

MGM Advantage

Annual Report and Accounts 2008

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Sir William Proby
Chairman

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Registered name

MGM Advantage is the trading name of
Marine and General Mutual Life Assurance Society.
Registered No: 00000006

Registered office

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Directors

Non executive directors



Sir William Proby

Sir William Proby Bt MA FCA

Chairman, aged 59. Appointed 28 July 2006.
Chairman of Keygate Property Investments Limited and Elton Estates Company Ltd.
Chairman of National Trust (until November 2008).



Laurie Edmans CBE

Laurie Edmans CBE FCII FPMI

Deputy Chairman, aged 60. Appointed 10 March 2008.
Chairman of Safe Home Income Plans Ltd, Deputy Chairman of
Computer Patent Annuities (Holdings) Ltd, Director of Bdifferent
Ltd, The Pensions Regulator and The Pensions Policy Institute.



Dr Susan M Sharland

Dr Susan M Sharland MA PhD

Aged 47. Appointed 3 July 2003
Chief Executive of TRL Ltd, Director of TRF (Transport Research
Foundation), The Research Foundation, Transport Research
Laboratory Ltd and HR Wallingford Group Ltd.



Moira K Siddons

Moira K Siddons FCA

Aged 59. Appointed 25 July 2003.
Independent Member of the Balancing and
Settlement Code Panel; Executive Coach.



Michael Arnold

Michael Arnold FIA

Aged 61. Appointed 28 May 2004.
Director of Financial Information Technology Ltd.



Angela Burns

Angela Burns

Aged 45. Appointed 18 December 2008.
Director of Aktiva Ltd and Sarasin Alpha CIF
funds.

The following non executive directors resigned 18 December 2008:
J Charles Woodward FIA
Peter J Maydon MA

Directors

Executive directors



Chris Evans

Chris Evans

Chief Executive.

Aged 52.

Appointed 13 August 2007.



Sara Charman

Sara Charman

Executive Director (Operations).

Aged 41.

Appointed 19 February 2007.



Dave Middleton

Dave Middleton FIA

Executive Director (Finance and Actuarial).

Aged 45.

Appointed 23 July 2008.



Robert Craig Fazzini-Jones

Robert Craig Fazzini-Jones

Executive Director (Designs for Retirement).

Aged 33.

Appointed 23 July 2008.

Company secretary



Alan J Futter

Alan J Futter CPFA ACol

Aged 57.

Appointed 1 January 2002.

The following executive director resigned 5 May 2008:
Nigel Sherry ACII

Chairman's statement

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I am writing this statement following the completion of my first full year as Chairman of the Society and it is hard to imagine a more challenging one. Not only did the Society embark upon a new strategy, but it was conducted against a backdrop of possibly the worst stock market conditions for a generation. Nevertheless, despite the adverse markets, the new strategy is proving successful and the Society's Chief Executive, Chris Evans, discusses this and other key issues in his statement.

In common with the sector as a whole, the adverse stock market conditions inevitably had a detrimental effect on the investment performance of the Society's funds during the year. Our position compared to industry investment performance benchmarks improved notably during the year but the negative impact on portfolios has been substantial.

In common with most insurance companies, the Society's capital position has been adversely effected by the extreme market conditions. Further adverse market movements, without management actions, would place increased constraints on our activities. However the Board has approved a series of management actions for capital management and conservation measures. Further details are set out in the Chief Executive's statement. It is in times like these that the mutuality concept comes into its own, as the Society is not required to pay dividends to external shareholders and can concentrate its resources on preserving the capital position. The Board is also of the view that the with-profits concept still has considerable merits, as it can provide downside protection for policyholders in difficult times.

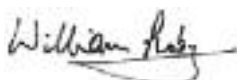
In any business, there are factors that can be controlled and others that cannot. During the year, the Society sought to address those elements that were within its control; for example, the steps taken to mitigate the effect of the adverse markets and thereby protect the Society's capital. Again, Chris Evans provides more detail in his statement.

At the end of 2008, the two longest serving non executive directors stepped down from the Board. Charles Woodward and Peter Maydon joined the Board in 1994 and 1996 respectively and each served during a period of considerable change in the life and pensions industry and significant strategic change for the Society. Charles served on the Society's three main Board Committees – Audit, Investment and With Profits – for a number of years and chaired each of them at various times. Peter Maydon served on the Remuneration & Nominations Committee and, until the closure of the appointed representative network, chaired the Premier Partners Committee. On behalf of the Board, I wish to thank them both for their valuable contribution and insight during their time as directors and wish them a long and happy retirement.

The year also saw the appointment of two new non executive directors; Laurie Edmans and Angela Burns. Laurie Edmans brings a wealth of experience that will greatly benefit the Board. Not only has he considerable experience of the IFA sector, gained in senior positions with a number of pension providers operating in this market, but he is also a member of the Board of the Pensions Regulator. Angela Burns is an experienced fund manager and so brings the technical knowledge and understanding required to ensure that the Society's fund portfolio fully meets the respective needs of the Society's existing and future customers. I am very pleased to welcome them to the Society.

On behalf of the Board, I wish to extend thanks to the Society's managers and staff. As will be seen from the Chief Executive's statement, they have achieved much during the year, within challenging timeframes and across a broad range of disciplines. The Society started 2008 as a former player in the mortgage based life assurance market, but through the efforts and commitment of its managers and staff, it concluded it as a recognised specialist in the retirement income sector. The successful launch of the new strategy was a considerable achievement, and in addition it was achieved while completing a major IT transformation project and maintaining exacting service standards for existing customers.

The Board is aware that its primary duty is to deliver the benefits guaranteed to policyholders. We remain confident that, despite the current economic situation, we will continue to fulfil this fundamental objective.



Sir William Proby

Chairman

31 March 2009

Chief Executive's statement

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2008 was a year of immense strategic change for the Society. As I reported in my statement last year, the Society closed its appointed representative network towards the end of 2007 and exited the mortgage market. Later events, such as the "credit crunch" and the subsequent collapse of the property market, have demonstrated that this was indeed a propitious move. As everyone will be aware, the markets in which the Society operated its appointed representative network, mortgages and investments, have each suffered a major slump and so, had the Society continued with its existing strategy into 2008, the tone and content of this statement would have been significantly different and certainly not for the better.

In my statement last year I explained that considerable work had been undertaken to develop new products and markets to support a new strategy that would enable the Society to thrive. I announced at the last AGM in June 2008, that our strategy, designed to serve the enormous and growing retirement market, would entail the Society becoming a leading provider of specialist annuities. During the remainder of the year, significant work was undertaken to launch that proposition and to make it a success.

Treating Customers Fairly

The Society continues to be a keen supporter of the Financial Services Authority's Treating Customers Fairly (TCF) initiative and considerable work continues to be performed in improving the customer experience for all the Society's policyholders. The TCF initiative has been in place for a few years now and, although there was no cause for concern regarding the Society's performance in this area, I decided that the time was right to revitalise its TCF processes. Therefore, a new cross-functional stream of activity was set up during the second half of the year to seek out opportunities for enhancing and promoting the fair treatment of customers and to further encourage all the Society's staff in this important area. We call this on-going activity Customer Advantage and it has become a key part of the culture of our organisation.

Also during the year, the Society reissued its ground-breaking Customer Charter and also introduced a similar charter for IFAs, which sets out a number of service promises for the new annuity business. The Society also won a number of customer service awards, including a 4 Star rating and that of "Most Improved Company" from the Financial Adviser trade newspaper. The above mentioned IT systems improvements also led to the Society being shortlisted by the Technology Administration Service.

New Strategy

The strategic development goals set by the board for 2008 and presented at the June 2008 AGM were to:

- develop and successfully launch the first new annuity product, the enhanced annuity, for customers with health impairments;
- establish a significant presence in the independent financial adviser (IFA) market;
- rebrand the Society as a leading provider of annuity products;
- achieve 18,500 quotations from IFAs;
- achieve sales targets of £25.5m;
- achieve appropriate profit margins on the sales made.

I can assure you that these were exceedingly challenging targets for a new operational activity being developed completely "from scratch", but I am delighted to report that each has been either achieved or exceeded and further details on each are provided below. As a result, the new strategy can be judged to have launched successfully, but I can assure the Society's members that the Board has no intention of becoming complacent or of underestimating the work that still needs to be undertaken. The launch of the first annuity product, and the establishment of the Society as a key player in the annuity market, were only the initial steps in a longer term plan to create value for members in the retirement income market and work has already commenced on the next phase.

Strategic Performance

When the Society launched the first annuity product, an enhanced annuity that offers a higher level of income to annuitants with an adverse medical history, the aim was to sell £25.5m of business by the end of 2008. In fact, sales of £27m were achieved. It is interesting to note that the last time that the Society achieved such a level of sales was a number of years ago at the height of a buoyant property market. It is the Board's view that the current new business acquisition strategy is less susceptible to the vagaries of the economy, as evidenced by the growth of industry sales in this sector being more than 30% in the last quarter of 2008, a time when the economic recession was already severely damaging the wider financial services industry. With the launch of a second annuity product in 2009, the Society will have an even stronger platform for sustained levels of profitable new business.

The Society also exceeded its target for IFAs registered with 1,913 (target 1,500). 1,489 of these firms requested quotes and we ended the year with 234 IFAs placing business. Added to this, independent research identified that 83% of IFAs operating within the annuity market were aware of the Society as a provider. All in all, a very satisfactory outcome.

With regard to the rebranding, as I announced at the last AGM, the Society now operates under the trading name of MGM Advantage, as this highlights the competitive benefit of mutuality while retaining the Society's proud heritage. The new brand, and its accompanying house style, has been very well received.

All of these statistics demonstrate the successful impact of the launch. However, although it was imperative to achieve the sales targets for the first six months of the new strategy, such sales need to be profitable. An initial review of the first six months of business written suggests that our new business profit objectives are being achieved.

Next Steps

The next key milestone for the strategy will be in the summer of 2009, when a second annuity product will be launched. This will be an "asset backed" annuity which will allow annuitants to opt to maximise their retirement income by gaining exposure to market leading investment funds and independent market research has confirmed that there is a substantial market for such a product. Importantly, it will be a membership product in that annuitants purchasing such an annuity will share in the profits of the Society and hence they will become members. The Society is strongly committed to mutuality and therefore it is imperative that it continues to market products that will ensure a healthy membership.

Operational Infrastructure

Although considerable work was undertaken during the year to ensure viable levels of new business for the Society, attention was paid to the needs of existing customers. For a number of years, the Society has been administering its existing policies on two computer systems; one an outdated mainframe system and the other a modern server based one. When the latter was introduced, it was used for administering new policies going forward and the plan was to migrate across the more than 100,000 policies that were being administered on the mainframe system.

The work launched in late 2006 to deliver this migration experienced some early setbacks and subsequently the Board resolved to ensure that the project should be re-established on a firmer footing and tasked to complete by the end of 2008. I am delighted to report that the migration was successfully completed in two stages, in June and December, with the policy details reconciling to the penny at each stage. A tremendous amount of work was undertaken to deliver a successful outcome which was achieved in line with the revised timescale and budget. As a result, all of the Society's existing life and pension policies are now administered on a single system. Not only does this bring greater dependability but it also enables significant economies and efficiencies, meaning that the

Society now has the capability to handle far larger portfolios of business than it currently administers and consideration is being given to the commercial opportunities that this provides.

The need for a successful launch of the new annuity business also necessitated the implementation of an industry leading computer system and the Society implemented an IT platform which it believes is the best in the industry. This new platform allows IFAs to use the internet to obtain annuity quotations, and thereafter submit applications, in real time.

Operational Costs

Like most companies, both within and outside of the financial services sector, the Society has been addressing significant challenges with regard to operating costs. The previous annual operating costs (excluding investment costs) of £17.6m were unsustainable and so a project was commenced during the year to design a "target operating model" which will allow the Society to achieve all its strategic and operational aims, while reducing the operating costs to a viable level of £12.6m. The aim is to achieve savings in a number of ways; by process re-engineering to introduce more efficient methods of working, by automation and by outsourcing those activities where it is not economical for the Society to undertake them itself.

As can be imagined, this represents a significant challenge and the transformation to the new operational model will need to be effected in stages, with a scheduled final completion date of 2012. However, the first phase of change has already taken place and the run rate as at December 2008 was £16.9m. Some of this reduction was achieved by a reduction in the average staff headcount from 205 to 155. By the end of 2009 an equivalent rate of £14.4m will be achieved.

Work on the target operating model and cost reductions will continue and I shall report progress in my statement each year.

Capital

The capital markets have suffered very significantly in recent months and the Society is of course not immune to the effects of this major downturn. The capital held by the Society, over and above that required to meet its liabilities to policyholders, known as the Estate and which represents its solvency "buffer" and working capital, has naturally been adversely impacted by market falls. However, during 2008, the Society implemented some pre-emptive measures that assisted to some extent in reducing the adverse impact. For example, the Estate was derisked early in the year by transferring £22.0m of equities to cash. Also, a financial instrument was purchased in 2007 to safeguard the Society against the impact of a fall in interest rates on its annuity portfolio. Time has shown these steps to have been prudent, with the result that, as at the year end, the Society still held sufficient capital to more than meet its regulatory solvency requirements.

However, the market volatility has continued since the year end and given that the Society's capital position has been severely affected by these adverse market conditions, management has instigated a number of capital management and conservation measures and will continue to keep the position under constant review so as to be able to take prompt action when needed. A feature of the annuities market is that providers are able speedily to regulate the volume of new business written through the adjustment of rates they offer. This mechanism is widely used by providers to reduce and / or even from time to time suspend new business to match the priorities of the business and management are poised to make use of such options should it be considered appropriate. I refer you to details in Note 1 (a) Basis of preparation and Note 24 Capital position statement.

In my statement last year, I referred to the Society's Fund for Future Appropriations, which represents the surplus capital held by the Society. At the end of 2007, the Fund stood at £137.1m (restated) and the adverse effect of the problems in the markets can be demonstrated by the fact that this figure had fallen to £88.0m by the end of 2008. Returns to customers have been similarly impacted by these conditions, although the With Profits fund has drawn on its Smoothing Account to give some protection from experiencing the full downturn for its policyholders as it is designed to do.

MGM International

The challenging capital markets necessitated the Society to review all areas in which capital was being utilised and one of these was the operation of its offshore subsidiary MGM International based in Dublin. The company, which sells with profits bonds in mainland Europe, has been carrying a significant cost overrun since inception and so a strategic review was conducted to establish if there was any realistic possibility of this being addressed through enhanced business levels and hence whether it would be worthwhile for the Society to invest any further capital in the business.

Following a comprehensive review, the Society's Board decided that, given the current challenging conditions in the investment markets, there was little possibility of MGM International writing the levels of business required to address the current cost overrun and that the pursuit of an alternative strategy would entail too significant a risk for the Society's members given the current extremely challenging economic conditions. Therefore, the Society reluctantly took the decision that it would not be appropriate to provide any further capital. This decision was communicated to the Board of MGM International and, as I write this, it is reviewing the options for resolving the position in a manner that safeguards the interests of its policyholders. I hope to be able to provide an update to the Society's members at the AGM.

And finally...

As described above, 2008 has been a very challenging year for the Society and the damaging impacts of the economic crisis have clearly and inevitably had a negative effect. In these conditions it becomes even clearer that operational success is vital. The implementation of our new strategy based upon new products and new distribution make that operational success possible. In my statement last year, I closed by saying that the Society looked forward to reversing what it was hoped was only a temporary downturn in new business and I am pleased to report that this has been achieved and that the transition to a new model means that the Society is operationally stronger than ever and better placed to meet the many challenges that inevitably lie ahead.

Meanwhile, I look forward to meeting those members able to attend the Society's AGM on Friday 22 May 2009.



Chris Evans

Chief Executive

31 March 2009

Corporate governance

As a mutual, the Society fully subscribes to the Annotated Combined Code for Mutuals (the Code), which was introduced to ensure sound, transparent corporate governance standards for mutuals. The Code, which is based upon the Combined Code that has been in place for listed companies for a number of years, became effective for accounting periods commencing 1 January 2006.

The Society has always sought to manage its operations in a well controlled and open manner and it has been pleasing to note that compliance with the Code has required little in the way of change to established practices. During 2008, the Society complied with virtually all of the requirements of the Code and, as required, those material aspects which were not met are reported below.

The Code specifies a range of matters which should be reported in the Annual Report and these are also set out below.

The Board

Details of the membership of the Board can be found on Pages 2 and 3. As at the end of the year, there were six non executive directors (including the Chairman) and four executive directors. The Society's Articles of Association prescribe that there must not be more than twelve directors.

In the past, the Board has ordinarily held meetings nine or ten times a year. However, in 2008, the Board met eleven times, with August being the only month without a meeting. All Board meetings in 2008 were held in the UK and, although the Board has the facility for directors to "attend" by conference call, all directors attending the meetings did so in person - other than on just one occasion, when a director attended via a conference call. All the meetings of the Board were comprehensively minuted.

The full responsibilities of the Board are set out in the members section of the Society's website. The principal responsibilities are to:

- ensure that the Society maintains adequate systems and controls to enable all statutory and regulatory requirements to be fully and appropriately addressed;
- define, and keep under review, the objectives of the Society, including the formulation of strategic policy and its tactical implementation;
- define the powers and terms of reference of, and consider reports from, the Board committees to which responsibilities are delegated;

- maintain close scrutiny over exposure to financial risk in respect of the insurance, investment or other business transacted by the Society;
- approve the Society's expenditure budget and monitor performance against forecasts;
- authorise all major items of capital expenditure;
- approve the Society's operational policies for all aspects of its operations;
- authorise the distribution of surplus to members in the light of periodic actuarial valuations;
- review the composition of the Board so as to ensure a broad spectrum of knowledge and experience relevant to the Society's business.

Decisions made by the Board in respect of these matters are then enacted by the Society's management under delegated responsibility.

Board Committees

The Board delegates responsibility for certain aspects of its remit to a number of committees. The membership of these committees, and their respective terms of reference, are set out below:

Remuneration & Nominations Committee

Unlike the other Board committees, the Remuneration & Nominations Committee has no annual schedule of meetings and meets as and when required. Only non executive directors serve on the committee in relation to the remuneration elements of its remit. The members of the committee during the year were:

Sir William Proby (Chairman)
Michael Arnold
Peter Maydon
Maira Siddons (from September 2008)
Chris Evans

Laurie Edmans will be the Chairman of this committee in 2009. Chris Evans is only a member of the committee for the nominations element of its remit.

Its terms of reference are to:

Remuneration

- undertake an annual review of management salaries by considering the Chief Executive's recommendations regarding gradings and personal assessments;
- determine, and authorise on behalf of the Board, senior management salaries;
- approve and report to the Board the outcome of all reviews relating to revisions of salary scales, and staff remuneration generally, including bonus schemes;
- undertake an annual review of directors' fees and make recommendations to the Board;

Nominations

- whenever vacancies for non executive directors occur, seek and review possible candidates for presentation to the Board for its consideration;
- review the individual performance of non executive directors and make appropriate recommendations to the Board from time to time.

The Code specifies that an explanation should be given if neither an external search consultancy, nor open advertising, has been used in the appointment of the Chairman or a non executive director. With regard to the Society's appointment of non executive directors, the prescribed process does include the use of specialist external search consultancies. The prescribed process is to request the search consultancy, which will have been selected through a tendering process, to put forward a number of potential candidates. The Remuneration & Nominations Committee will then interview a number of the candidates, with a smaller number being invited for a second interview before a recommendation is made to the Board. This process was followed for the two non executive director appointments made in 2008.

Audit & Budget Committee

The committee meets quarterly in relation to the audit aspects of its remit and annually, usually in November, to consider the Society's budget for the following year. Only non executive directors serve on the committee. The members of the committee during the year were:

Moira Siddons (Chairman)
Sir William Proby (to March 2008)
Laurie Edmans CBE (from June 2008)
J Charles Woodward

Its terms of reference are to:

- review, and challenge where necessary, the actions and judgements of management, in relation to the Society's financial statements, operating and financial review, interim financial reports, preliminary announcements and related formal statements before submission to, and approval by, the Board and before clearance by the external auditors;
- consider the scope, effectiveness and integrity of the Society's internal control systems;
- review the effectiveness of the systems, processes and plans designed to monitor and report upon compliance with laws and regulations;
- assess the scope of internal audit, and external audit, review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management responses;
- review the periodic work on the determination of significant strategic and operational risks, and their management and control, carried out from time to time by senior management;
- ensure that the processes in place to identify, manage and mitigate risks are robust;
- receive quarterly reports from the Society's Risk Steering Group and monitor the activity being undertaken in relation to the management of risks;
- review the performance and effectiveness of the outsourced internal audit function;

- review management's responses to the findings and recommendations contained within internal audit reports;
- review the external auditors' proposed audit scope and approach, including co-ordination of effort with internal audit;
- confirm the external auditors' independence;
- review the relationship with, and performance of, the external auditors and exercise the final approval on their appointment or termination;
- review the processes established by senior management to prepare the Society's annual budget;
- review the financial goals and targets set for the Society and for each business activity;
- review the Society's annual operating and capital expenditure budgets and recommend them to the Board;
- monitor the Society's performance as compared to budget.

Investment Committee

The committee meets quarterly (or more frequently if needed). The members of the committee during the year were:

J Charles Woodward (Chairman)
Michael Arnold
Chris Evans
Susan Sharland

Following the resignation of J Charles Woodward, Angela Burns will be the Chairman of the committee in 2009.

Its terms of reference are to:

- formulate the Society's investment policy and objectives and review them from time to time;
- carry out regular reviews of the performance of the external investment managers and make recommendations to the Board on changing them where necessary;

- create investment guidelines for the asset classes within the Society's funds, approve the mandates for the external investment managers and monitor their adherence to the guidelines;
- review the performance of the Society's funds, and sub-funds, by reference to that of competitors;
- review and approve proposals on asset allocation proportions from the Society's management;
- review the performance of the Society's treasury function and receive reports on projected cash flows;
- approve investment actions for the investment of new monies or the realisation of investment funds;
- monitor the risk framework associated with the investment activities and ensure compliance with agreed policies and authorisations.

With-Profits Committee

The Committee meets quarterly (or more frequently if needed). Its remit is to consider significant issues relating to the management of the Society's with profits funds. The members of the committee during the year were:

J Charles Woodward (Chairman)
Michael Arnold
Chris Evans

Its terms of reference are to:

- oversee the technical financial management of the Society's affairs;
- ensure that the concept of fairness between policyholders is maintained;
- consider proposals on bonus distributions and make appropriate recommendations to the Board;
- receive regular reports regarding the financial performance of the Society and the resulting impact on long term prospects, including the Individual Capital Assessment Report (ICA) and such other reports as are considered necessary;

- formulate the Principles and Practice of Financial Management which will form the basis of the detailed financial management of the Society and to present them to the Board for review;
- consider the need for subsequent amendments to the Principles and Practice of Financial Management and make recommendations to the Board accordingly;
- oversee the management of the Society's Estate and to make appropriate recommendations to the Board on substantial issues that arise;
- receive and review advice from the With Profits Actuary on the exercise of discretion in respect of with profits business.

Board and Committee Attendance

The details of attendance during 2008 for each director are shown below:

Director	Board	RNC	ABC	IC	WPC
Sir William Proby	11 of 11	4 of 4	1 of 1		
Michael Arnold	8 of 11	3 of 4		3 of 4	3 of 4
Angela Burns (1)	1 of 1				
Sara Charman	11 of 11				
Laurie Edmans (2)	9 of 9		3 of 3		
Chris Evans	11 of 11	4 of 4		3 of 4	3 of 4
Robert Craig Fazzini-Jones (3)	4 of 5				
Peter Maydon	9 of 11	4 of 4			
David Middleton (3)	5 of 5				
Moira Siddons	11 of 11	2 of 2	4 of 4		
Susan Sharland	10 of 11			3 of 4	
Nigel Sherry (4)	3 of 3				
J Charles Woodward	10 of 11		2 of 4	3 of 4	4 of 4

RNC Remuneration & Nominations Committee

ABC Audit & Budget Committee

IC Investment Committee

WPC With Profits Committee

(1) Appointed in December 2008

(2) Appointed in March 2008

(3) Appointed in July 2008

(4) Resigned as a director in May 2008

Evaluation of Board Performance

The Board undertakes a review of its performance each year. In the previous three years, the review was undertaken internally by means of a comprehensive questionnaire completed by all directors. However, as part of a cyclical programme, the Board resolved to seek an independent assessment in 2008 and this was conducted by accountancy firm Mazars. The results of the review were presented to the Board at its meeting in February 2009.

In addition, the Chairman undertook an assessment of the performance of the Chief Executive and the Chief Executive assessed the performance of the executive directors.

As recommended by the Code, during the year the Chairman held a meeting of the non executive directors without the executive directors present. Also as recommended by the Code, the non executive directors held a meeting, led by the Senior Independent Director and without the Chairman present, to appraise the Chairman's performance.

Independence of Non Executive Directors

The Code specifies a number of criteria to be used to assess the independence of non executive directors. These criteria are not mandatory and a firm can assess a non executive director as independent even if not all the specified criteria are met. In such cases, the Code requires that the firm explains the reason why it considers the non executive director to be independent.

In relation to the Society, the criteria for independence are that a non executive director should not:

- have been an employee of the Society (or any company within the MGM Advantage group) within the last five years;
- have, or have had within the last three years, a material business relationship with the Society either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Society;
- have received or be receiving additional remuneration from the Society apart from a director's fee, or a performance-related pay scheme, or be a member of the Society's pension scheme;
- have close family ties with any of the Society's advisers, directors or senior employees;

- hold cross-directorships or have significant links with other directors through involvement in other companies or bodies;
- have served on the Board for more than nine years from the date of their first election.

The first five of these criteria relate to potential conflicts of interest and the Society fully supports these as indicators of independence. There was only one incidence of a non executive director not meeting one of these criteria; J Charles Woodward was a member of the Society's Staff Pension Plan. This was a purely historic arrangement which was commenced in 1994 and the Society has not offered membership of the Staff Pension Plan to non executive directors for several years. Given the historic nature of this arrangement, and the comparatively small scale of the applicable pension benefits, the Society did not consider that it impacted adversely upon his independence. However, J Charles Woodward resigned as a director in December 2008 and so this exception will not apply in future years.

The last of the criteria relates solely to length of service as a non executive director and the Society does not consider that this is an impediment to independence. Two of the Society's non executive directors, J Charles Woodward and Peter Maydon, had served on the Society's Board for more than nine years, having been appointed in January 1994 and January 1996 respectively. The Society appreciates the benefits that can be derived from the appointment of new non executive directors, principally the influx of new ideas and experiences, and there have been a number of new non executive director appointments in recent years. However, it is also conscious of the need for stability, continuity and the maintenance of a core of knowledge of the Society's operations. Having considered their knowledge, experience and judgement, the Board did not consider that the length of service of the two above named non executive directors impacted adversely upon their independence. However, J Charles Woodward and Peter Maydon both resigned as directors in December 2008.

Senior Independent Director

The Code suggests that a firm's Board should appoint one of the independent non executive directors to be the Senior Independent Director. The role of the Senior Independent Director is to be available to members if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

The Society's Board resolved that J Charles Woodward should continue to serve as the Senior Independent Director during 2008. However, following his resignation in December 2008, the role will be assumed by Laurie Edmans in 2009. He can be contacted through the Company Secretariat on 01903 836316.

Remuneration Consultants

During the year, the Society introduced a Long Term Incentive Scheme (LTIP) for executive directors and managers and, as required by the Code, this was put to the members for approval by way of a resolution at the AGM in June 2008.

The Code also requires that, where the services of remuneration consultants are used, there should be disclosure of any connection between the Society and the consultants. The Society used the services of accountancy firm Deloitte to assist with the design of the LTIP and it also uses its consultancy services from time to time on ad hoc projects. However, there is no reportable connection between the Society and Deloitte.

Directors' Remuneration

There was no advisory vote on the directors' remuneration at the 2008 AGM. An advisory vote will be included on the agenda for the 2009 AGM and in future years as well.

Member Relations

The Society has developed a Member Relations strategy, and a Member Relations function, and these are to be launched to the membership during 2009.

Going Concern

The Code specifies that the Board should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

The Board considers that the Society is indeed a going concern and that there are no supporting assumptions or qualifications to this opinion.

Remuneration report

This report sets out the Society's policy for Directors' Remuneration and is included herein to meet the requirements of the Annotated Combined Code for Mutuals.

Setting the policy, and the remuneration of the Society's directors, is the responsibility of the Remuneration & Nominations Committee. The Committee's terms of reference are set out on Pages 13-14.

Executive Directors

The Society's remuneration policy is designed to attract, motivate and retain those with the appropriate experience, knowledge, skills and attributes to act as directors of the Society and hence contribute to maximising the benefits of the Society's members. No executive director has a contract containing a notice period in excess of one year. The remuneration of each executive director is reviewed annually and contains the following elements:

Salary

Executive director salaries are determined by reference to data obtained from employment benefit consultancies in relation to firms of a similar size and market sector as the Society. The salary, which is reviewed annually in the light of performance and factors such as inflation, is the only element which is pensionable.

Bonus

The Society operated a management bonus scheme for executive directors and the terms of this were summarised in the Remuneration Report last year. However, during 2008, this bonus scheme was amended to incorporate a Long Term Incentive Plan (LTIP) which was approved by the Society's members at the AGM in June 2008. At the year end the fair value of the LTIP liabilities accrued was zero. However, bonuses earned in prior years under the management bonus scheme were paid in 2008, as disclosed in the table on page 24.

The terms of the LTIP, which links awards to growth in the Society's long term working capital, are detailed in note 31.

Pension

Executive directors are eligible to be members of the Society's Staff Pension Plan, which is a defined benefits scheme. The Plan, which is now closed to new members, is contributory and the current rate of contribution is 5% of salary. The Plan also provides life insurance cover, at four times annual salary, for scheme members.

Private Medical Insurance

The Society provides private medical insurance cover for executive directors and their immediate families.

Non Executive Directors

All the Society's non executive directors are appointed under a contract for services. The remuneration of the non executive directors is approved by the members every three years at the Society's AGM. This matter was last considered by the members at the AGM in 2008.

Non executive directors are not provided with any benefits in addition to their basic remuneration. One long standing non executive director was a member of the above mentioned Staff Pension Plan until his resignation in December 2008. However, this was an historic arrangement and new non executive directors have not been offered this benefit for many years.

Remuneration of Directors

	Salary / Fees		Bonuses		Other Benefits ¹		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	£	£	£	£	£	£	£	£
Executives								
Chris Evans	230,000	89,936	115,575	-	62,172	24,303	407,747	114,239
Dave Middleton	79,623	-	-	-	21,610	-	101,233	-
Sara Charman	144,200	118,027	58,200	49,633	41,289	33,405	243,689	201,065
Robert Craig Fazzini-Jones	55,254	-	-	-	17,095	-	72,349	-
Nigel Sherry	64,620	176,000	62,665	33,600	362,729	44,580	490,014	254,180
Steve Nuttall	-	46,766	-	39,573	-	13,629	-	99,968
Keith Jones	-	65,590	-	57,105	-	14,592	-	137,287
Gerard Healy	-	99,116	-	368,854	-	56,758	-	524,728
	<u>573,697</u>	<u>595,435</u>	<u>236,440</u>	<u>548,765</u>	<u>504,895</u>	<u>187,267</u>	<u>1,315,032</u>	<u>1,331,467</u>
Non Executives								
William Proby	75,000	38,218	-	-	-	-	75,000	38,218
Charles Woodward	45,000	45,501	-	-	-	-	45,000	45,501
Laurie Edmans	37,500	-	-	-	-	-	37,500	-
Michael Arnold	35,000	35,000	-	-	-	-	35,000	35,000
Peter Maydon	35,000	35,000	-	-	-	-	35,000	35,000
Susan Sharland	35,000	35,000	-	-	-	-	35,000	35,000
Moira Siddons	35,000	35,000	-	-	-	-	35,000	35,000
Christopher Reeves	-	55,000	-	-	-	-	-	55,000
Angela Burns	2,077	-	-	-	-	-	2,077	-
	<u>299,577</u>	<u>278,719</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>299,577</u>	<u>278,719</u>

Note 1 - Other benefits include employers pension contributions paid into a defined benefit scheme. Other benefits payable to Nigel Sherry includes an amount in respect of compensation for loss of office.

Pension Benefits

Age	Total accrued pension at 31.12.08 ¹	Increase in total accrued pension during 2008	Transfer value of accrued pension at 31.12.08 ²	Change in transfer value during the year net of Directors' contributions	
	£'000	£'000	£'000	£'000	
Executives					
Chris Evans	52	5	4	67	39
Sara Charman	41	42	5	562	92
Dave Middleton	45	2	2	16	12
Robert Craig Fazzini-Jones	33	2	2	13	7

The main terms applying to the final salary pension of the executive directors are that their pension is payable from normal retirement age of 65 and that a spouse's pension is payable on death at 50% of that executive director's pension.

Note 1 - The total accrued pension is the amount which the Director would have been entitled to from normal retirement age if they had left service on 31 December 2008.

Note 2 - The transfer values have been calculated in accordance with the Actuarial Guidance Note GN11.

Directors' Report

The directors have pleasure in submitting their report for the year ended 31 December 2008, together with the audited Group financial statements.

Principal Activity

The principal activity of the Society is the transaction of annuity business, and the management of life and pensions business, in the United Kingdom.

New Business

The figures for new business are disclosed in note 2.

Directors

None of the directors had any interest in any shares or debentures of any Group companies throughout the year, or was granted any right to subscribe for shares in, or debentures of, any Group company during the financial year. The Society has indemnified the directors in respect of proceedings brought by third parties and permits the company to pay directors' defence costs as they are incurred.

Business Review

Background

The Society is the UK's longest registered company and a provider of retirement income products to retail customers. It is a mutual and hence is wholly owned by its members, with membership being granted to any customer holding a policy with the Society which, under the Articles of Association, "participates in the profits of the Society". Since 2004, the with profits policyholders of MGM International (see below) have also qualified for membership. The membership currently stands at around 22,000.

Products and Services

In addition to selling annuities, the Society continues to administer an existing book of policies sold by its appointed representative network (which was closed in September 2007) and independent financial advisers. These policies can be summarised in the following categories:

- life assurance - including term assurance, whole of life assurance, critical illness and income protection;
- pensions - including personal pensions, group personal pensions and trustee investment bonds;
- investments - including endowments, savings plans (both qualifying and non-qualifying) and single premium bonds (both with-profits and unit linked).

Fund Management

The Society operates a “Best of Breed” fund management proposition, which utilises the services of a number of specialist external managers to manage the Society’s with profits and unit-linked funds. The selected fund managers operate mandates that are aligned by asset class (e.g. UK equities, global equities, fixed interest, etc.) and their performance is closely monitored by the Society’s Investment Committee and the senior management team.

Subsidiaries

During 2008, the Society had only one subsidiary transacting regulated financial services business; MGM International Assurance Limited (MGMI), based in Dublin. This subsidiary sells with-profits business through independent distributors in mainland Europe, currently in Germany, Belgium and the Netherlands. Since the end of the year, the Board of the parent decided that it would not be appropriate to provide any further capital to MGMI. The Board of MGMI is reviewing its options.

Regulatory Environment

The annuity, life assurance, pensions and investment business undertaken by the Society are all regulated under the Financial Services and Markets Act 2000. Therefore, the Society is regulated by the Financial Services Authority (FSA) and is bound by the rules and guidance within its various Handbooks. The Society has always sought to fully meet the regulatory requirements applicable to the business it undertakes.

MGMI is regulated by the Irish financial services regulator, the Irish Financial Services Regulatory Authority.

Objectives

The Society’s main objectives are to:

- maximise the benefits for its members, principally by maintaining high payouts and bonus levels;
- provide its customers with efficient service in relation to all aspects of the administration of their policies;
- ensure that its operations remain efficient and cost effective.

Each of these is kept under regular review and appropriate measures used to assess performance against them. Examples of activity in these areas during 2008 are set out below:

- maximising benefits – with regard to bonus declarations, and payments to with profits policyholders, the external With Profits Actuary has confirmed that these were made in accordance with the Society's Principles and Practices of Financial Management (PPFM). The PPFM, and a "customer friendly" version, are both available on the Society's website.
- customer services – the Society is strongly committed to customer service and this is demonstrated by its Customer Charter, under which a customer can claim a "no quibble" cash payment if the Society fails to meet any of a wide range of service standards. The charter, which has been operational for a number of years, was reissued in 2008 and only 83 charter claim payments were made during the year in which there were more than 200,000 customer touchpoints. This commitment to customer service resonates with the FSA's Treating Customers Fairly (TCF) initiative and the Society continues to undertake a number of activities to ensure that TCF requirements are met.
- operational efficiencies – the Society keeps its operational systems under constant review and there has been considerable change in recent years designed to improve efficiencies and reduce costs. The major IT transformation programme which was mentioned in last year's Directors' Report was successfully completed during 2008.

Risk Management and Control

As an insurer, the Society operates in a risk environment. To ensure that operational risks are appropriately identified, a formal risk management framework operates within the Society and this is monitored by the Head of Compliance & Risk and reviewed by the Risk Steering Group and the Society's Audit Committee. The Society is also using the FSA's Individual Capital Assessment (ICA) process to embed sound risk management practices across the organisation. The ICA requires an analysis of market, credit, liquidity, insurance, operational and group risks and these are covered in more detail in note 26. The Society uses the ICA to identify and implement improvements to risk management practices and thereby identify opportunities to optimise the Society's capital position.

The various types of risk, and examples of the mitigations used to address them, are discussed in note 26.

Employee Involvement

The Society does not have shareholders and therefore a conventional share ownership scheme is not appropriate. However, employees are encouraged to become members and policyholders and thereby share in the long-term prosperity of the Society and the Group. Bonus schemes are in force where appropriate to encourage employee involvement in the Group's annual performance.

Throughout the year, the Group has endeavoured to provide employees with information about the financial and economic factors affecting the business. Individual appraisals and counselling take place with all members of staff at which they are encouraged to express their views on decisions likely to affect their interests, and written material is made available to staff by means of circulars, handbooks and notice boards.

Equal Opportunities

The Society is committed to the principle of equal recruitment, training, development and treatment of all employees irrespective of their race, ethnic origin, nationality, disability, sex or sexual orientation, religious convictions and age.

Supplier Payment Policy

Although the Group does not follow a specified code or standard of payment practice, it is our policy to agree terms for payment with suppliers in advance of the supply of goods or services and to make payment within those terms. As a general rule payment is made within 30 days of receipt of invoice. At the end of the year, there were an average of 6 days (2007: 9 days) purchases outstanding within other creditors.

Charitable and Political Donations

Charitable donations made by the Group in the UK during 2008 amounted to £2,053 (2007: £5,300). There were no donations for political purposes.

Disclosure of Information to Auditors

The directors who held office at the date of approval of this Directors' 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 that 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.

Auditors

Our auditors, KPMG Audit Plc, have indicated their willingness to continue in office. In accordance with Section 385 of the Companies Act 1985, a resolution for their re-appointment is to be proposed at the forthcoming Annual General Meeting.

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By Order of the Board of Marine and General Mutual Life Assurance Society.

A handwritten signature in blue ink, appearing to read "Chris Evans", enclosed within a light blue oval shape.

Chris Evans

Chief Executive

31 March 2009

Statement of directors' responsibilities

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Statement of directors' responsibilities in respect of the Directors' Report and financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Auditor's report

Independent auditor's report to the members of Marine and General Mutual Life Assurance Society

We have audited the group and parent company financial statements (the "financial statements") of Marine And General Life Assurance Society for the year ended 31 December 2008 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 30.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. 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

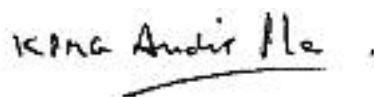
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

31 March 2009

Group profit and loss account

Technical account - long-term business

For the year ended 31 December 2008

	Notes	2008 £'000	2008 £'000	[Restated] 2007 £'000
Earned premiums, net of reinsurance				
Gross premiums written	2	84,036		67,309
Outward reinsurance premiums		(20,928)		(6,671)
		63,108		60,638
Investment income	3	39,700		207,067
Unrealised gains on investments		-		-
Other technical income, net of reinsurance	4	1,827		1,789
			104,635	269,494
Claims incurred, net of reinsurance				
Claims paid				
Gross amount		122,992		145,485
Less: Reassurers' share		(7,733)		(8,016)
		115,259		137,469
Change in provision for claims	18	2,152		(495)
			117,411	137,964
			(12,776)	131,530
Change in other technical provisions, net of reinsurance				
Long-term business provision, net of reinsurance				
Gross amount		(80,206)		(43,313)
Less: Reassurers' share		(6,265)		16,257
		(86,471)		(27,056)
Technical provisions for linked liabilities, net of reinsurance		(32,776)		(2,912)
			(119,247)	(29,968)
			106,471	161,498
Change in value of investment contracts	18	(72,771)		13,603
			(72,771)	13,603
			179,242	147,895
Net operating expenses	5	24,135		23,153
Impairment of IT assets	16	5,193		-
Operating expenses	5		29,328	23,153
Investment expenses and charges	6		7,014	6,502
Unrealised losses on investments			202,957	141,140
Tax attributable to the long term business	7		(10,219)	2,978
			229,080	173,773
			(49,838)	(25,878)
Transfer from/(to) the fund for future appropriations			49,838	25,878
			-	-

All of the Group's activities arose from continuing operations.

In accordance with amendments to Financial Reporting Standard 3 (FRS 3) - "Reporting financial performance" published in June 1999, no note of historical costs profit has been prepared as the Society's only material gains and losses relate to the holding and disposal of investments.

Group statement of total recognised gains and losses

For the year ended 31 December 2008

	Notes	2008 £'000	[Restated] 2007 £'000
FRS 17 - Retirement benefits:			
Actuarial loss	23	(526)	(503)
Deferred tax credit arising from pension gains and losses appearing in this statement	7	47	45
		(479)	(458)
FRS 23 - The effects of changes in foreign exchange rates:			
Foreign exchange difference on consolidation of foreign operation ¹		1,221	422
Total recognised gains and losses relating to the year	18	742	(36)
Prior year adjustment ²	18	(1,362)	
Total gains and losses recognised since last annual report		(620)	

1 In accordance with Financial Reporting Standard 23 - (FRS 23) - "The effects of changes in foreign exchange rates", the exchange difference arising on consolidation of a foreign operation is required to be recognised in this statement.

2 The adoption of "Amendment to FRS17" has led to an impact on the opening Fund for Future Appropriations (FFA).

Balance sheets

As at 31 December 2008

		Group	[Restated] Group	Society	[Restated] Society
	Notes	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Assets					
Investments					
Land and buildings	11	3,645	4,435	3,645	4,435
Investments in group undertakings	12	-	-	4,731	4,317
Other financial investments:					
Shares and other variable yield securities and units in unit trusts		202,541	332,074	180,772	312,855
Debt securities and other fixed income securities		539,775	511,737	519,787	503,684
Participation in investment pools		14,398	14,037	14,398	14,037
Other loans		222	355	222	355
Deposits with credit institutions		41,001	68,615	37,163	67,298
	14	<u>797,937</u>	<u>926,818</u>	<u>752,342</u>	<u>898,229</u>
Assets held to cover linked liabilities:					
Other financial investments	14	433,404	568,451	433,404	568,451
Reassurers' share of long-term business provision					
		76,212	69,947	76,212	69,947
Debtors					
Arising out of direct insurance operations:					
Policyholders		157	252	157	252
Intermediaries		130	912	130	912
Other debtors	15	5,603	2,879	6,318	3,574
Deferred taxation	19	4,794	-	4,794	-
		<u>10,684</u>	<u>4,043</u>	<u>11,399</u>	<u>4,738</u>
Other assets					
Tangible assets	16	4,612	7,304	4,599	7,297
Cash at bank and in hand		33,012	14,190	32,380	12,598
		<u>37,624</u>	<u>21,494</u>	<u>36,979</u>	<u>19,895</u>
Prepayments and accrued income					
Accrued interest and rent		12,942	12,184	12,501	12,184
Deferred acquisition costs	17	4,250	5,090	4,250	5,090
Other prepayments and accrued income		951	752	911	550
		<u>18,143</u>	<u>18,026</u>	<u>17,662</u>	<u>17,824</u>
Total assets		<u>1,377,649</u>	<u>1,613,214</u>	<u>1,336,374</u>	<u>1,587,836</u>

Balance sheets continued

As at 31 December 2008

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	Notes	Group	[Restated] Group	Society	[Restated] Society
		2008 £'000	2007 £'000	2008 £'000	2007 £'000
Liabilities					
Fund for future appropriations	18	88,008	137,104	88,008	137,104
Technical provisions					
Long-term business provision – with-profits	18	414,882	496,532	374,418	472,315
Long-term business provision – non-profit	18	323,526	313,215	323,526	313,215
Claims outstanding - gross and net	18	7,689	5,537	7,689	5,537
		<u>746,097</u>	<u>815,284</u>	<u>705,633</u>	<u>791,067</u>
Technical provisions for linked liabilities	18	137,480	170,256	137,480	170,256
Financial liabilities					
Investment contract liabilities	18	301,455	397,602	301,455	397,602
Provisions for other risks and charges					
Deferred taxation	19	-	1,806	-	1,806
Deposits received from reinsurers	20	75,645	61,111	75,645	61,111
Creditors					
Arising out of direct insurance operations		10,607	5,849	10,382	5,258
Other creditors including taxation and social security	21	5,828	10,932	5,678	10,768
		<u>16,435</u>	<u>16,781</u>	<u>16,060</u>	<u>16,026</u>
Accruals and deferred income	22	6,749	5,955	6,313	5,549
Pension scheme liability	23	5,780	7,315	5,780	7,315
Total liabilities		<u>1,377,649</u>	<u>1,613,214</u>	<u>1,336,374</u>	<u>1,587,836</u>

The financial statements were approved by the Directors on 31 March 2009 and were signed on their behalf by:

Chris Evans
Chief Executive

The notes on pages 37 to 84 form part of the Financial Statements.

Notes to the financial statements

1. Accounting policies

(a) Basis of preparation

The group financial statements, which consolidate the financial statements of the Society and its wholly owned subsidiary undertakings, have been prepared on the basis of continuing to write new business in accordance with the provisions of Sections 255 and 255A of, and Schedule 9A, to the Companies Act 1985 except as noted below under land and buildings. The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments, and comply with the Statement of Recommended Practice issued by the Association of British Insurers in December 2005 (as amended in December 2006).

The ability to write new business is predicated on meeting Financial Services Authority (FSA) capital requirements, as set out in Note 24 - Capital position statement. Although the Society is still in a solvent position, it has less working capital available than as at the previous year end. The directors believe that they do have sufficient mitigating actions at their disposal in order to meet regulatory capital requirements whilst continuing to write new business. In the event that it is not possible to maintain a satisfactory capital position, they would countenance the suspension of new business and, in this event, certain changes may need to be made to the basis for valuing assets and liabilities, including reviewing certain asset valuations and expense provisions.

Having consideration for the capital position discussed above, the directors are satisfied that it is appropriate to prepare these accounts on a going concern basis.

'Amendment to Financial Reporting Standard 17' has been adopted by the group. The adoption of the amended standard has led to the inclusion of the following additional disclosures in relation to retirement benefits:

- information that enables users of the financial statements to evaluate the nature of the entity's participation in defined benefit schemes and the financial effects of changes in those schemes;
- the principal actuarial assumptions used as at the balance sheet date;
- an analysis of the opening and closing scheme liabilities and scheme assets showing separately, if applicable, the movements in scheme assets and scheme liabilities.

The principal financial impact of adopting the amended standard has been to revalue the pension scheme assets. Quoted securities are fair valued at 'current bid-price' replacing 'mid-market value'. In addition to this change, an entity is also required to restate corresponding amounts for the previous two accounting periods, the prior year results of the group are thus restated. Refer to note 18 for further information on adjustments to the opening Fund for Future Appropriations (FFA) and note 23 for the revised pension arrangement disclosures.

(b) Cash flow statement

Under Financial Reporting Standard 1 (FRS 1) the Society is exempt from the requirement to prepare a cash flow statement.

(c) Contract classification

The group's contracts are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating). Insurance contracts are contracts which transfer significant insurance risk at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Investment contracts are those that do not transfer significant insurance risk as classified from the 1st January 2007. Both insurance and investment contracts may contain a discretionary participating feature (DPF) which is defined as a contractual right to receive additional benefits as a supplement to guaranteed benefits. Participating contracts consist of with-profits contracts. Certain hybrid contract types, containing both participating and non-participating characteristics, that is insurance and deposit components, have been treated as insurance contracts.

(d) Long Term Business

Premium income

Premiums that relate to insurance contracts and investment contracts with DPF are recognised as revenue when the liabilities arising from them are created. Premiums that relate to investment contracts without DPF are not included in the profit and loss account but are reported as contributions to investment contract liabilities and are deposit accounted in the balance sheet. Premium income in relation to outstanding premiums is recognised when due for insurance contracts and only when invested in the relevant fund for contracts classified as investment or unit-linked contracts. Outward reinsurance premiums relate to contracts which are classified as insurance and are therefore recognised as a deduction to insurance contract revenue.

Revenue from non-participating investment contracts

Fees are charged to policyholders for investment management services which are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods. These fees are presented within other technical income in the profit and loss account. To the extent that initial fees relate to the provision of future services they are deferred and amortised over the anticipated period in which services will be provided.

Claims

For insurance contracts and investment contracts with DPF, death claims are recognised on notification of death. Similarly critical illness claims are accounted for when admitted. All other claims and surrenders are accounted for when payment is due. For investment contracts without DPF, claims are deducted from investment contract liabilities and are deposit accounted in the balance sheet. Reassurance recoveries are classified as insurance contracts and are recognised as deductions to claims charged when admitted.

Long-term business provision, technical provision for linked liabilities on insurance contracts and participating investment contract liabilities

The long-term business provision is calculated by the Society's reporting actuary following annual investigation of the long-term business, and approved by the Board. Further details of the methodology and the principal assumptions used are given in note 27 to the financial statements.

For non-profit plans the long-term business provision is based on a gross premium valuation. For with-profits plans, the long-term business provision is the amount of the realistic value of liabilities calculated under the FSA's realistic capital regime. To ensure consistency, the present value of future profits of non-participating contracts written in the with-profits fund is deducted from the amount of the realistic value of liabilities. This deduction also includes any residual profits or losses expected to emerge on non-participating investment contracts after allowing for the values already held in the balance sheet for such non-participating investment contracts. The provision for linked liabilities represents the value of the underlying net assets which are held to meet those liabilities.

Non-participating investment contract liabilities

The Society's non-participating investment contract liabilities are unit-linked. Amortised cost for unit-linked non-participating investment contract liabilities is determined as the amount payable to the policyholder which reflects the value of the underlying net assets which are held to meet those liabilities, as the investor has the right to demand payment at any time.

(e) Land and buildings

Land and buildings are stated at their current value at the balance sheet date. Land and buildings are valued on an open market basis by independent Chartered Surveyors.

In accordance with Statement of Standard Accounting Practice 19 (Accounting for Investment Properties), no depreciation is provided in respect of freehold investment properties or amortisation in respect of leasehold properties with over 20 years to expire. This is a departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated. The directors consider that to depreciate or amortise the investment properties would not give a true and fair view. Depreciation or amortisation is only one of the factors reflected in the annual valuations of properties, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

(f) Shares in group undertakings

Investments in subsidiary undertakings are valued at current value.

(g) Recognition and derecognition of financial instruments

A financial instrument is recognised if the Society becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Society's contractual rights to the cash flows from the financial assets expire or if the Society transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, that is, the date that the Society commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Society's obligations specified in the contract expire or are discharged or cancelled.

(h) Financial investments

Fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is held for trading if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. The Society has designated financial investments at fair value through profit or loss where the Society's strategy is to manage those financial investments on a fair value basis. Internal reporting and performance measurement of these assets are on a fair value basis. Note 14 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss.

Financial investments at fair value through profit or loss are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to the profit or loss account. All changes in fair value are recognised in profit or loss as described in the 'Investment income' accounting policy. The methodology for determining the fair value for financial assets is as follows:

- listed and other quoted investments are carried at stock exchange bid values at the balance sheet date;
- linked investments, including redeemable debt and other fixed income securities, and listed and other quoted investments, are stated at bid prices;
- unlisted investments are carried at fair value; and
- investments in private equity funds are carried at fair value.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near term.

Loans and receivables are initially recognised at fair value plus incremental direct transaction costs, and are subsequently measured at their amortised cost using the effective interest rate method, except where the Society chooses to carry the loans and receivables at fair value through profit or loss as described above.

(i) Investment income and realised and unrealised gains and losses on investments

Investment Income

Investment income comprises:

- interest and dividend income from financial assets;
- interest income on loans and receivables;
- net gains / (losses) on loans and receivables; and
- dividend income from shares in group undertakings.

Interest income is recognised in the profit and loss account on an accruals basis. Dividends are included as investment income on the date that the shares become quoted ex-dividend, exclusive of any attributable tax credits.

Realised gains and losses on investments

Realised gains and losses on investments are calculated by reference to their original purchase price.

Unrealised gains and losses

Unrealised gains and losses comprise:

- gains or losses arising from changes in the fair value of financial assets at fair value through profit and loss;
- gains or losses arising from changes in the current value of land and buildings; and
- gains or losses arising from changes in the current value of shares in group undertakings.

Unrealised gains and losses on financial assets represent the difference between the valuation of the financial assets at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date.

Unrealised gains or losses on financial assets included in the Profit and Loss Account: Technical account – long-term business also includes adjustments in respect of unrealised investment gains and losses recorded in prior years that were realised in the current year and included as realised gains. All unrealised gains and losses are included in the Profit and Loss Account: Technical account – long-term business.

(j) Foreign currency translation

Foreign currency transactions are translated into the Society's functional currency, sterling, at the foreign exchange rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of total recognised gains and losses. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate ruling at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rate ruling at the date when the fair value was determined.

(k) Tangible assets

Tangible assets are capitalised. Depreciation is provided by the group to write off the cost of tangible assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	4 years
Fixtures and fittings	10 years
Computer hardware and software	3 years
Policy administration software systems	8 years

(l) Fund for future appropriations ("FFA")

The balance on this account represents funds, the allocation of which to individual policyholders, both current and future, has not been determined by the end of the financial year. When the allocation of funds is determined, appropriate transfers are made out of this fund.

(m) Investment expenses and charges

Investment expenses and charges are recognised on an accruals basis as incurred and include fund manager fees, bank loan interest and transaction costs on financial assets.

(n) Taxation and deferred taxation

Long-term insurance business

Current tax is the amount estimated to be payable or recoverable as a result of the application of the rules for the taxation of life insurance companies to the items included in the long-term business technical account together with any necessary prior period adjustments.

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 FRS19.

(o) Post-retirement benefits

The Society operates a pension scheme providing benefits based on final pensionable salary. The assets of the scheme are held separately from those of the Society. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus, to the extent it is recoverable, or deficit is recognised in full. The scheme surplus or deficit is moved by current service costs, finance income being the difference between interest costs and the expected return on assets as recognised in the profit and loss account and actuarial gains and losses which are recognised in the statement of total recognised gains and losses.

Current service costs – the increase in the present value of the scheme liabilities expected to arise from employee service in the current period.

Interest costs – the increase in the present value of the scheme liabilities as the benefits are one period closer to settlement.

Expected return on assets – the expected long-term rate of return on the actual assets held in the scheme at the beginning of the accounting period.

Actuarial gains and losses – changes in actuarial surpluses or deficits that arise because of changes in assumptions or experience differing to actuarial assumptions made at the last valuation.

(p) Leases

The rental costs relating to operating leases are charged to the Profit and Loss Account: Technical account – long-term business on a straight line basis over the life of the lease.

Assets held under finance leases are capitalised in accordance with Statement of Standard Accounting Practice 21 (SSAP 21) – “Accounting for leases and hire purchase contracts”.

Rental payments are apportioned between the finance charge and a reduction of the outstanding obligation for future amounts payable.

(q) Deferred Acquisition Costs

Deferred acquisition costs represent the capitalisation of incremental costs attributable to securing investment management contracts. Deferred acquisition costs are amortised as services are provided.

(r) Long-term Incentive Plan

The Society's Long-term Incentive Plan invites a number of employees to participate in a cash settlement award plan. Awards are based on performance measured by increases in Group working capital. The fair value of awards granted are recognised as an expense with a corresponding increase in other creditors. The fair value is measured at grant date and spread over the vesting period during which the participants become entitled to the award. The liability under this scheme is revalued at each balance sheet date, with any changes to the fair value being recognised in the profit and loss account.

Refer to note 31 for more details of the plan and note 24 for the Group working capital value.

2. Gross premiums

Gross premiums written, all of which relate to direct business, are analysed as follows:

	Group	
	2008	2007
	£'000	£'000
Periodic premiums	34,636	39,630
Single premiums	64,257	58,648
	<u>98,893</u>	<u>98,278</u>
Included in the above:		
Investment contract premiums deposit accounted under FRS 26	(14,583)	(30,065)
Fee income on investment contracts included in other technical income under FRS 26	(274)	(904)
	<u>84,036</u>	<u>67,309</u>
Premiums from:		
Non-participating contracts	49,656	26,987
Participating contracts	20,544	25,170
Investment linked contracts	13,836	15,152
	<u>84,036</u>	<u>67,309</u>

All premiums are written in the UK and Ireland. Of the total £98.9m gross premiums written, £14.6m (2007 : £15.4m) are attributable to MGM International Assurance Limited.

National Insurance Contribution Office (NICO) rebates are considered to be recurrent single premium.

The net reinsurance balance of premiums payable, claims recoverable, and movements in the reinsurer's share of the long-term business provision for the year amounted to a net debit in the Profit and Loss Account: Technical Account - long-term business of £6.9m (2007: debit balance of £14.9m).

During 2008, the Society wrote the following new premiums (after deduction of reinsurance), including new business premiums on non-participating investment contracts:

	Group		Group	
	2008		2007	
	Annual	Single	Annual	Single
	Premium	Premium	Premium	Premium
	£'000	£'000	£'000	£'000
Life – non-linked	11	1,540	812	19,653
Life – unit-linked	16	2,113	312	11,563
Pensions – non-linked	-	23,182	26	14,546
Pensions – unit-linked	220	2,891	1,148	7,212
NICO rebates	-	3,658	-	1,980
PHI	4	-	156	-
	<u>251</u>	<u>33,384</u>	<u>2,454</u>	<u>54,954</u>

2. Gross premiums continued

The new business figures for 2008 and 2007, including new business premiums on non-participating investment contacts were:

	Group	
	2008	2007
	£'000	£'000
Annual		
Life – non-linked	14	1,065
Less: Reassurance	(3)	(253)
	<u>11</u>	<u>812</u>
Life – unit-linked	16	312
Pensions – non-linked	-	26
Pensions – unit-linked	220	1,148
Permanent health insurance	4	156
Less: Reassurance	-	-
	<u>251</u>	<u>2,454</u>
Single		
Life – non-linked	1,540	19,653
Pensions – non-linked	38,348	14,546
Less: Reassurance	(15,166)	-
	<u>23,182</u>	<u>14,546</u>
Life – unit-linked	2,113	11,563
Pensions – unit-linked	2,891	7,212
	<u>29,726</u>	<u>52,974</u>
NICO rebates	<u>3,658</u>	<u>1,980</u>
Total net new Premium Income	<u>33,635</u>	<u>57,408</u>
Summary		
New Premium Income (gross)	48,804	57,661
Less: Reassurance	(15,169)	(253)
Total net new Premium Income	<u>33,635</u>	<u>57,408</u>

The Group profit and loss account: Technical account – long-term business shows the result for the year.

Of the above £33.6m new business premiums, £14.6m (2007:£15.4m) are attributable to MGM International Assurance Limited.

3. Investment income

	Group	
	[Restated]	
	2008	2007
	£'000	£'000
Assets measured as fair value through profit and loss:		
Shares and other variable yield securities and units in unit trusts	18,550	21,159
Debt securities and other fixed income securities	35,386	33,299
Participation in investment pools	81	796
Net (losses)/gains on realisation of investments	(17,084)	151,398
	<u>36,933</u>	<u>206,652</u>
Assets measured as loans and receivables:		
Interest receivable	2,767	415
	<u>39,700</u>	<u>207,067</u>

4. Other technical income

	Group	
	2008	2007
	£'000	£'000
Other income relating to subsidiaries	126	643
Fee income	824	1,733
Deferred income liability provision / (release)	877	(587)
	<u>1,827</u>	<u>1,789</u>

5. Operating expenses

	Group	
	2008	2007
	£'000	£'000
Acquisition costs	7,550	10,469
Administration expenses	15,745	13,471
Change in deferred acquisition costs	840	(787)
	<u>24,135</u>	<u>23,153</u>
Included within net operating expenses are:		
Operating leases:		
Land and property	55	39
Plant and machinery	912	907
Commissions	1,930	3,822
Remuneration of the auditor and its associates (exclusive of VAT):		
Statutory audit	201	197
Regulatory audits	44	44
Additional assurance	21	5
Other advisory	27	57
Other services	55	4
Tax	17	20
Depreciation	947	725
Redundancy costs	917	681

Acquisition and administration expenses include expenditure for projects which are of a non-recurring nature.

Deferred Acquisition costs represent capitalisation of incremental costs (primarily commission payable) attributable to securing an investment management contract and amortising the asset as services are provided as a result of the adoption of FRS 26.

Impairment of IT assets included within operating expenses is detailed in note 16.

6. Investment expenses and charges

	Group	
	2008	2007
	£'000	£'000
Investment management expenses	5,928	4,571
Buying and selling expenses on trades	1,086	1,931
	7,014	6,502

7. Taxation

	Group	
	2008	2007
	£'000	£'000
		[Restated]
		2007
		£'000
The charge for taxation has been computed on the basis applicable to life assurance and annuity business and is made up as follows:		
UK Corporation Tax		
Current tax on income for the period	109	8,924
Adjustments in respect of prior periods	(4,079)	(508)
Double taxation relief	-	(232)
	(3,970)	8,184
Foreign tax		
Current tax on income for the period	152	367
Total current taxation	(3,818)	8,551
Deferred tax		
Gains arising on deemed disposals	(4,159)	(1,414)
Unrealised gains on investment	(4,499)	(6,181)
Deferred acquisition expenses	1,969	1,573
Accelerated capital allowances	89	242
Pension deficit	152	162
Total deferred taxation	(6,448)	(5,618)
Total tax (credit) / charge	(10,266)	2,933
The above tax (credit) / charge is presented as:		
Profit and Loss Account (credit) / charge	(10,219)	2,978
Statement of total recognised gains and losses credit	(47)	(45)
	(10,266)	2,933

The corporation tax rate in arriving at the above charge was 20%.

8. Employee costs

	Group	
	2008	2007
The average number of persons employed in the year, including directors, was:		
Sales	6	19
Administration	149	186
	<u>155</u>	<u>205</u>
	£'000	£'000
Aggregate remuneration to employees amounted to:		
Wages and salaries	5,897	6,760
Social security costs	638	757
Other pension costs	787	1,272
	<u>7,322</u>	<u>8,789</u>

9. Remuneration of directors

	Group	
	2008	2007
	£	£
The remuneration of the directors was as follows:		
For services as directors:		
Fees	<u>299,577</u>	<u>278,719</u>
For management services:		
Other emoluments	1,202,785	1,213,894
Pension contributions	112,247	117,573
	<u>1,315,032</u>	<u>1,331,467</u>
Retirement benefits are accruing to 5 (2007: 6) directors under the group defined benefits plan.		
The emoluments of the highest paid director are as follows:	£	£
Emoluments	478,342	497,533
Pension contributions	11,672	27,195
	<u>490,014</u>	<u>524,728</u>

Fees are paid to the Chairman and non-executive directors only.

The remuneration of each executive director is determined by the Remuneration & Nominations Committee of the Board.

10. Parent company profit and loss account

[Restated]

	2008	2007
	£'000	£'000
The Society has taken advantage of the exemptions under Section 230(4) of the Companies Act 1985 not to include a parent company profit and loss account. The Society is a mutual Society and consequently the result for the year is eliminated after a transfer to the fund for future appropriations. The Group consolidated profit and loss account and the Group statement of total recognised gains and losses include the following amounts dealt within the financial statements of the parent company.		
Transfer from / (to) the fund for future appropriations	<u>49,096</u>	<u>25,914</u>

11. Investments in land and buildings

	Group and Society	Group and Society
	2008	2007
	£'000	£'000
	Non-linked	Non-linked
Freehold land and buildings occupied by the Society or the group for its own activities	<u>3,645</u>	<u>4,435</u>

The purchase price of properties occupied by the Society for its own activities amounts to £3.0m (2007: £3.4m). As stated in the accounting policies note, depreciation is not provided in respect of freehold investment properties.

12. Investments in group undertakings

	Shares in group	Society	
	undertakings	Loans to group	Total
	£'000	undertakings	£'000
		£'000	
Current Value			
At 1 January 2008	4,317	-	4,317
Capital injection	4,024	-	4,024
Disposals	(450)	-	(450)
Impairment	(3,160)	-	(3,160)
At 31 December 2008	<u>4,731</u>	<u>-</u>	<u>4,731</u>
Cost			
At 1 January 2008	8,540	740	9,280
Additions	4,024	-	4,024
Disposals	(450)	-	(450)
At 31 December 2008	<u>12,114</u>	<u>740</u>	<u>12,854</u>

13. Subsidiary undertakings

The following are particulars of the Society's principal subsidiary undertakings, all of which are wholly owned and included within the group's consolidated financial statements:

Name	Place of Incorporation	Principal Activities
MGM International Assurance Limited	Ireland	Transacts long-term life assurance business in Europe
MGM Assurance (Trustees) Limited	United Kingdom	Trustee, administrator and nominee for pension schemes and other trusts
MGM Home Finance PLC	United Kingdom	Ceased trading

During the year MGM Unit Managers Limited was disposed of by the parent and struck off the Companies House Register.

Since the end of the year, the Board of the parent decided that it would not be appropriate to provide any further capital to MGM International Assurance Limited. The Board of MGM International Assurance Limited is reviewing its options.

14. Other financial investments

	Group Fair Value		Group Cost		Society Fair Value		Society Cost	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Total								
Financial investments designated as:								
(a) Financial investments at fair value	1,140,796	1,397,964	1,275,866	1,324,574	1,099,039	1,370,692	1,222,131	1,300,642
(b) Loans and receivables	90,545	97,305	90,545	97,305	86,707	95,988	86,707	95,988
Total financial investments	1,231,341	1,495,269	1,366,411	1,421,879	1,185,746	1,466,680	1,308,838	1,396,630
Non-linked Assets								
(a) Financial investments designated at fair value:								
Shares and other variable yield securities and units in unit trusts	202,433	332,026	238,742	297,771	180,664	312,807	204,373	278,480
Derivative assets / (liabilities)	10,937	505	-	-	10,937	505	-	-
Debt securities and other fixed income securities	528,946	511,280	570,133	519,303	508,958	503,227	550,767	514,662
Participation in investment pools	14,398	14,037	15,072	14,411	14,398	14,037	15,072	14,411
(b) Loans and Receivables:	756,714	857,848	823,947	831,485	714,957	830,576	770,212	807,553
Other loans	222	355	222	355	222	355	222	355
Deposits with other credit institutions	41,001	68,615	41,001	68,615	37,163	67,298	37,163	67,298
	41,223	68,970	41,223	68,970	37,385	67,653	37,385	67,653
	797,937	926,818	865,170	900,455	752,342	898,229	807,597	875,206
Other loans consist of loans to policyholders for which the policy is the main security.								
Included in the above investments were:								
Property Investment Trusts (OEIC's)	34,961	67,343	40,675	60,822	34,526	66,382	39,007	59,857
Listed	630,394	669,534	680,178	655,430	589,072	643,223	628,111	632,463
Unit trusts	76,961	106,934	88,022	100,822	76,961	106,934	88,022	100,822
Unlisted	14,398	14,037	15,072	14,411	14,398	14,037	15,072	14,411
	756,714	857,848	823,947	831,485	714,957	830,576	770,212	807,553

14. Other financial investments continued

	Group Fair Value		Group Cost		Society Fair Value		Society Cost	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Total								
Linked Assets								
(a) Financial investments designated at fair value:								
Property Investment Trusts (OEIC's)	18,888	34,781	25,038	36,707	18,888	34,781	25,038	36,707
Derivative assets / (liabilities)	(254)	141	-	-	(254)	141	-	-
Shares and other variable yield securities and units in unit trusts	306,732	444,205	362,314	394,492	306,732	444,205	362,314	394,492
Debt securities and other fixed income securities	58,716	60,989	64,567	61,890	58,716	60,989	64,567	61,890
	<u>384,082</u>	<u>540,116</u>	<u>451,919</u>	<u>493,089</u>	<u>384,082</u>	<u>540,116</u>	<u>451,919</u>	<u>493,089</u>
(b) Loans and Receivables:								
Deposits with credit institutions	48,588	28,174	48,588	28,174	48,588	28,174	48,588	28,174
Other assets	734	161	734	161	734	161	734	161
	<u>49,322</u>	<u>28,335</u>	<u>49,322</u>	<u>28,335</u>	<u>49,322</u>	<u>28,335</u>	<u>49,322</u>	<u>28,335</u>
	<u>433,404</u>	<u>568,451</u>	<u>501,241</u>	<u>521,424</u>	<u>433,404</u>	<u>568,451</u>	<u>501,241</u>	<u>521,424</u>

There are no unlisted investments included within linked investments.

Derivatives

Non-linked derivative liabilities are included in other creditors, see note 22.

All derivatives are valued in direct reference to published price quotations in an active market.

Futures Margins

At the year end the group held 28 LIFFE (London International Financial Futures Exchange) derivative futures contracts designed to assist with managing exposure to fluctuations in the FTSE (Financial Times Stock Exchange) 100 Index as part of the overall risk management strategy employed in the MGM UK Tracker fund and the MGM UK Equity fund. The group also held 20 EMINI S&P 500 Index futures and 15 EURX ER STX 50 Index futures to manage exposure to both the US Dollar and Euro denominated holdings in the MGM Global Generation fund. The fair value of the futures contracts held at the year end was £267k, representing margin calls made before settlement date and futures deposits (Notional Contract value: £2.15m)

Forward foreign exchange contracts

The group holds forward foreign exchange contracts which protect against foreign exchange translation exposure on the group's investment in bonds denominated in Euro. The bonds form part of the MGM Fixed Interest fund and are designated in Euro currency. Gains or losses arising from movements in spot exchange rates are recognised in the profit and loss account. The economic hedge derivative contracts act to offset fair value gains or losses of the bonds. At the year end the forward contracts had a fair value of -£1.5m (Notional Contract value: £23.0m).

The group also holds a number of forward foreign exchange contracts in the MGM Global Generation fund to protect against a range of currency exposures. At the year end the forward contracts had a fair value of £26k (Notional Contract value: £7.0m).

Interest rate swap

The group entered into a trade position in April 2007 in order to hedge the interest rate risk arising from guaranteed annuity options on its book of conventional with-profits pensions business. At 31 December 2008 the group held a portfolio consisting of 32 interest rate swap derivatives, one for each calendar year from 2009 to 2040 inclusive, with each swap to be cash settled on its start date. The fair value of the derivative contracts at the year end was £10.8m (Notional contract value: £126.5m).

15. Other debtors

	Group		Society	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Amounts owed by subsidiary undertakings	-	-	1,043	952
Investments sold for subsequent settlements	802	755	802	755
Other debtors	4,801	2,124	4,473	1,867
	<u>5,603</u>	<u>2,879</u>	<u>6,318</u>	<u>3,574</u>

All of the above are in respect of amounts falling due within one year.

16. Tangible assets

(a) Group

	Motor vehicles £'000	Fixtures and fittings £'000	Computer hardware and software £'000	Total £'000
Cost				
At 1 January 2008	377	2,013	16,420	18,810
Additions in year	-	92	3,525	3,617
Disposals in year	(324)	-	-	(324)
At 31 December 2008	<u>53</u>	<u>2,105</u>	<u>19,945</u>	<u>22,103</u>
Depreciation				
At 1 January 2008	178	1,778	9,550	11,506
Impairment	-	-	5,193	5,193
Charge for year	25	85	837	947
Released on disposal	(155)	-	-	(155)
At 31 December 2008	<u>48</u>	<u>1,863</u>	<u>15,580</u>	<u>17,491</u>
Carrying amount				
At 31 December 2008	<u>5</u>	<u>242</u>	<u>4,365</u>	<u>4,612</u>
At 31 December 2007	<u>199</u>	<u>235</u>	<u>6,870</u>	<u>7,304</u>

16. Tangible assets continued

(b) Society

	Motor vehicles £'000	Fixtures and fittings £'000	Computer hardware and software £'000	Total £'000
Cost				
At 1 January 2008	377	2,008	16,338	18,723
Additions in year	-	92	3,508	3,600
Disposals in year	(324)	-	-	(324)
At 31 December 2008	<u>53</u>	<u>2,100</u>	<u>19,846</u>	<u>21,999</u>
Depreciation				
At 1 January 2008	178	1,775	9,473	11,426
Impairment	-	-	5,193	5,193
Charge for year	25	85	826	936
Released on disposal	(155)	-	-	(155)
At 31 December 2008	<u>48</u>	<u>1,860</u>	<u>15,492</u>	<u>17,400</u>
Carrying amount				
At 31 December 2008	<u>5</u>	<u>240</u>	<u>4,354</u>	<u>4,599</u>
At 31 December 2007	<u>199</u>	<u>233</u>	<u>6,865</u>	<u>7,297</u>

The impairment adjustment of £5.2m represents the write down of computer hardware and software, previously reserved for in technical provisions in 2007. This cost is presented as an exceptional item in the Group profit and loss account - see page 33.

17. Deferred acquisition costs

	Group and Society	
	2008	2007
	£'000	£'000
Investment contract deferred acquisition costs	<u>4,250</u>	<u>5,090</u>
Balance at 1 January	5,090	4,303
Net (amortisation) / deferral of cost	(840)	787
Balance at 31 December	<u>4,250</u>	<u>5,090</u>

18. Reserves, Provisions and Financial Liabilities

(a) Group

	Fund for Future Appropriations £'000	Long-term business provision £'000	Claims Outstanding £'000	Technical provisions for linked liabilities £'000	Investment Contract Liabilities £'000
Balance at 1 January 2008 - FFA only restated	137,104	809,747	5,537	170,256	397,602
Transfers arising as a result of FRS 26:					
(1) Deposit account for premiums on investment contracts					14,582
(2) Deposit account for claims on investment contracts					(37,508)
(3) Unit cancellation charges on investment contracts					(450)
Profit and Loss Account movements:					
Change in claims provision			2,152		
Change in technical provisions		(80,206)		(32,776)	
Change in value of investment contracts					(72,771)
Transfer to the technical account, long-term business	(49,838)				
Statement of Total Recognised Gains and Losses movements:					
Transfer to the technical account, long-term business	742				
Other transfer:					
Foreign exchange translation difference on revenue movement in long-term business provision of foreign subsidiary		8,867			
Balance at 31 December 2008	<u>88,008</u>	<u>738,408</u>	<u>7,689</u>	<u>137,480</u>	<u>301,455</u>

18. Reserves, Provisions and Financial Liabilities continued

(b) Society

	Fund for Future Appropriations £'000	Long-term business provision £'000	Claims Outstanding £'000	Technical provisions for linked liabilities £'000	Investment Contract Liabilities £'000
Balance at 1 January 2008 - FFA only restated	137,104	785,530	5,537	170,256	397,602
Transfers arising as a result of FRS 26:					
(1) Deposit account for premiums on investment contracts					14,582
(2) Deposit account for claims on investment contracts					(37,508)
(3) Unit cancellation charges on investment contracts					(450)
Profit and Loss Account movements:					
Change in claims provision			2,152		
Change in technical provisions		(87,586)		(32,776)	
Change in value of investment contracts					(72,771)
Transfer to the technical account, long-term business	(48,617)				
Statement of Total Recognised Gains and Losses movements:					
Transfer to the technical account, long-term business	(479)				
Balance at 31 December 2008	<u>88,008</u>	<u>697,944</u>	<u>7,689</u>	<u>137,480</u>	<u>301,455</u>

Investment contract are unit-linked and there are no investment contracts with Discretionary Participating Features (DPF) within the classification of the liability.

Prior year adjustment

As a result of the adoption of "Amendment to FRS 17" a prior year adjustment was required to restate prior years' results. The amendment to FRS 17 requires quoted securities of the pension scheme to be valued at current bid price. In previous years these assets were stated at mid-market value. As per "Amendment to FRS17", paragraph 95c, an entity is not required to restate corresponding amounts for the first two of the previous four accounting periods. The first two of the previous four accounting periods are 2004 and 2005, and these years are unaffected. However, in respect of the last two of the previous four accounting periods, 2006 and 2007, corresponding amounts are required to be restated.

The brought forward balance of the fund for future appropriations from 31 December 2006 is adjusted as per below. The results for 2007 have been restated in these financial statements.

	Group £'000	Society £'000
FFA at 31 December 2006	164,380	164,380
Prior Year adjustment - Amendment to FRS 17	(1,362)	(1,362)
FFA at 31 December 2006 - restated	<u>163,018</u>	<u>163,018</u>
2007 transfers		
Transfers from the technical account - long-term business - restated	(25,878)	(25,456)
Transfers from the STRGL - restated	(36)	(458)
FFA at 31 December 2007 - restated	<u>137,104</u>	<u>137,104</u>

19. Deferred taxation

Deferred taxation is provided on timing differences, the individual components of which are detailed below:

	Group and Society	
	2008	2007
	£'000	£'000
Gains arising on Unit trust and OEIC fund deemed disposals	-	(4,159)
Unrealised gains on investment	-	(4,499)
Deferred acquisition costs	4,693	6,662
Accelerated capital allowances	101	190
Deferred tax asset / (liability)	<u>4,794</u>	<u>(1,806)</u>

Deferred tax provided on deferred acquisition costs comprises that arising on unrelieved excess acquisition expense carried forward and also that arising on incremental costs attributable to securing investment management contracts.

	Group and Society	
	2008	2007
	£'000	£'000
Deferred tax at beginning of year	(1,806)	(7,586)
Movement during the year (see note 7)	6,448	5,618
Transfer of related deferred tax asset to pension deficit	152	162
Deferred tax asset / (liability) at end of year	<u>4,794</u>	<u>(1,806)</u>

The following deferred tax assets have not been recognised in these financial statements:

	Group and Society	
	2008	2007
	£'000	£'000
Equity, Unit Trust and OEIC fund losses carried forward	5,373	-
Loan relationship Income and Gains losses carried forward	240	-
Allowable Capital losses carried forward	1,341	-
Excess Expense carried forward	4,079	-
PHI business losses	-	21
	<u>11,033</u>	<u>21</u>

The above deferred tax assets have not been recognised due to a severe recent market downturn, thus making future profits against which to offset these losses uncertain.

20. Deposits received from reinsurers

In respect of a geo-socio-economic annuity product written in the past by the Society, 75% of premiums receivable were ceded to a reinsurer in return for the transfer of 75% of the risk associated with the product. The annuity product is closed for new business.

In respect of an enhanced annuity product written by the Society, 54% of premiums receivable were ceded to the same reinsurer in return for the transfer of 50% of the mortality risk associated with the product.

In accordance with both Reinsurance Treaties, the reinsurer is responsible for maintaining a deposit with the Society to act as collateral security for its liabilities and obligations under the contract.

Collateral deposits for:	£'000
Enhanced annuity	(13,583)
Geo-socio-economic annuity	(62,062)
	<u>(75,645)</u>

21. Other creditors including taxation and social security

	Group		Society	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Investments purchased for subsequent settlement	1,928	645	1,928	645
Taxation	226	7,375	226	7,375
Social security	4	21	4	21
Derivative liabilities - see note 14	1,044	900	1,044	900
Other	2,626	1,991	2,476	1,827
	<u>5,828</u>	<u>10,932</u>	<u>5,678</u>	<u>10,768</u>

22. Accruals and deferred income

	Group		Society	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Deferred income liabilities:				
Released within 12 months	132	14	132	14
Released after 12 months	1,807	2,802	1,807	2,802
	1,939	2,816	1,939	2,816
Other accruals	4,810	3,139	4,374	2,733
	<u>6,749</u>	<u>5,955</u>	<u>6,313</u>	<u>5,549</u>

23. Pension arrangements

Financial Reporting Standard 17 (FRS 17) – “Retirement benefits” is fully adopted in these financial statements.

The Society operates one defined benefit scheme in the UK. An actuarial valuation was carried out as at 31 December 2007 and updated to 31 December 2008 by a qualified independent actuary for the purpose of Financial Reporting Standard 17 (FRS17). The contributions made to the plan, by the Society, in the accounting period were £3.0m. Future annual contributions are 19.8% of pensionable salaries for a further two years (2009 to 2010) plus £2.3m per annum. As the scheme was closed to new members from 1 July 2006, under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

The major assumptions used by the actuary were (in nominal terms):

	At 31/12/2008	At 31/12/2007
Rate of increase in salaries	4.0%	4.4%
Rate of increase in pensions in payment (non-GMP)	3.0%	3.4%
Discount rate	6.5%	5.9%
Inflation assumption	3.0%	3.4%
Assumed life expectancies on retirement at age 65 are:		
Retiring today	Males 23.2	23.1
	Females 25.1	24.9
Retiring in 20 years time	Males 26.2	26.1
	Females 28.0	27.8

The assumptions used in determining the overall expected return of the scheme have been set with reference to yields available on government bonds and appropriate risk margins.

The assets in the scheme and the expected rates of return were:

	Long-term rate of return 2008 £'000	Value 2008 £'000	Long-term rate of return 2007 £'000	[Restated] Value 2007 £'000
Equities and property	7.0%	28,821	7.0%	36,238
Bonds	6.5%	12,893	5.9%	12,398
Cash	2.0%	721	5.5%	1,174
Fair value of plan assets		<u>42,435</u>		<u>49,810</u>
Actual return on assets over the period		<u>(8,015)</u>		<u>2,920</u>
The amounts recognised in the balance sheet are as follows:				
Present value of scheme liabilities		(48,787)		(57,848)
Fair value of scheme assets		42,435		49,810
		<u>(6,352)</u>		<u>(8,038)</u>
Present value of unfunded scheme liabilities		-		-
Deficit		<u>(6,352)</u>		<u>(8,038)</u>
Irrecoverable surplus		-		-
Net pension liability recognised before tax		<u>(6,352)</u>		<u>(8,038)</u>
Related deferred tax asset		572		723
Net pension liability		<u>(5,780)</u>		<u>(7,315)</u>

23. Pension arrangements continued

Reconciliation of opening and closing balances of the present value of the scheme liabilities

	[Restated]	
	2008	2007
	£'000	£'000
Liabilities at beginning of year	57,848	54,860
Current service cost	820	1,160
Interest cost	3,366	2,840
Contributions by scheme participants	188	455
Actuarial (loss) / gain	(10,843)	411
Benefits paid	(2,592)	(2,048)
Past service cost	-	170
Liabilities at end of year	<u>48,787</u>	<u>57,848</u>

Reconciliation of opening and closing balances of the fair value of the scheme assets

Fair value of scheme assets at beginning of year	49,810	45,029
Expected return on pension scheme assets	3,354	3,010
Actuarial loss	(11,369)	(92)
Contribution by employers	3,044	3,456
Contributions by plan participants	188	455
Benefits paid	(2,592)	(2,048)
Fair value of scheme assets at end of year	<u>42,435</u>	<u>49,810</u>

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

Actuarial loss	(526)	(503)
Impact of surplus restriction	-	-
Total	<u>(526)</u>	<u>(503)</u>

23. Pension arrangements continued

History of scheme assets, obligations and experience adjustments

	2008	[Restated] 2007	[Restated] 2006	2005	2004
	£'000	£'000	£'000	£'000	£'000
Present value of scheme liabilities	(48,787)	(57,848)	(54,860)	(51,955)	(40,550)
Fair value of scheme assets	42,435	49,810	45,029	39,530	33,840
Deficit in the scheme	<u>(6,352)</u>	<u>(8,038)</u>	<u>(9,831)</u>	<u>(12,425)</u>	<u>(6,710)</u>
Experience adjustments arising on scheme liabilities	409	(681)	50	(780)	80
Experience items as a percentage of scheme liabilities	1%	(1%)	0%	(2%)	0%
Experience adjustments arising on scheme assets	(11,369)	(92)	2,000	3,600	1,870
Experience items as a percentage of scheme assets	(27%)	(0%)	4%	9%	6%
Actuarial (losses) / gains shown in the STRGL	(526)	(503)	2,080	(5,440)	1,160

Analysis of the amount credited to operating profit

	2008
	£'000
Current service cost	820
Past service cost	-
Total operating charge	<u>820</u>

Analysis of the amount credited to other finance income

	2008
	£'000
Expected return on pension scheme assets	3,354
Interest on pension scheme liabilities	<u>(3,366)</u>
Net return	<u>(12)</u>

24. FRS 27

Financial Reporting Standard (FRS 27) 'Life Assurance' has been adopted in these financial statements:

Capital Position Statement

In describing last year's capital position several significant sensitivities were identified. In 2008 economic conditions were extremely unfavourable and a number of events impacted negatively on the fund.

The overall effect is to reduce Working Capital from £133.2m to £83.6m. This is still more than two and a half times the Capital Requirement of £28.1m but the margin over the Capital Requirement has reduced significantly from the previous year-end. The Board regards this as a serious matter and describes below the actions being taken as a result of this capital weakening and also some potential implications of the situation.

The importance of maintaining sufficient capital reserves is so that the Society is able to pay to customers their guaranteed benefits as they fall due. The adequacy of capital reserves helps the Society to continue to fulfil this primary duty through future, potentially volatile, conditions.

The Capital Position Statement on page 66 shows an analysis consistent with the balance sheet reported in these accounts.

The Society is required to calculate solvency on two different bases, known as the realistic basis and the regulatory basis, and to maintain a solvent position on both bases. This is known as Pillar 1 solvency. The Capital Position Statement given above shows the realistic basis only. For the Society the alternative, regulatory, basis is more onerous and is likely to remain so.

The regulatory and realistic positions are summarised in the table below.

	2008		2007	
	Regulatory £m	Realistic £m	Regulatory £m	Realistic £m
Working Capital	60.9	83.6	142.8	133.2
Capital Requirement	(30.8)	(28.1)	(34.6)	(25.0)
Available Capital Resources	<u>30.1</u>	<u>55.5</u>	<u>108.2</u>	<u>108.2</u>

24. FRS 27 continued

The table below shows the principal drivers of the weakening in the regulatory capital resource position from £108.2m to £30.1m.

Driver	2008 Effect
	£m
Market risk effects	(40)
Credit risk effects	(23)
Expense effects	(15)
Subsidiary losses	(4)
Other	(5)
Surplus arising during year	9
Total	(78)

Last year's report listed key risks that the Society was sensitive to and a number of these risks crystallised in 2008:

- Market risk in relation to with-profits business, whereby adverse changes in the value of the assets supporting this business could not be fully reflected in payments to Policyholders because of the effect of guarantees and options;
- Credit risk in relation to the fixed interest assets supporting annuity business. During 2008 there were some high profile corporate failures. More important than the actual defaults during the year was the fact that markets wrote down fixed interest assets very significantly, pricing in the risk of future corporate failures. Our reserves now contain a greater protection against this risk;
- Expenses were high during the year for a number of reasons. The old policy servicing systems were replaced to enable more efficient processing in future. The Society incurred start-up costs in respect of its Enhanced Annuity new business strategy.

Since year end, the investment environment has continued to be unfavourable. However, as at 24th March 2009, available capital resources on the regulatory basis were broadly similar. This is a result of mitigating actions taken by management to protect the fund.

24. FRS 27 continued

Also, during 2009, action has been taken to reduce equity exposure within with-profit funds where maturities are scheduled in the next three years. This will help to protect the Society against the effects of further equity market falls. It is estimated that the changes already made mean that the Society can withstand falls in the value of its equities of at least a third from their 24th March 2009 values.

Notwithstanding the actions taken already, the key risks to the Society in the short-term remain those related to the wider economic outlook. They are;

- Market risk - that the value of assets still have further to fall;
- Credit risk - although the Society has made extra provision for the prospect of corporate default in its fixed interest portfolio, the risk remains that actual defaults could exceed this provision.

In the medium to long term there is also insurance risk arising from longevity risk in relation to annuity business, which would arise if the mortality of annuitants improved more rapidly than assumed in determining the reserves. The Society has commenced writing annuities on impaired lives and is partnering with a market specialist in this area to share their knowledge but also to reassure 50% of the longevity risk from this business.

To counteract these risks and protect the working capital of the Society, management actions are being taken in the following areas:

- De-risk the Society's investments where there is no immediate policyholder benefit;
- The fixed interest portfolio is being diversified to include a greater allocation to global markets. Currency risk will be removed through a hedging strategy;
- With profit bonus levels will be kept under constant review to ensure that policyholders leave the fund at fair value and that future guarantee levels are controlled appropriately;
- Tenders have been received for reassurance of our existing conventional annuity liability;
- Costs are being examined to reduce all non-essential expenditure;
- The capital usage of new business is being controlled through managing volume and profitability by constant pricing reviews and development of new, more capital-efficient products.

24. FRS 27 continued

The Board's management of the capital position, to maintain regulatory solvency, has the minimum aim of fulfilling its duty to deliver the benefits guaranteed to policyholders in all eventualities. The items listed above show what is being done currently to meet this obligation. If absolutely necessary further actions are available, the last of which would, of course, include the suspension of writing new business. The Board recognises that in this circumstance changes would need to be made to the current basis of valuing assets and liabilities including writedown of assets relating to the new business activities and provision for the costs of such action.

Notes

The with-profits liabilities in the balance sheet have been calculated in accordance with the realistic basis regulations prescribed by the FSA. The principal assumptions used are set out in note 27 of these accounts.

The regulatory capital requirement shown here is the risk capital margin, representing the additional technical provisions required in the event of specified adverse events relating to market falls, increased credit spreads and lower interest rates.

Management actions have been given above which would be expected to reduce the impact of future experience deterioration. No allowance has been made in the calculation of these provision for such actions within the technical provisions. For the regulatory capital requirement a reduction in bonus rates and changes to the treatment of miscellaneous surplus has been assumed under the adverse conditions we are required to consider.

Intra-group arrangements.

Capital provided for the subsidiaries is shown in note 12.

Options and Guarantees.

The calculations for the cost of options and guarantees have been performed using a proprietary stochastic model.

Liabilities have been calculated on a best-estimate basis.

24. FRS 27 continued

The key assumptions are interest rates and volatility and these have been calibrated to market values at the reporting date. Other assumptions are best-estimate and have been derived using data from investigations of the Society's own experience.

The material options and guarantees provided for are as follows;

- For conventional with-profits policies the sum assured together with reversionary bonuses already declared are guaranteed at maturity date (and for Life policies, on death) irrespective of the assets supporting this business;
- For unitised with-profits policies there are guarantees not to apply a market value reduction (MVR) to the value of units on death or maturity. There are also MVR-free guarantees on regular withdrawals from most series of investment bonds of up to 7.5% of the original premium;
- Conventional pensions contracts have options whereby the policyholder may elect to convert the cash benefit at retirement into an annuity on terms that were specified at policy commencement.

Capital Management and Risk

A formal risk framework has been developed which is monitored by the Compliance & Risk Manager and reviewed by the Risk Steering Group and the Board. The Society is using the Individual Capital Assessment (ICA) process to embed sound risk management practices across the organisation. This covers an analysis of market, credit, liquidity, insurance, operational and group risks. We use the ICA to identify and implement improvements to our risk management practices, and hence to seek opportunities to optimise the capital position.

Capital Resources

In these Financial Statements the Fund for Future appropriations (FFA) is representative of the group's capital resources, being capital or financial resource that is not attributed to either policyholders or other financial liabilities. From a regulatory perspective, the available capital resources are determined by subjecting the FFA to two further reductions, the Risk Capital Margin (RCM) and assets which are inadmissible from a regulatory standpoint. These requirements, which set aside capital, broadly serve to further protect policyholders and other third parties against the risk the group faces.

24. FRS 27 continued

The primary objective for the group in respect of managing capital is to maintain overall financial resources, the adequacy, amount and quality of this capital must ensure that there is no significant risk that its liabilities to Policyholders cannot be met as they fall due. In this respect the regulatory determined capital resource requirement (CRR) is referred to. For the group, as a with-profits insurer of threshold size, this converts to the Enhanced Capital Requirement (ECR). The FSA sets out minimum capital resources requirements for insurers which determine the capital position of the Society reported in the regulatory return. Capital in excess of the ECR must be maintained or exceeded at all times.

The level of capital maintained is also set to cover current risks associated with the in-force business and also to leave further amounts available to the group so that it can be utilised to support and take advantage of business development initiatives which reflect corporate strategy. The group continually monitors its capital position to ensure that it is optimised to take advantage of Capital Management initiatives that arise. In context of this, a formal report on risk and capital management processes, the Individual Capital Assessment (ICA), is prepared in June of each year. The ICA prepared takes into account risks that are more 'specific' or 'tailored' to the group. The amount of capital required, as determined by the ICA, is sometimes referred to as 'economic' capital which is used to assist with the management of the business.

25. Realistic Balance Sheet

As can be seen from the capital position statement in note 24, the group has one UK with-profits fund. The capital position of this fund has been determined in accordance with regulations prescribed by the FSA. The realistic balance sheet can be summarised as below:

	Society 2008 £'000	Society 2007 £'000
Total net assets	1,243,761	1,500,600
Less: Long Term Provision for non-profit business	(746,737)	(871,509)
Total regulatory assets	497,024	629,091
Additional assets arising on realistic basis	64,660	69,322
Total assets	561,684	698,413
Policyholder liabilities:		
Other policy obligations (asset shares)	299,067	419,217
Financial guarantees (net of charges)	37,884	14,471
Options (guaranteed annuities)	36,718	38,627
Other liabilities	104,365	92,881
Total liabilities	478,034	565,196
Excess assets over liabilities	83,650	133,217

The amount of realistic assets available to MGM's with-profit fund at 31 December 2008 was £561.7m (2007: £698.4m) and the amount of realistic liabilities amounted to £478.0m (2007: £565.2m). This results in an excess of realistic assets over realistic liabilities of £83.7m (2007: £133.2m) - see also note 24.

Premiums received to date together with the investment return earned less expenses and charges comprise the main element of the asset shares of the realistic with-profits business. Asset shares move in alignment with the underlying assets backing the policyholder liability.

Policyholder liabilities including options and guarantees are valued using a market consistent stochastic model, for further details refer to note 24.

Included in other liabilities are provisions for specific items such as mortgage endowment complaints and other fund liabilities. Realistic liability valuations also allow credit to be taken for the PVFP (Present Value of Future profits of in force business) of non-profit business written in the with-profits fund in accordance with FRS 27.

26. Risk Management and Control

The group is using the Individual Capital Assessment (ICA) process to embed sound risk management practices across the organisation. The ICA is used to identify and assess the major sources of risk to the group's ability to meet its liabilities, including the major sources of risk in each of the following categories:

- **market risk** - the risk that as a result of market movements the group may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. A risk also arises from changes in the volatility of the interest rates, asset prices and exchange rates;
- **credit risk** - the risk of loss the group is exposed to if another party fails to perform its financial obligations to the firm, including failing to perform them in a timely manner. Specifically the impact of corporate bond default risk, bank default risk, insurance default risk, and sales intermediary default;
- **insurance risk** – the risk arises due to fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the firm at the time of underwriting. A number of variable factors are considered such as the impact of a gradual increase in mortality on assured lives or a sudden significant increase in mortality to both assured and annuitant lives. Other impacts considered include an increase in critical illness morbidity, an increase in income protection morbidity, an increase in the longevity of annuitants and changes in persistency. An improvement in persistency means that guarantees bite more. On a worsening of persistency there is a reduction in embedded value;
- **operational risk** - the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. Where the group's risk management process is concerned, in practical terms, this definition has been extended to include the monitoring of regulatory, legal, reputation and strategic risks. The various key elements of strategic risk have been identified by Senior Management and risk categories determined accordingly. Thus key strategic issues such as growth and profitability are featured within the group's risk management framework, on which the operational risk stress is framed;
- **liquidity risk** - the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost;
- **group risk** – the risk arising from intra-group transactions.

26. Risk Management and Control continued

For each of the above risks, the group considers where the focus of future management activity should be to ensure that the group's capital requirement is consistent with the group's risk appetite and then sets its investment strategy accordingly. A summary of risk mitigation is discussed below for the more significant risks including information regarding the exposure of the group to risk and an appropriate sensitivity analysis of the risk where considered material to the group.

Market Risk

The group manages market risk attaching to assets backing policyholder liabilities. The risk is managed within investment funds to provide a return in line with the expectations of policyholders.

For assets backing non-profit policyholder liabilities, market risk is managed by matching the duration and profile of assets to the policyholder liabilities they are backing. Changes in the value of assets are thus broadly matched by a corresponding change in the value of liabilities.

Market risk also arises on guarantees and options offered on a number of the group's products. This exposure includes guarantees on annuity options on some pension policies that become more valuable as interest rates fall.

Further exposure also exists for with-profit policies. When equity markets fall the assets available to meet the guaranteed benefits under with-profit policies also fall but the level of the guarantees themselves remain unchanged. Falling equity markets make it more likely that the assets available to meet with-profit guarantees will be insufficient. Management actions such as reducing reversionary bonus rates can partially offset the adverse impact of falling equity markets. Despite this the group remains materially exposed to the risk that with-profit guarantee costs increase due to an equity market fall.

The key mitigations that the group undertakes to limit market risk include limiting investment in any one business, spreading equity investments across a number of independent fund managers, and investing equities and fixed interest funds across several countries' markets.

26. Risk Management and Control continued

(a) Interest rate risk

The group is exposed to fair value interest rate risk on its fixed interest assets and cash flow interest rate risk on its deposits to the extent that these are not matched by movements in policyholder liabilities.

No interest rate risk arises from non-participating investment contract liabilities, nor from other unit linked contracts, as these reflect the value of the underlying net assets.

Of the £509m of conventional fixed interest assets, a total of £433m are held to match with profit asset share liabilities or annuity liabilities. Asset share liabilities move in line with the fair value of the matching assets, while for annuities fixed interest assets are chosen of suitable durations to match expected annuity outgoings and thereby minimising interest rate risk.

The impact of a change in interest rates of the remaining fixed interest assets would be less than that on the remaining policyholder liabilities, principally guaranteed annuity options.

For those contracts with guaranteed annuity options, 22% have contractual maturity dates falling within the next 5 years, a further 29% within years 6 to 10, 26% within years 11 to 15, and 23% in years 16 onwards.

In April 2007 the group entered into an interest rate swap derivative in order to protect free assets against changes in interest rates which could have adversely impacted the guaranteed annuity options liabilities. Details of the derivative are disclosed in note 14. The market value of the derivative broadly changes by an equal and opposite amount to the change in the value of the fixed interest securities backing the guaranteed annuity options. Free assets are now less sensitive to interest rate market movements with this protection in place.

A sensitivity analysis of interest rate risk assesses how the fair value and future cash flows of financial instruments change in response to changes in market interest rates. The analysis below illustrates the impact on the Fund for Future Appropriations (FFA) of the group at the year end if interest rates were to vary by what is considered to be a reasonable possible amount. Information similar to this, although on a 'stress scenario' basis is assessed as part of the firm's Individual Capital Assessment (ICA).

An increase or decrease of 50 basis points in interest rate yields would result in a decrease or increase in the FFA for the period of £0.2m (2007: £4.4m).

26. Risk Management and Control continued

(b) Equity price risk

The group is exposed to equity securities price risk as a result of its holdings in equity investments. Exposures to unit trust funds, individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits set by the FSA for solvency purposes.

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

If equity prices increased or decreased by 10%, with all other variables held constant the FFA for the year would increase or decrease by £12.5m (2007: £8.8m).

(c) Currency Risk

Foreign exchange risk arises when assets and liabilities are denominated in a currency that is not the same as the group's functional currency. The most significant foreign currencies to which the group is exposed to are the Euro and the US Dollar.

The liabilities of the group to policyholders are all denominated in Sterling with the exception of those denominated in Euro that originate from the group's Irish subsidiary - MGM International Assurance Limited. However, the corresponding assets of the subsidiary are also denominated in Euro and therefore the group is only exposed to foreign currency translation risk in relation to the net assets of the subsidiary.

The exchange gain/loss on translation of the subsidiary for the year and prior year is reported in the Group Statement of Total Recognised Gains and Losses.

The parent holds some significant assets which are subject to foreign exchange risk. These are bonds denominated in Euro held in MGM's Fixed Interest fund, equities denominated in Euro and US Dollars held in MGM's Global Generation fund and private equity holdings denominated in Euro and US Dollars.

As offset to foreign currency exposure, both the Fixed Interest fund and Global Generation fund hold a number of derivative forward currency exchange contracts. These derivatives protect against adverse currency movements. More information on these can be found in note 14. A sensitivity analysis determined that the group's FFA is not significantly affected by reasonable movements in currency exchange rates at the reporting date.

26. Risk Management and Control continued

Credit risk

Credit risk is incurred whenever a firm is exposed to loss if a counterparty fails to perform its financial obligations to the group, including failing to perform them in a timely manner. Key areas where the group is exposed to credit risk are:

- Amount due from corporate bond issuers and other investments;
- Reinsurers' share of insurance and investment contract liabilities;
- Amounts due in relation to deposits and loans;
- Derivative settlements.

To mitigate credit risk:

- Investment mandates prescribe a minimum credit rating for bonds of BBB or above;
- A wide spread of bonds are invested in with exposure limits and restrictions applied to investments to a single counterparty;
- Several different reinsurers have treaties with the group;
- Reinsurers that have a credit rating of A or above only are used;
- Collateral is held in respect of significant reinsurance and derivative exposures.

The principal non-linked assets of the Group bearing credit risk are summarised in the table below, together with an analysis by credit rating. Equivalent unit-linked assets are not included in this analysis as any such exposure is covered by policyholder liabilities which the assets underlie.

26. Risk Management and Control continued

	Group	
	2008	2007
	£'000	£'000
Derivative financial instruments less collateral held	(1,044)	48
Debt Securities	528,944	511,687
Loans and Receivables	222	355
Assets arising from reinsurance contracts less collateral held	567	7,728
Deposits with credit institutions	41,001	68,615
	<u>569,690</u>	<u>588,433</u>
Debt and other assets rated as:		
UK Government	34,193	8,546
AAA	142,453	212,165
AA	96,832	77,054
A	179,002	160,041
BBB	72,065	61,308
BB	3,166	349
Below BB or not rated	979	355
Deposits with credit institutions rated as:		
A-1+	14,303	46,458
A-1	26,697	22,157
	<u>569,690</u>	<u>588,433</u>

The group expects no significant losses from non-performance by these counterparties. The group also reviews derivative positions by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

Insurance risk

Insurance risk arises in relation to policy cash flows, the primary risks being mortality and morbidity risk. Mortality risk is the risk of loss arising due to policyholder deaths experience varying from expectations; or for annuities, the risk of the annuitant living longer than expected. Morbidity risk exists due to policyholder health experience being different from expectations.

The group attempts to mitigate insurance risk avoiding underwriting of substandard lives and reassuring larger sums assured. The group has reinsurance quota share treaties, for both term assurance and "Select" annuity portfolios. The group uses a claims management service to ensure regular payments, for example, income protection, are only paid to the appropriate claimants; furthermore an underwriting review of all claims takes place.

26. Risk Management and Control continued

During 2008 the group launched an annuity product that pays larger amounts to impaired lives. This product has a quota share reinsurance treaty with a company that has extensive experience in this area.

Operational risk

The group's risk management process has been extended to include the monitoring of regulatory, legal, reputation and strategic risks. The various key elements of strategic risk have been identified by Senior Management and risk categories determined accordingly. Thus key strategic issues such as growth and profitability are featured within the group's risk management framework, on which an operational risk stress is framed.

The operational ICA assessment methodology used by the group draws upon guidance and articles published by the FSA and other parties within the financial services sector. Senior management focus on the more extreme 'material' risk scenarios falling within the realms of a 1 in 200 year probability and not merely on those operational risks arising in the group's risk registers for ongoing risk management purposes. By taking this approach the group has strived to reduce the likelihood of plausible scenarios being omitted.

Liquidity risk

For policyholder funds, liquidity risk arises from a number of potential areas including a short-term mismatch between assets and liabilities and to potentially match an unexpectedly high level of lapses/surrenders.

The FSA interprets liquidity risk for ICA purposes as the management of risk arising from short-term cash flows. Except for around £62m of long-term assets (primarily the embedded value of non-profit business, private equity and direct property holdings) all assets are considered to be highly liquid, as they are quoted stock or cash. On this basis the group does not therefore consider that it has any significant liquidity exposure.

During 2008, the group experienced the most illiquid market conditions in recent times and was still able to meet cash flow requirements through orderly asset sales.

Group risk

The main concerns are that there are adequate administrative and accounting systems operating across the group and that the firm has adequate management and monitoring around intra-group transactions. Given the relatively simple structure of the MGM group, there are no significant risks believed to arise from group risk.

27. Long-term business provision

(a) The principal assumptions used in the calculation of the long-term business provision for non-profit business are:

Rates of interest		
Payable annuities	5.70%	(2007: 5.10%)
Mortality tables		
Permanent Assurances	90% AM(F)92	(2007: 90% AM(F)92)
Annuities		
Males:	90% PNMA00 with 100% of long cohort improvements, subject to a minimum improvement of 1.5% per annum	(2007: 90% PNMA00 with 100% of long cohort improvements, subject to a minimum improvement of 1.5% per annum)
Females:	90% PNFA00 with 75% of long cohort improvements, subject to a minimum improvement of 1.5% per annum	(2007: 90% PNFA00 with 75% of long cohort improvements, subject to a minimum improvement of 1.5% per annum)

(b) Assumptions in determining the present value of future profits:

Rate of discount		
– pension annuities	6.90% p.a.	(2007: 5.95% p.a.)
– all other policies	3.75% p.a.	(2007: 5.95% p.a.)
Rate of return on assets		
– those matching pension annuity reserves	6.15% p.a.	(2007: 5.10% p.a.)
– all other assets	3.00% p.a.	(2007: 4.70% p.a.)
Expense inflation	2.80% p.a.	(2007: 4.30% p.a.)
Mortality rates:		
– term assurances (non-smoker)	65% TM(F)92	(2007: 65% TM(F)92)
– annuities in payment (male)	100% PNMA00 with 100% of the average of medium and long cohort improvements, subject to a minimum improvement of 1.5% p.a.	(2007: 100% PNMA00 with 100% of the average of medium and long cohort improvements, subject to a minimum improvement of 1.5% p.a.)
– annuities in payment (female)	100% PNFA00 with 75% of the average of medium and long cohort improvements, subject to a minimum improvement of 1.5% p.a.	(2007: 100% PNFA00 with 75% of the average of medium and long cohort improvements, subject to a minimum improvement of 1.5% p.a.)

28. Long-term fund assets

As at 31 December 2008, the total assets of the long-term fund of the Society valued in accordance with Schedule 9A to the Companies Act 1985 (Insurance Companies Accounts) Regulations 1993 was £1,060.4m (2007:£1,283.5m).

29. Contingency reserves

A provision of £36.7m (2007:£38.6m) is included in technical provisions and represents Guaranteed Annuity Option costs which have been calculated as described in note 25.

The Society has a contingent liability for any levy in relation to Independent Financial Advisers under the Investors Compensation Scheme. There is no basis at the present time for assessing the likely level of any such levy.

The provisions for mis-selling and complaint redress costs are calculated based on anticipated expenditure. Some of the expenditure will be incurred in future periods. Whilst the directors consider these provisions to be reasonable on the basis of the information currently available to them, including current regulations and legislation, and events which may result in significant adjustments to the amounts provided.

30. Commitments

	Group and Society	
	2008	2007
	£'000	£'000
Operating leases		
The amount payable within the next 12 months:		
On plant and machinery leases expiring		
Within one year	9	-
Between two and five years	36	8
More than five years	-	30
On land and property leases expiring		
Within one year	49	-
Between two and five years	-	50
More than five years	-	-
	<u>94</u>	<u>88</u>
Finance leases		
The amount payable within the next 12 months net of finance charges:		
On motor vehicles expiring		
Within one year	-	38
Between two and five years	-	141
More than five years	-	-
Motor vehicles costs	<u>-</u>	<u>377</u>
Depreciation for the year	<u>-</u>	<u>76</u>
Accumulated Depreciation at 31 December	<u>-</u>	<u>179</u>
Finance charges for the year	<u>-</u>	<u>12</u>

31. Long-term Incentive Plan

A Long-term Incentive Plan (LTIP) was approved at the Society's 2008 Annual General Meeting and adopted by the Board on 26th June 2008. LTIP awards are made to key selected individuals at the invitation of the Remuneration & Nominations Committee.

Awards are cash-settled at the end of a three year performance period, subject to the achievement of set performance targets. The first vesting period of the plan was agreed to be effective from the 1st January 2008 to the 31st December 2010.

The fair value of the liability created is calculated by reference to the increase in Group working capital over the vesting period.

Group working capital has been identified as a key performance indicator representing the creation of value, sustainability of performance and the delivery of strategy. For the purposes of the fair value liability calculation, working capital is measured as per the Group working capital reported in note 24 of these Financial Statements.

The Group working capital target is set at £164.4m. The threshold, or minimum level of Group working capital is set at £148.0m. Until the Group working capital reaches the threshold level, no value can accrue to participants of the LTIP.

The size of individual awards are set by the Remuneration & Nominations Committee, but no payment under the plan can exceed 10% of the increase in Group working capital which, for the first vesting period, is calculated as the Group working capital for the financial year immediately preceding the year in which payment is to be made, less the Group working capital for the financial year ending 31st December 2007, being £108.2m.

At the end of the performance period where the level of performance achieved is below the set threshold, the vesting level of the award is 0%. Above this threshold and up to target achievement, the vesting level is 25% to 100% on a straight line basis.

If the Group working capital at the end of the performance period exceeds the target, participants will also receive a share of the increase in Group working capital above the target. The share per participant will be expressed as an additional 1% vesting for each £1m increase in Group working capital above the target, and will be set by reference to the value of their award. In this respect the maximum payout is uncapped.

However, this uncapped potential is balanced by the application of individual limits. The first limit is in relation to the percentage of salary awarded for achieving the performance target in full. In this case the level of payout will not normally exceed 100% of salary. Only in exceptional circumstances, for example recruitment or retention purposes could awards be made which pay up to 150% of salary for achieving the target in full.

The second part of the limit is in relation to the percentage of salary achievable for performance in excess of the performance target. When setting the level of payout for performance in excess of the target, the Remuneration & Nominations Committee is mindful that they would not expect the total cash payment to exceed 150% of salary, even for substantial performance above the performance target.

It should be noted that the Board has an overriding discretion in the plan rules to adjust the level of vesting. The Board can take into account the sector, market and general economic conditions to the extent to which the Group working capital target has been achieved if it feels does not fairly reflect the Society's performance over the vesting period.

The following individuals were participants in the LTIP plan and the fair value of the plan liabilities at 31st December 2008 was:

Executive Director	£	Vesting level applicable
Chris Evans	nil	0%
David Middleton	nil	0%
Sara Charman	nil	0%
Robert Craig Fazzini-Jones	nil	0%

The Group working capital as at 31st December 2008, as disclosed in note 24, is £55.5m which is below the threshold level of Group working capital of £148.0m.

Notice of meeting


Notice of meeting of Marine and General Mutual Life Assurance Society.

Notice is hereby given to Members that the 157th Annual General Meeting of the Society will be held at the South Lodge Hotel, Brighton Road, Near Horsham, West Sussex, RH13 6PS on Friday 22 May 2009 at 12.30pm.

A formal notice of the meeting, together with full details of the matters to be considered, will be sent to every member at least 28 days beforehand.

Each member may attend and vote in person or by proxy at meetings of the Society. A proxy need not be a member of the Society.

By Order of the Board

A handwritten signature in black ink, appearing to read 'Alan Futter', is positioned above the typed name and title.

Alan J Futter

Company Secretary

31 March 2009

How to contact us

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To become a customer of **MGM Advantage**, or to find out more about the products and services we have to offer, please contact the Customer Centre at the following address:

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