall or rise in property values.

Due to the significant fall in the market value of equities and increased volatility the Society sold all its equities in September 2008 to protect its capital position. The Society has set criteria based on short-term market performance for the subsequent re-purchase of equities so that the members may potentially benefit from the longer term returns available from this class of assets.

By year end the Society held £20,958,827 of equities through holdings in a collective investment fund managed by its investment managers (2007: £47,991,025 equities directly held). The Society manages the risk by keeping the holding of equities under review in the light of developments in market conditions.

This equity fund aims to achieve a combination of income and long-term capital growth from a portfolio primarily made up of the shares of UK companies and is likely to have a bias towards larger companies. The fund is managed with the target to exceed the FTSE All-Share by 3% p.a. before tax and annual management charges, over rolling three year periods.

The Society had previously held non-hedge derivative positions as follows that would cover an amount equal to approximately 40% of the holding of equities at 31 December 2007. These were held with the aim of offering some protection from significant falls in the market. They expired or were sold at a profit of £521,450 during 2008 as the decision to sell the Society's holdings in equities was taken.

	2008			2007		
	Contract	Fair value		Contract	Fair value	
	Amount	Asset	Liability	Amount	Asset	Liability
	£	£	£	£	£	£
Exchange Traded Equity Index Option	-	-	-	18.9m	509,275	-

The value of the underlying investments for the Society's holdings in fixed interest funds managed by the Society's investment managers of £65,889,482 (2007: £51,968,960) would be affected by a change in interest rates.

The credit turmoil has shown little sign of abating and we continue to see the impact of an increase in the price of credit that adversely affected market values for corporate banks, whilst government securities have benefited from their safe haven status and lower official rates. The corporate bond fund is managed by holding debt securities through the period rather than selling prematurely.

There is no significant exchange rate risk as all currency exposure is indirect through the fixed interest funds in Euros 12% (2007: 9%) and US Dollars 9% (2007: nil) and the investment manager uses exchange rate contracts to minimise this.

The Society is exposed to the commercial property market through investment in land and buildings of £10,020,465 and has managed this risk through good covenants and careful selection of locations and sectors. During the current down-turn the Society is working with tenants so that where possible properties remain let and occupied to minimise risks and costs.

A table of the impact of reasonable sensitivities for changes in equity values, property values and interest rates is set out below. The figures do not reflect any changed circumstances after the balance sheet date. The sensitivity ranges used reflect the increased uncertainty in markets, but with the current uncertain outlook for the economy and financial markets the actual changes in practice could be significantly more or less than those used for the sensitivities. The impact on the technical provision is shown as this would be affected by changes in interest rates.

Sensitivity Analysis		Asset Value 2008 £m	Technical Provision 2008 £m	Fund for Future Appropriations 2008 £m
Equity values	+ 20%	4.2	-	4.2
	- 20%	(4.2)	-	(4.2)
Property values	+ 20%	2.0	-	2.0
	- 20%	(2.0)	-	(2.0)
Interest rates	+ 1%	(4.7)	4.2	(0.5)
	- 1%	5.6	(4.1)	1.5

Sensitivity Analysis		Asset Value 2007 £m	Technical Provision 2007 £m	Fund for Future Appropriations 2007 £m
Equity values	+ 10%	4.5	-	4.5
	- 10%	(4.6)	-	(4.6)
Property values	+ 10%	1.4	-	1.4
	- 10%	(1.4)	-	(1.4)
Interest rates	+ 1%	(3.1)	4.0	0.9
	- 1%	3.5	(4.0)	(0.5)

The sensitivity analysis has been calculated for each of the sensitivities in isolation using the relevant actuarial assumptions.

17 PENSION SCHEME

The Society is an associated employer of UCW Pensions Scheme 2001 which is closed to new members. Since 1999, the Society has also operated the CWFS Pension Scheme for new employees. The CWFS Pension Scheme closed to new joiners during 2008. New employees now join a stakeholder arrangement.

Both schemes are defined benefit schemes. The assets of the schemes are held separately from those of the Society in independently administered funds. The cost of providing pensions is calculated using actuarial valuation methods, which reflect the long-term costs of providing pensions. The assumptions used by the actuaries are the best estimates chosen from a range of actuarial assumptions which, due to the timescales covered, may not necessarily be borne out in practice.

The most recent valuation of UCW Pensions 2001 was carried out as at 31 March 2006 using the market value approach. The main assumptions used in these valuations were:

	% pa
Discount rate	6.0
Salary increases	4.5
Pension increases (RPI minimum 0%)	3.0
Pension increases (RPI minimum 3%)	3.6

Throughout the period from 1 January 2008 to 31 December 2008 the Society paid fixed contributions to UCW Pensions 2001 of £5,600 per calendar month to meet the cost of future service benefits and the deficit contributions. UCW Pensions 2001 is now closed for new employees. Because the membership of the Scheme is ageing, the current service cost will increase (unless the number of employees covered falls).

The Society's share of the UCW Pensions 2001's assets and liabilities cannot be easily separated out. As permitted by FRS 17, the scheme will be accounted for by the Society as if it was a defined contribution scheme. The pension costs charged in the accounts comprise the Society's contributions to UCW Pensions 2001 of £67,000 (2007:£83,000). There were no outstanding or prepaid contributions at the balance sheet date.

The deficit within UCW Pensions 2001 was assessed to be £5.7m as at the 31 March 2006 actuarial valuation, using the financial assumptions set out in the table above. The Society is paying a share of the deficit contributions in UCW Pensions 2001.

CWFS PENSION SCHEME

The latest actuarial valuation of the Communication Workers Friendly Society Pension Scheme was carried out as at 31 December 2006 using the market value approach. The main assumptions used were:

	% pa
Discount rate (pre)	5.5
Discount rate (post)	4.5
Salary increases	4.6
Pension increases	3.1

Contributions by the Society from 1 January 2008 to 31 March 2008 were 30.7% of Pensionable Earnings. Contributions by the Society from 1 April 2008 to 31 December 2008 were 30.5% of Pensionable Earnings plus deficit correction contributions of £1,192 per calendar month. Employees' contributions are 6.0% of Pensionable Earnings. Employer contributions over 2008 were £157,000 (2007: £99,000) excluding an augmentation contribution of £12,000 (2007: nil). There were no outstanding or prepaid contributions at the balance sheet date.

The principal assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 17 are set out below:

MAIN ASSUMPTIONS:		
	31 December 2008 % p.a.	31 December 2007 % p.a.
Inflation	3.0	3.4
Rate of general long-term increase in salaries	4.5	4.9
Rate of increase to pensions in payment (weighted average over all elements)	3.0	3.4
Discount rate for scheme liabilities	6.1	5.8
Average expected long term rate of return on assets (weighted average over all classes)	6.1	4.5
Mortality assumption	The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member who retires in the future at age 60 will live on average for a further 27 years after retirement if they are male and for a further 30 years after retirement if they are female.	
Summary of financial impact:	2008 £'000	2007 £'000
Market value of scheme assets	719	572
Present value of scheme Liabilities	(612)	(516)
Scheme surplus/(deficit) recognised in balance sheet	107	56

The amount charged to total technical charges was £135,000 (2007: £99,000) and actuarial gains recognised in the long term technical account were £51,000 (2007: £68,000).

18 CASH FLOW STATEMENT

The Society is a mutual life assurance entity and, under Financial Reporting Standard No.1, is exempt from preparing a cash flow statement.



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