family investments

Annual Report and Accounts

For the year ended 31 December 2014

Annual Report and Accounts 2014

Contents.

ACTUARIES
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Chairman's review.

Chairman
Norman Riddell

Board Changes.

As announced last year, Robert Weir stood down as Chairman at our May 2014 AGM, allowing me the honour of becoming Family Assurance Friendly Society's 6th Chairman since being established back in 1975.

Firstly, I'd like to thank Robert for his stewardship of the business during recent years. The Society owes Robert a great deal. He was a member of the Committee of Management for many years and Chairman since 2010, during which time the Society has flourished by all key measures. More recently, he played a crucial role in recruiting and then supporting our current Chief Executive Officer, Simon Markey, through a strategic review of the business.

As part of these changes, Ian Buckley has taken on my previous position as Vice Chairman and is ably supporting me. Having picked up the reins as Chairman, my key task has been to help steer our business through the various stages of the proposed merger with Engage Mutual Assurance, more of which I discuss below.

I should add that my planned tenure as Chairman is only short term. The intention is that from April 2015, Christina McComb, the current Chair of Engage Mutual Assurance, will take on the role for the combined business and I will then become Vice Chairman of the enlarged business, ensuring consistency and representation for both sets of members.

Merger.

In an industry still adapting to life post the banking crisis of 2008 and facing increasingly greater regulatory demands and associated costs, sector consolidation remains a fact of life. We have long anticipated such consolidation and have been working hard to position our business to take advantage of such opportunities, a strategy we signposted to members last year.

Having explored several such opportunities, we were pleased to announce during late 2014 our intention to merge with fellow Friendly Society, Engage Mutual Assurance. In December, both firms held their own Special General Meetings and we were delighted that both sets of members voted overwhelmingly in favour of a merger. This can only be described as an historic moment for Family. Although we have successfully merged with or acquired other businesses over the years, the scale of this particular merger is set to be transformational in nature.

As you might imagine, deals of such a size are not easily constructed and require a great deal of Committee of Management involvement in terms of planning, strategy and negotiation – key objectives for us during 2014. If all goes to plan and the proposal receives regulatory approval then the merger will have completed in April 2015.

Disposal.

We also took the step in 2014 to dispose of a significant book of business that no longer had a strategic fit with the Society. Back in 2002, we acquired Post Office Insurance Society Ltd (POIS), which we have managed profitably over the years. However, we have largely moved away from administering 'with profits' policies and so we decided to dispose of the business, which accounts for approximately 27,000 policies, to fellow mutual, Foresters Friendly Society. With the transfer being agreed by the members of both organisations in the summer via a Special General Meeting, the affected members moved across in September following regulatory approval. We believe that Foresters Friendly Society are better equipped than Family to manage the specialisms relating to the POIS business and given our shared commitment to excellent customer service, we are satisfied that the affected members are in capable hands.

Investment and Prospects.

Whilst it is important to share with members such important matters relating to mergers and disposals, I am mindful that the typical member will probably be more interested in the way we have managed money on your behalf in the year. This is close to my heart, because I am also Chair of the Society's Investment Sub-Committee where all the main operational decisions are made that affect members' investments.

It was pleasing to note that in the UK, 2014 experienced a relatively strong economy, by most measures. A significant proportion of the money we manage on behalf of members is invested in international markets. In the wider context, we saw a resurgent Japan whilst US stock markets hit new peaks to help counter the woes of many of the Euro economies. As such, our Family Balanced International Fund, where most of our Bond members hold their money, delivered an above inflation return, after charges.

Looking forward and considering 2015, the financial outlook looks reasonably positive at the time of writing, which we would hope will translate into positive stock market returns. However, nothing is straightforward and the year ahead will see an election in this country with what appears to be a quite uncertain result, plus the Eurozone is not out of the woods yet and so we may need to brace ourselves for some choppy trading conditions.

Thanks.

There is no doubt that we have accomplished a considerable amount in the last twelve months and this was only made possible by the dedication of the individuals working here. I should like to express my thanks to all staff at Family for their commitment in what are difficult times for many due to the uncertainties created by the impending merger.

Norman Riddell
Chairman
March 2015

Chief Executive's report.

Chief Executive
Simon Markey

Strategic Outlook.

I have previously shared with you a number of important themes around introducing greater efficiencies and cost control within the business, whilst building increasing policy sales, where we can. Technology remains a big enabler, because it allows us to create more efficient administration capability whilst delivering an improved and more modern service to our members. At the same time, I have been driving to increase the size of our organisation through actively seeking transfers in of business from appropriate firms.

Our recent announcement regarding the proposed merger with Engage Mutual Assurance is an exciting opportunity to bring together two strong, customer-owned organisations to create one of the UK's largest mutual firms, approaching 2.5m customers. I want to share with you why, on so many levels, the argument for merger is strong. At outset, the immediate benefit is that the merged business will provide a more financially secure society for the enlarged membership and a wider range of product offerings. Over time and as more economies of scale emerge, we will ultimately reinvest profits back into the organisation, delivering an even better customer service and increased value for members. Another benefit of coming together will be our ability to do more in the community. The current Engage Foundation will be adopted and expanded significantly, with the new business intending to inject £5m over five years into this unique customer benefit fund, ensuring that we can support our customers in their communities on issues that matter most to them.

What we have concluded during this process is that there is a significant opportunity to create something quite ground-breaking in the financial services sector - what I term a 'modern mutual'. And so we are setting a course to create an organisation that, whilst remaining steadfast in its traditional values of sharing successes with members, can innovate and identify new ways to meet the needs of millions more families. This family orientation remains central to us – it's our name and heritage, sitting firmly at the heart of our business.

As such, I wish to share with members the five fundamental tenets of what modern mutuality means to me, which will serve as our guiding principles on this journey –

- The Society will operate with a clear strategy and vision
- We will seek to provide our customers and members with relevant offerings
- We will operate as efficiently as possible, for the benefit of members
- Our aim is to give back a proportion of any profits to the wider society in a way that engages with our membership
- Success is only achievable with good governance and management

I make no excuses for how passionate I feel about our business, the emerging benefits from the proposed merger and the prospects of forging a modern mutual business.

Looking beyond the immediate horizon of the proposed merger, if we are truly going to deliver against the five principles I have outlined above and meet our members' current and future needs, we need to broaden our product range. This has to include expanding beyond the markets we presently operate in. Therefore, we have a pipeline of activity relating to new product propositions and I hope to be in a position next year to be able to share and comment on our market entry.

Legislative Changes.

April 2015 brings a series of legislative changes that will have a significant impact on many financial services firms. Many of you will be aware that the Government has announced what is arguably the biggest shake up of the pension and annuity sector in a lifetime. In terms of Family, we still manage a very small book of pensions, although the expected impact on this business is expected to be minimal. Indeed, the changes may create some opportunity for us!

Of greater concern, given that we remain the largest provider of Child Trust Funds, is the rule change that will allow individuals to move their Child Trust Fund into a Junior ISA if they so wish. Whilst supporting consumer choice, we have consistently argued that the continual tinkering with the Child Trust Fund regime is unfair on many in the Friendly Society and Building Society sectors because many such firms stepped forward at outset to embrace a scheme that most well-known financial and investment firms chose not to offer. Thankfully, as a firm that also provides Junior ISAs, we are better prepared than many to cope with a movement of policies. In fact, our expertise was recognised again by Moneyfacts, who awarded us Best Junior ISA Provider for 2014.

Performance Trends.

Having focused on the fundamentals of growing our funds under management whilst controlling costs, by a number of key measures, this has been a record year for the Society. Customer contributions recovered in 2014 whilst outflows were within tolerance and hence the amount of money we manage has reached £5bn for the first time ever, underlining the upward trajectory of the business. At the same time, we are pleased to report that our operational efficiency has also improved to its best ever ratio. Our strategy is clearly working and the combination of factors translates through to a record operating profit, which in turn drives continued strong growth in free assets as can be seen by the net result for the year on page 11. The underlying positive trend is actually stronger than is shown by the graph on page 10 as the 2014 number has been reduced by the transfer out of the POIS business. After adjusting for the effects of the transfer the true increase in reserves is £3m.

The merger with Engage Mutual Assurance will have a major positive effect on our capital and we are projecting strong and steady growth in free assets going forward.

Membership numbers have declined this year, in part due to the number of Bond policies reaching maturity as well as the disposal of the POIS book, which the Chairman has commented on. However, this trend will be reversed in 2015 assuming the merger with Engage Mutual Assurance successfully completes.

Final Words.

Family has consistently demonstrated an ability to thrive in times of change. In particular, the Society has performed well in recent years considering the difficult economic circumstances, leading to the record results reported herein.

The proposed merger will provide a further huge impetus to the business, allowing us to take a big leap towards our strategic vision of creating a modern mutual and something genuinely differentiated in the market. I believe that as a well-run business with a clear vision, we can take market share in those areas that we choose to operate in, whilst maintaining our traditional values.

On a final note, the Chairman has already addressed the 2014 Board changes, but I'd just like to add my own personal thanks to Robert Weir, who introduced me to this business and has resolutely supported me through my first two years.

Simon Markey
Chief Executive
March 2015

Investment review.

Background.

The Group's total funds under management as at the end of December 2014 amounted to over £5.3bn, of which £2.9bn was held in cash funds, including our Cash ISA product distributed through our partnership with the Post Office; whilst the remaining £2.4bn was in managed balanced funds invested in a range of asset classes including UK and overseas equities, fixed interest stocks, property and absolute return funds. Further information on the asset allocation of our two largest funds is shown in Tables 2 and 3.

These balanced funds are structured either as unit trusts, OEICs or internal unit linked funds. The Society's With-Profits fund was transferred to Foresters Friendly Society during 2014.

In managing these funds the Society pursues a largely passive, or index tracking strategy. A Sub-Committee of the Society's Committee of Management, the Investment Sub-Committee is responsible for the implementation of the Society's investment strategy and currently delegates the management of the managed funds to State Street Global Advisors Ltd, one of the largest and best resourced managers of passive funds in the world.

Market Review.

There was plenty for investors to digest through 2014. In a year that stubbornly refused to unfold along predicted lines, there were moments that caused many to pause and reassess. It proved to be a year that confounded the consensus expectation from the off and ended with the US effectively de-coupling from much of the rest of the world as the economy re-gathered momentum even as others were sputtering to a near-halt. The year was not without its bumps.

Widely expected to hit the year running, the US instead faltered as weather disruptions caused Gross Domestic Product (GDP) to contract by more than 2% in the first quarter of 2014. The Eurozone recovery appeared to stall prematurely while Japan's economy went into reverse after a sales tax hike. A shifting geopolitical landscape became an unexpectedly central feature, with conflicts escalating in Ukraine and the Middle East, while a tumbling oil price created a new narrative as 2015 approached. The European Central Bank cut interest rates from 0.25% to 0.05%, while pushing its deposit rate into negative territory at -0.20%. It also edged closer to full Quantitative Easing (QE) as deflation came closer to reality and the Eurozone economy struggled for growth. Japan also increased its bond purchasing programme in an effort to re-energise growth prospects. Meanwhile, the US Federal Reserve Bank ended its QE programme in October, and while the dollar appreciated through the year, treasury yields actually declined, albeit not as much as elsewhere. Many stock markets saw advances that were buoyed by resilient corporate profitability levels, although a return of volatility in the final quarter threatened to erode those gains. There were significant performance differentials by stock, sector and country in 2014 – investors were cautiously selective wherever they operated. Overall, most equity investors were generally sitting on healthy gains for the 12 months.

The MSCI World Index was up almost 9.8% in local currency terms (11.5% in British pounds), although currency market moves resulted in significant translation effects depending on investors' currency base.

The strong recovery of US economic and corporate conditions through the last nine months of the year helped drive the US S&P 500 Index through a series of record highs to a gain of 12.4%, while the buoyancy of Eurozone equities partially deflated against the backdrop of a deteriorating economic outlook and renewed skittishness around Greece's future in the euro; Germany's DAX rose 2.7%, Spain's IBEX was up 3.7%, while the French CAC fell 0.5%. Emerging markets as a whole recovered from a poor start to 2014 amid US growth and hopes that the election of reformers in India and Indonesia and the implementation of reforms in China would provide for a more stable economic and investment outlook; the MSCI Emerging Markets Index rose 5.2% in local currency terms, reduced to 3.9% in British pounds amid relative sterling strength. As noted, returns were mixed depending on the market. The near-50% slide in oil prices weighed heavily on the energy sector and those countries that rely heavily on oil income.

The FTSE All-Share Index recorded a positive total return of 1.5% in the twelve months. This lagged a number of its European peers, although some of this underperformance can be attributed to the UK market's sizeable exposure to the materials and energy sectors, which have been hurt by falling commodity prices. The top performers included the more 'defensive' healthcare, consumer staples and utilities sectors. The market performance was against the backdrop of a robust UK economy that has surprised many with its sustainability. GDP grew by 0.7% in the third quarter of 2014, which although slower than the 0.9% achieved in the previous quarter, provides further evidence of an economy in reasonable health. The labour market is improving and house prices continue to rise. Inflation started to creep higher before falling back to 0.6% in December, comfortably below the Bank of England's 2% target.

In a healthy year for most fixed income markets, Eurozone sovereign bonds posted some of the strongest returns, reflecting the evolving economic and monetary policy set against the backdrop of threatening deflation. By the end of December, 10-year German sovereign bonds were trading on yields of 0.54%, sharply lower than the start-of-2014 position of 1.93%. Ireland (1.25%) and Spain (1.61%) could both borrow funds for 10 years at lower rates than those that applied to the US (2.17%) and UK (1.76%) governments. Even with the strong improvement in the US economy and the end of QE, those US treasury yields were lower than the 3% level at the start of the year. Yields at the short-end of the US and UK bond curves edged higher, something that was largely countered by rising prices for longer-dated instruments.

The currency market was notably volatile through the year as economies and monetary policies diverged, and as the geopolitical landscape was changed by events in Ukraine and the Middle East. The US dollar gained against all major currencies, up about 13% versus the euro and yen. The British pound strengthened about 7% against euro and yen, while lagging the dollar by about 6%. The Norwegian krone was a notable casualty of the weak oil price, losing more than 7% against the neighbouring euro. Russia's rouble fell more than 40% versus the dollar, with the falling oil price adding to the negative impact from sanctions over its involvement in Ukraine.

Source: SSgA / Bloomberg

Investment review (continued).

Performance of the Society's Funds.

You will note from Table 1 that generally speaking our managed funds had a good year in 2014, with all but two of our funds, Charities Ethical and Family Asset Trust showing unit price increases.

The Child Trust Fund in which the majority of our CTF plans are invested and which invests in UK, US, European and Far East Equities, grew by 1.8% in the year, whilst FIBI, in which many of our Family and Junior Bond policies are invested and which also invests in emerging market equities, property and bonds, in addition to the global equities referred to above, grew by more than 4%. This follows a good year in 2013 in which the CTF grew by 18% and FIBI by more than 12%. Clearly, as stated above, 2014 has been a volatile year, which is reflected in the lower growth figures as compared with 2013.

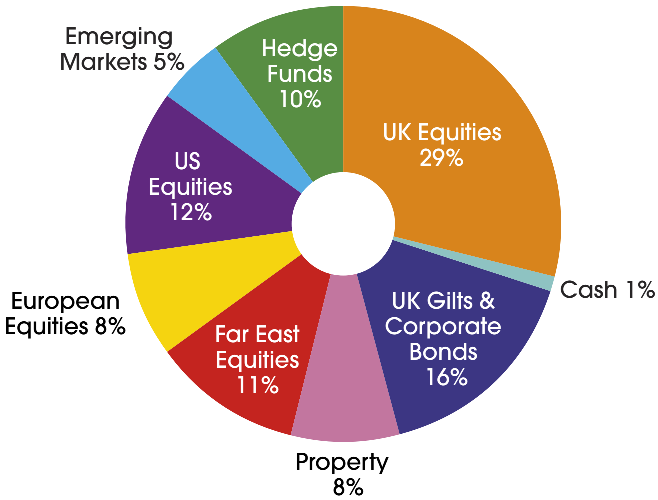
Table 1
Unit price growth.

Fund Name	One Year %	Three Year %	Five Year %
Family Balanced International Fund (FIBI) (Share Class A)	4.4	27.0	33.6
Child Trust Fund	1.8	30.9	36.2
Family Asset Trust	(0.1)	22.9	28.9
Family Charities Ethical Trust	(0.6)	28.6	32.3
Fixed Interest Fund	14.1	16.4	41.2
FTSE 350 index (ex Investment Trusts)	0.4	36.0	51.1
US index	18.9	61.6	86.8
Euro index	0.0	48.4	34.2
Far East index	2.7	24.8	35.2
Japan index	2.4	32.7	37.5
Barclays UK Gilt 1 to 5 TR Value	3.4	3.7	14.1
Barclays UK Gilt 15+ TR Value	19.4	16.7	53.4

More information on fund performance can be found on the Society's website.

Table 2 – Sovereign Fund asset allocation as at 31/12/2014.

The Sovereign Fund is the Society's largest member investment fund.

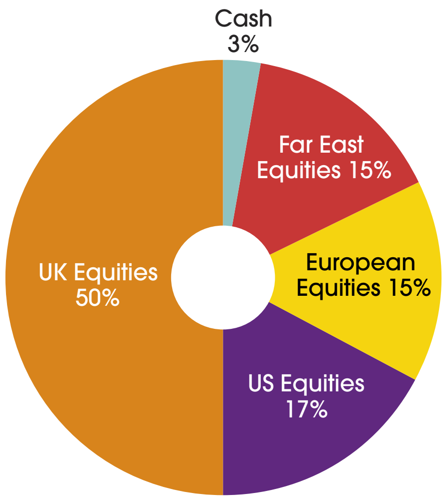


Top 10 holdings.

as at 31 December 2014

Security description	% of Fund
Sovereign Fund	
SPDR Sterling Corp Bond ETF	9.66
IShares FTSE EPRA/NAREIT	6.31
Aberdeen Emerging Markets	5.26
SPDR 1-5 Year Gilt ETF	3.54
SPDR 15+ Year Gilt ETF	2.46
HSBC HDG	1.67
OZ Master Fund EPRIME/107	1.56
CQS diversified fund	1.42
Millenium International 10A	1.22
Royal Dutch Shell A	1.21

Table 3 – Child Trust Fund asset allocation as at 31/12/2014



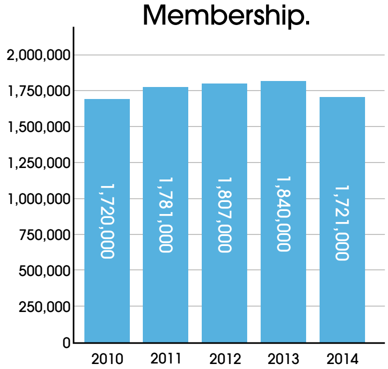
Top 10 holdings.

as at 31 December 2014

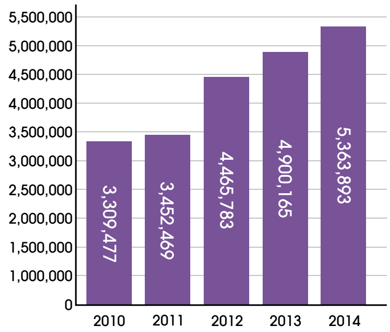
Security description	% of Fund
Child Trust Fund	
HSBC HDG	3.19
Royal Dutch Shell A	2.34
BP	2.06
GlaxoSmithKline	1.85
British American Tobacco	1.80
Vodafone Group	1.63
Astrazeneca	1.59
Royal Dutch Shell B	1.51
Diageo	1.29
Lloyds Banking Group	1.13

Group performance highlights.

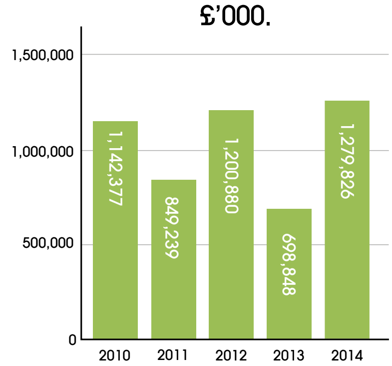
Membership.



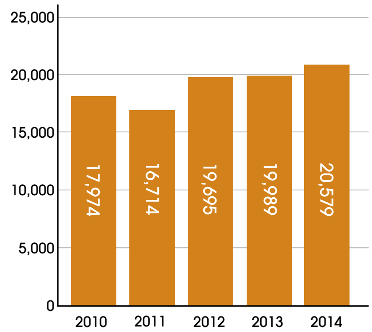
Members' funds under management – £'000.



Customer contributions £'000.

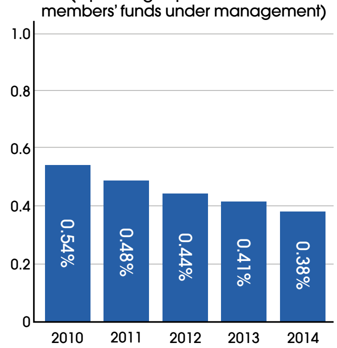


Operating expenses £'000.

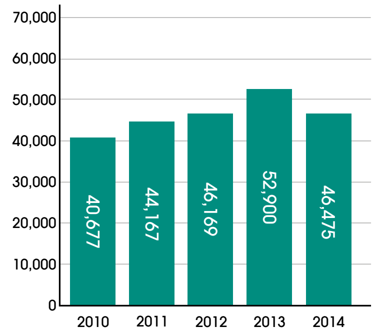


Operating efficiency.

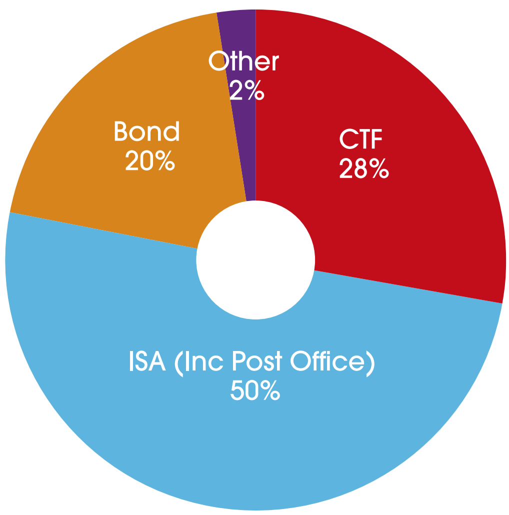
(Operating expenses as a % of members' funds under management)



Reserves – £'000.



Source of funds under management 2014.



Group summary financial statement.

Summary of group financial results.

Results for the year ended 31 December 2014

	Notes	2014 Group £'000	2013 Group £'000
Members' funds under management.			
Opening balance		**4,900,165**	**4,465,783**
Amounts paid in by members	1	1,279,826	698,848
Amounts withdrawn by members	2	(870,301)	(591,959)
Investment income, gains and losses	3	152,979	357,056
Management charges paid to the Society (below)	4	(31,309)	(29,563)
Transfer of business	11	(67,467)	-
Closing balance		**5,363,893**	**4,900,165**
Results for the year.			
Operating income			
Management charges from members' funds (above)	4	31,309	29,563
Other charges levied on members	5	307	527
Other income	6	10,411	9,684
		42,027	**39,774**
Operating expenses	7	(20,579)	(19,989)
Operating profit		**21,448**	**19,785**
Investment in systems and new business	8	(19,803)	(14,498)
Change in non-linked fund reserves	9	(682)	(1,125)
Investment income, gains and losses net of taxation	10	2,041	2,569
Net result for the year		3,004	**6,731**
Reserves at 1 January		52,900	46,169
Transfer of business	11	(9,429)	-
Reserves at 31 December		**46,475**	**52,900**

Notes:

1 The contributions paid by members into their policies.

2 The amounts paid out to members on maturity or surrender of their policies.

3 The change in value of, and income earned from, members' investments.

4 The management fees charged by the Group and paid out of members' funds.

5 Other charges include charges for life cover and early surrender.

6 Income from activities not paid for by policyholders, including administration income from 3rd party products and the margin earned on cash based products.

7 The cost of administering members' policies. This number differs from those in the Technical Account due to different classification of certain expenses. The Summary Financial Statement attempts to provide more clarity whilst the Technical Account is driven by regulatory requirements.

8 The cost of mergers, acquisitions, and the associated integration costs of these activities. Also includes commission and marketing expenses and the amount spent on developing the business, mainly on new product lines and improving systems capabilities.

9 The change in the value of the assets, less the change in the value of the liabilities, of the Society's non-linked investment funds.

10 The change in value of, and income earned from, investments that form part of the Group's reserves. This includes the negative effect of the release of a Deferred Tax Asset in 2014.

11 The transfer of the Post Office Insurance Society business during 2014.

Committee of Management.

Non-Executive Directors.

Chairman
Norman Riddell

Mr Riddell, aged 67, joined the Committee in 2006, and has chaired the Investment Sub-Committee since 2010. Norman was appointed Chairman in 2014. Having trained and qualified as a commercial banker in Scotland, he moved into investment management and held the position of Chief Executive Officer in three different investment management companies, including the INVESCO Group, over a period of some 20 years. Norman has served in the capacity of non-executive director in a number of financial companies, including Life Assurance Holding Corporation and is a non-executive director of Invesco UK Limited. Norman chairs the Investment Sub-Committee and is a member of the Remuneration Sub-Committee and the Nominations Sub-Committee.

Ian Buckley

Mr Buckley, aged 64, joined the Committee in 2009 and was appointed Vice Chairman in 2014. He is a Special Adviser to Rathbone Brothers Plc, having previously served as a director of that company for 11 years. Prior to this, he was Chief Executive of Smith & Williamson from 1985 to 1995. He was subsequently Chief Executive of EFG Private Bank Limited and in February 2000 set up Tenon Group Plc. He is also a non-executive director of Miller Insurance Services LLP. Ian is a member of the Investment Sub-Committee, the Risk and Audit Sub-Committee and the Nominations Sub-Committee.

Peter Box

Mr Box, aged 62, was appointed to the Committee in 2009 and was an audit and business advisory partner at PricewaterhouseCoopers, to a broad range of companies from large international businesses to specialist national firms in his 39-year career. In particular, through his focus on the insurance industry, he has developed a deep understanding of the major issues affecting the sector, both in the UK and around the world, and has significant experience of regulatory and governance matters. He also serves as Vice Chairman and non-executive director of Marsh Limited, a non-executive director of Pool Reinsurance Company Limited and Cardif Pinnacle Insurance Holdings Plc. Peter chairs the Risk and Audit Sub-Committee and is a member of the Nominations and Renumeration Sub-Committees.

Veronica Oak

Mrs Oak, aged 53, was appointed to the Committee in 2006. She has held positions as Marketing Director for a life assurance and unit trust group and a reassurance company. Since 1992 she has been an independent business development consultant working with a wide range of UK financial services organisations. She is a non-executive director of Chesnara Plc. She is a past chairman of the Investment and Life Assurance Group (ILAG) and its Non-Executive Directors' Forum. Veronica chairs the Remuneration Sub-Committee and is a member of the Risk and Audit Sub-Committee and the Nominations Sub-Committee.

Executive Directors.

Chief Executive
Simon Markey

Mr Markey, aged 49, joined Family Investments in November 2012 as Chief Executive. He started his career at Lloyds Bank in 1984 where he remained for over 20 years and held numerous positions including Head of Savings and Director of Customer and Sales. Following Lloyds, Simon became Managing Director of Lifestyle Services Group Limited and CEO of Consumer at Marsh Limited, before joining NBNK Investments PLC in 2011.

Finance Director
John Adams FCCA

Mr Adams, aged 60, is a Certified Accountant and has been a full-time executive of Family Investments since 1986 when he was appointed Financial Controller. He was promoted to Finance Director and appointed to the Committee in 1993. Mr Adams previously worked for American Express for 7 years in a variety of finance roles.

Secretary and Corporate Services Director
Keith Meeres MCSI

Mr Meeres, aged 57, joined Family Investments in 1993 as Compliance Officer having previously worked for a large insurer and a building society. He became Secretary in 1996. He was appointed to the Committee in 1997. He is the Chairman of the Investment and Life Assurance Group (ILAG), a member of its Regulations Practitioner Group and a member of the Association of Financial Mutuals Regulations Committee.

Committee of Management's strategy and annual report.

The Annual Report and Accounts and strategic report have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations'). A Committee of Management comprising the Chairman, three other independent non-executive directors and three executive directors governs the Society. The Committee is led by the Chairman whose role, along with that of the Chief Executive, has been set out and approved by the Committee. The Committee delegates management of the business to the executive directors, who meet as a group at least monthly.

The Committee is satisfied that having considered the background and current circumstances of each non-executive director there are no relationships or issues which could affect the independence of their judgement in performing their duties. Directors' biographies and details of length of service can be found on pages 12 to 13.

Committee of Management.

During 2014 the members of the Committee were as follows:

Non-executives.

Robert Weir	(Chairman) (retired on 22/05/2014)
Norman Riddell	(appointed Chairman on 22/05/2014)
Ian Buckley	(appointed Vice Chairman on 22/05/2014)
Peter Box	
Veronica Oak	

Executives.

Simon Markey	(Chief Executive)
John Adams	(Finance Director)
Keith Meeres	(Secretary and Corporate Services Director)
Miles Bingham	(Business Development Director) (left the Society on 28/02/2014)

From 1 April 2015, following the merger with Engage Mutual Assurance and subject to the approval of members at the 2015 Annual General Meeting, the new Board of Directors will be:

Non-executives.

Christina McComb	(Chairman)
Norman Riddell	(Vice Chairman)
Peter Box	
Ian Buckley	
Caroline Fawcett	
Nigel Masters	

Executives.

Simon Markey	(CEO)
Peter Burrows	(Chief Financial Officer and Deputy CEO)
John Adams	(Commercial Director)
Keith Meeres	(Governance and Risk Director)
Karl Elliott	(Marketing Director)

Statement of responsibilities of the Committee of Management.

The Committee is primarily responsible for the strategic direction and governance of the Society. It delegates responsibility for the day-to-day running of the business to executive management.

Progress on operational matters, governance and key initiatives is reported through Committee and Sub-Committee meetings. All initiatives involving significant expenditure, strategic change, governance policies, significant perceived risk or material departure from agreed budget or strategy require Committee consideration and approval.

The division of responsibilities between the Chairman and the Chief Executive has been agreed by the Committee and documented. The Vice Chairman undertakes the role of Senior Independent Director.

The Friendly Societies Act 1992 ('the Act') requires the Committee to prepare accounts for each financial year which give a true and fair view of the state of the affairs of the Society and of the Group as at the end of the financial year and of the income and expenditure of the Society and of the Group for that period. In preparing those accounts, the Committee is required to:

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

The Committee confirms that it has complied with the above requirements in preparing the accounts and believes they provide a fair, balanced and understandable view of the Society.

The Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and ensuring that the accounts comply with the Act.

It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Committee is responsible for the Society's systems of control and acknowledges that such systems can provide only reasonable and not absolute assurance against material misstatement or loss.

The Committee conducts, through the Risk and Audit Sub-Committee, an on-going review of the effectiveness of the Group's systems of internal controls and risk management and is satisfied that there are no material shortcomings (see the Risk and Audit Sub-Committee report on page 18).

In accordance with the Act, the Committee confirms that all activities carried out during the year by the Society and its subsidiary undertakings are believed to have been carried out within their respective powers.

The Committee considers that the skills, independence and experience of the non-executive directors provide an appropriate balance to ensure that the Society is effectively managed and controlled.

Strategic objectives and activities.

The Group's objective is to deliver compelling financial solutions that satisfy the needs of families at key life stages. We aim to provide good value products and excellent service. We judge our performance against these objectives through customer research and monitoring the performance of our products. We also believe that our members expect the Society to thrive and grow in order to achieve economies of scale whilst maintaining prudent control over costs, maintaining adequate financial resources and complying with all relevant legislation and regulation.

Historically the Society has focussed on the children's savings market and successfully achieved significant market share in the CTF and Junior ISA markets. We will continue to service this sector however the Society's strategy will be broadened. Our proposed merger with Engage Mutual Assurance will create a modern mutual whose key objectives will be to provide a financially stronger business, efficiencies through scale, increased value for our members and we expect to launch a wider range of financial services products in the future.

The Society has an important agreement with Bank of Ireland UK to administer Post Office ISAs and partnerships of this nature are seen as an important strand of our future strategy.

More details of the strategic review can be found in the Chairman's Review and Chief Executive's Report.

As at 31 December 2014 the Society's margins of solvency comfortably exceeded the minimum requirements, as prescribed by the Prudential Regulatory Authority and Financial Conduct Authority.

Number of members.

As at 31 December 2014, the Society had 1,721,421 members (2013: 1,840,345).

Financial risk management objectives.

The Group is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and policyholder liabilities. In particular, the key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations from contracts with policyholders.

The most important components of this financial risk are equity price risk and interest rate risk. These risks arise from open positions in equity products and interest rates, all of which are exposed to general and specific market movements.

The Group manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Group's ALM is to match assets to the liabilities arising from insurance contracts by reference to the type of benefits payable to contract holders.
For each distinct category of liabilities, a separate portfolio of assets is maintained. For unit-linked contracts, the liabilities to policyholders are matched with assets in the portfolio. The Society therefore is not directly exposed to the equity price, currency, credit or interest rate risk for these contracts.

Committee of Management's strategy and annual report (continued).

Equity price risk.

The Group is exposed to equity price risk as a result of holdings in equity investments held by both the Society's unit-linked funds and by the authorised collective investment schemes that it manages.

The Group's most significant income stream is derived as a fixed percentage of the market value of the unit-linked funds and authorised collective investment schemes. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the UK and other recognised stock exchanges (primarily in Europe, North America and the Far East).

The Group has a defined investment policy, which sets limits on the Group's exposure to equities both in aggregate terms and by geography and counterparty. This is monitored by the Investment Sub-Committee (see page 18).

Interest rate risk.

The Group is exposed to interest rate risk due to the sensitivity of the value of its assets and liabilities to changes in current interest rates. The Group monitors interest rate risk by calculating the mean duration of the investment portfolio and the liabilities issued. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows from the contracts using best estimates of mortality and voluntary terminations. No future discretionary supplemental benefits are assumed to accrue. The mean duration of the assets is calculated in a consistent manner.

Any gap between the mean duration of the assets and the mean duration of the liabilities is minimised by means of buying and selling fixed interest securities of different durations.

Appointment of auditor.

A resolution to appoint the auditor to the Society will be proposed at the 2015 AGM.

Complaints.

It is the Society's policy to investigate and resolve all complaints promptly and fairly but in the event that members are not satisfied with the Society's response, the Financial Ombudsman Service provides a complaints resolution service. Full details can be obtained from the Secretary or from the Society's website at www.family.co.uk. In 2014 we resolved 99.3% of complaints within four weeks.

Health and safety report.

The Society has developed a health and safety framework to ensure compliance with applicable laws and regulations including a Health and Safety Committee that comprises senior management and employee representatives. We are pleased to report that in 2014 there were no serious accidents or injuries.

Corporate governance.

The Society is committed to high standards of corporate governance. The UK Corporate Governance Code (as Annotated for Mutual Insurers) (the "Code") applies to these Report and Accounts. The Society considers the Code to be closely aligned to the standards that it has set itself and has endeavoured to comply with the main principles for many years. The Committee has set the values and standards for the Society and its employees, taking account of the principles of the Code, and requires senior management to report to the Committee on adherence. The Committee considers that throughout the period under review it has applied and complied with most of the relevant principles and provisions of the Code, other than as follows:

- The Committee has reviewed the length of service of the non-executive directors and considers that they all meet the criteria of independence. The Code for Mutual Insurers recommends that all directors should stand for re-election annually. The Committee has not followed this recommendation as it believes that retirement of one third of the Committee each year is appropriate, given that the Society's Rules provide other means for members to make directors accountable for their actions. The Committee will keep this practice under review. Additionally, the Committee will continue to require any non-executive director who has exceeded nine years' service to, if still considered independent by the Committee, seek re-election on an annual basis rather than every three years.

None of the directors had any interests in the Society or its subsidiary companies other than those interests in respect of fees or salaries paid to them as directors, those interests in respect of the policies which they hold with the Society and those interests specifically disclosed in note 21 of these Annual Report and Accounts.

Attendance at meetings in 2014.

The following table sets out the attendance of directors at Committee and Sub-Committee meetings held in 2014. The number of meetings that each director could have attended is shown in brackets.

The Chairman and non-executive directors meet independently of the executive directors at least four times a year. Details of the activities of each individual Sub-Committee are summarised below and the terms of reference for each Sub-Committee can be found in the "Company Info" section of our website www.family.co.uk

	Committee of Management	Nominations Sub-Committee	Risk and Audit Sub-Committee	Investment Sub-Committee	Remuneration Sub-Committee
Robert Weir (retired 22/05/2014)	5 (5)	1 (1)	-	2 (2)	2 (2)
Norman Riddell	13 (14)	1 (1)	-	5 (5)	5 (5)
Peter Box	12 (14)	1 (1)	5 (5)	-	3 (3)
Ian Buckley	12 (14)	1 (1)	5 (5)	4 (5)	-
Veronica Oak	14 (14)	1 (1)	5 (5)	-	5 (5)
Simon Markey	14 (14)	-	-	5 (5)	-
John Adams	13 (14)	-	-	-	-
Keith Meeres	14 (14)	-	-	-	-
Miles Bingham (resigned 28/02/2014)	1(1)	-	-	-	-

The Committee operates the following Sub-Committees:

Nominations Sub-Committee.

Norman Riddell (appointed Chairman on 22/05/2014)
Peter Box
Ian Buckley
Veronica Oak
Robert Weir (retired on 22/05/2014)

The Nominations Sub-Committee comprises all non-executive directors and the Committee of Management appoints its Chairman. It may obtain such outside legal or other independent professional advice as it deems necessary.

When assessing the current and future composition of the Committee of Management the Nominations Sub-Committee considers the balance of skills, experience, independence, knowledge, diversity and effectiveness of the directors. In line with the Diversity Policy, the Nominations Sub-Committee recognises the benefits of having a diverse senior management team and sees increasing diversity at senior levels as an essential element in maintaining an effective Board. Our policy is to ensure that there is broad experience and diversity on the Committee of Management.

Committee of Management's strategy and annual report (continued).

The Nominations Sub-Committee also satisfies itself that there are appropriate succession plans in place for all directors and other senior management positions, and that all directors devote sufficient time to their duties. It makes recommendations to the Committee of Management regarding membership of the Risk and Audit, the Remuneration and Investment Sub-Committees.

In 2014, in readiness for the merger with Engage Mutual Assurance, a Transition Committee was established to determine the composition of the new Board following the merger. The Transition Committee comprised the Chairmen and Chief Executive Officers of both Family and Engage. A robust selection process, supported by an independent consultant, determined the new Board appointments as shown on page 14.

Investment Sub-Committee.

Norman Riddell (Chairman)
Ian Buckley
Simon Markey
Gregor Logan (external adviser)
Robert Weir (retired 22/05/2014)

The Investment Sub-Committee is responsible for monitoring the Group's investment performance and for assessing the effectiveness of the investment strategy.

In 2012 State Street Global Advisors Limited became the Society's fund manager. State Street Global Advisors Limited manages £1 trillion worldwide. They have responsibility for the discretionary investment management decisions taken on behalf of the Society's funds.

Remuneration Sub-Committee.

Veronica Oak (Chairman)
Norman Riddell
Peter Box (appointed 22/05/2014)
Robert Weir (retired 22/05/2014)

The Remuneration Sub-Committee meets at least twice each year to review remuneration policy and determines the remuneration packages of the executive directors and senior management. It works with the Group's Human Resources department, and independent external advisers where appropriate, to assess trends in the competitor and local employment markets.

Details of the directors' remuneration can be found in the Remuneration Report on pages 23 to 26.

Risk and Audit Sub-Committee.

Peter Box (Chairman)
Ian Buckley
Veronica Oak

The members of the Risk and Audit Sub-Committee have been selected with the aim of providing a wide range of financial and commercial expertise.

The duties and responsibilities of the Sub-Committee are contained in its Terms of Reference which can be viewed in the Company Info section of our website www.family.co.uk

The key activities of the Sub-Committee have been focussed on the oversight of the Society's governance, risk, internal audit and compliance functions, the Society's internal controls, integrity of financial reporting and the quality of external audit. The Sub-Committee also fulfilled the function of a "With-Profits Committee" in order to oversee the Society's With-Profits business until its disposal in September 2014. The Sub-Committee continually reviews its activities in the light of change to the Society's strategy and changing domestic and European regulation.

The key duties and responsibilities of the Sub-Committee are:

- Oversee the design and effective implementation of the Risk Management Framework including adequate systems, internal control and the identification, assessment, monitoring, mitigation and reporting of risks including stress testing.
- Advise the Committee of Management on risk related matters including: operational, strategic, financial, investment, liquidity, credit and insurance.
- Review and approve the annual compliance monitoring plan and monitor the activities of the compliance department.
- Ensure adequacy of resource within the risk, compliance and internal audit departments.
- Consider and make recommendations to the Committee of Management as regards the appointment of the external auditor, terms of engagement and fees.
- Monitor and review the effectiveness of the internal audit function including the annual internal audit plan and consider the major findings of the internal audit work.
- Review the integrity of the annual financial statements.
- Conduct periodic reviews of the existing product range.

Sub-Committee Meetings.
The Sub-Committee meets at least four times a year. The Sub-Committee comprises three independent non-executive directors named above and meetings are attended also, by invitation, by the Chief Executive, Finance Director, Corporate Services Director, Chief Risk Officer and Head of Internal Audit. Other relevant managers from the business attend meetings to provide greater insight into current issues. The Society's Actuarial Function Holder and external auditors are also invited to each meeting.

Main activities of the Sub-Committee during the year.
A key focus of each meeting involves assessment of the outputs from the work of the risk, compliance and internal audit functions and additionally taking a forward looking approach in the assessment of the risks that might arise from the development of the new strategy outlined in the Chief Executive's report. The work of the Committee in 2014 required particular focus on the merger with Engage Mutual Assurance.

Financial Reporting.
The Sub-Committee reviews, with management and external auditors, the appropriateness of the Annual Financial Statements including:

- Changes to regulatory requirements.
- Whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable so that members can assess the Society's performance, business model and strategy.
- Consideration of material issues in which significant judgement has been applied or where there has been discussion with the external auditor.
- Quality and appropriateness of accounting policies and practices.
- Quality of disclosures and compliance with the relevant financial reporting standards and governance requirements.
- Major judgemental areas and the "going concern" assumption.
- Significant adjustments resulting from the audit.

The primary areas of judgement considered by the Sub-Committee in relation to the 2014 accounts were as follows:

- The measurement of long term insurance technical provisions, for which a valuation report is considered from the Actuarial Function Holder and a review commentary from the external auditors.
- The extent of disclosure of risks associated with the portfolio of investments and, in the Society's accounts, the measurement of the carrying amount of subsidiary companies.
- The measurement of the commitment to the defined benefit pension scheme.
- The presentation of the Capital position as at the reporting date.
- Whether any contingent assets or liabilities warrant disclosure.

In an overall sense, the Sub-Committee is concerned that the accounts as a whole are fair, balanced and understandable within the constraints of legal requirements and free from clutter. To further support this, a Group summary financial statement is presented in plain language alongside the audited accounts.

Internal Control.
The Sub-Committee reviewed the Group's systems and controls by means of receiving audit, risk, compliance and management reports, holding discussions with executive and operational management and reviewing the risk management process and framework. Where significant control shortcomings or risks are identified, progress is monitored until the issue is satisfactorily resolved.

Risk Management.
The Sub-Committee assessed the adequacy of the risk framework and monitored its implementation. It reviewed the key risks that arose in the business and monitored whether the Society's activities remained within its risk appetite. The principal risks and uncertainties are set out on page 15. The Sub-Committee met privately with the Chief Risk Officer during the year and provided input to the annual performance appraisal.

Committee of Management's annual report (continued).

Compliance.
The Sub-Committee assessed the effectiveness of the Compliance Department throughout the year. It approved the Compliance Charter which sets out the authority and scope of the department as regards its role in securing adherence to financial services regulation. The Sub-Committee received reports on the progress and results of the Compliance plan. The Sub-Committee approved the Compliance plan and budget for the coming year.

Internal Audit.
The Sub-Committee assessed the effectiveness of the Internal Audit Department throughout the year. It approved the Internal Audit Charter, setting out the authority and scope of Internal Audit. The Head of Internal Audit provided reports on the progress of the audit plan and results of the audit activity. The Sub-Committee met privately with the Head of Internal Audit during the year and provided input to the annual performance appraisal. The Sub-Committee approved the audit plan and Internal Audit budget for the coming year.

External Audit.
The Sub-Committee is responsible for safeguarding auditor objectivity, independence and the effectiveness of the external audit. It considers the appointment of, and fees for, the external auditor and meets regularly with the audit partner and audit manager. The criteria against which the external auditor's performance is assessed includes independence, expertise, resource, timeliness and accuracy of reporting, and fee levels.

The Sub-Committee held a private meeting with the external auditor during the year. Discussions with the external auditors include their assessment of business risks and confirmation that there has been no restriction placed on them by management. Other matters communicated by the external auditor to the Committee included the inherent risks of mis-allocating costs, management override of controls, revenue recognition, capital management and future profitability, regulations, defined benefit pension scheme, taxation, internal control and reporting misstatements. These risks are regularly monitored and no material issues have arisen.

The Sub-Committee considers the reappointment of the external auditor including the rotation of the audit partner and also assesses their independence on an on-going basis.

Mazars LLP were appointed in 2007, following a full tender process. Their maximum tenure before the audit is subject to re-tender is 10 years.

Non Audit Services.
The Sub-Committee regularly reviews the nature and extent of non-audit work and related fees. The Committee of Management has developed a policy setting out the terms and conditions for engaging the Society's external audit to supply non-audit services. The policy is designed to protect objectivity and independence.

Financial crime.

The Society continuously reviews its exposure to financial crime and takes appropriate measures including anti-fraud and anti-money laundering training of its employees to mitigate these risks. Regular fraud and money laundering risk assessment occurs within the Society with this activity underpinned through the respective corporate anti-fraud, anti-money laundering, anti-bribery and whistle-blowing policies.

The Society is a member of the Investment Management Association Fraud Alert Scheme whose main objectives are to protect member assets and work with the industry in reducing financial crime.

Performance monitoring and evaluation.

Each year the Committee of Management sets key business objectives for the Society for that year and as part of its rolling three year plan, which are based on the objectives outlined in the strategic objectives and activities section on page 15. The Committee uses a 'Balanced Scorecard' approach to monitor performance against these objectives at regular intervals.

In compliance with the UK Corporate Governance Code, the Committee usually conducts a formal evaluation annually of the performance of the Chairman and each director and of the performance of the Sub-Committees and Committee as a whole.

In 2014 the evaluation was conducted in the context of the need to review performance, skills and knowledge of each director as part of the selection process for the new Board (see Nominations Committee report on page 17).

The Committee intends to conduct a detailed review externally facilitated every three years. In addition the Chairman holds periodic meetings with each executive director and formal meetings with the non-executive directors to evaluate the performance and development needs of the individual directors.

Member relations.

The Committee is committed to maintaining good communications with members and is keen to develop its understanding of members' views and provide members with sufficient relevant information to enable them to understand the performance of the Society and its products. From time to time the Society conducts independent research and surveys with its members who provide valuable feedback to help the Society measure, and where necessary improve, its services. We hope that members will continue to participate in our surveys. Details of the Society's Member Relations Strategy are available on our website at www.family.co.uk or from the Society's Secretary.

Employees.

The Group employed an average of 352 employees during 2014 at a total cost of £15.6m. The Committee recognises that the Society's most valuable resource is its employees and that they are key to its success in implementing its strategy. The Committee believes that the continued learning and development of employees is essential, in order to ensure effective management of the Society and provision of appropriate service to members.

The Society communicates with its employees on a regular basis to ensure that they are fully aware of the Society's core values and business strategy and the part which they play in achieving a successful outcome. Employees are consulted, either directly, or via the Talking Family Staff forum, on any decisions that are likely to affect their interests.

Equal opportunities and diversity.

It is the Society's policy to treat job applicants and employees equally, regardless of their sex, race, ethnic origin, religion, age, sexual orientation, marital or parental status, or disability. The Society is committed to recruiting, developing, progressing and training employees on the basis of their individual aptitude, competencies and performance.

As at 31 December 2014 the gender mix at management levels is:

	Male	Female
Committee of Management	**86%**	**14%**
Senior Managers	**46%**	**54%**

Committee of Management's annual report (continued).

Corporate social responsibility.

Our role as an institutional investor.

The UK Stewardship Code was first published in July 2010, a revision to the Code came into effect in October 2012. Its aim is to enhance the quality of engagement between institutional investors and the companies in which they invest. The purpose of this is to help improve long term returns to shareholders and effective governance by setting out good practice on engagement with investee companies. The Society provides a range of passive and actively managed funds investing on behalf of its members in companies on a medium to longer term basis. Investment management of our funds has been outsourced to an external Investment Manager, who takes seriously and supports the responsibilities of institutional shareholders outlined within the Stewardship Code, and you can find out more about this in the Company Info section of our website www.family.co.uk

Our environment.

The Society recognises that its day-to-day operation will impact on the environment in a number of ways and wishes to minimise the potentially harmful effects of such activity wherever possible. The Society's environmental policy can be found on the website under the Company Info section at www.family.co.uk

Our work in the community.

We've continued to assist local and national charitable projects, by supporting our employees in their fundraising activities with a staff matching fund scheme.

Within the proposed merger, we plan to adopt the Engage Mutual Foundation programme and continue the great work by injecting £5 million over the next 5 years, making the foundation more accessible to all members and significantly increasing its positive impact on people's lives on a larger national scale. This is why we delayed our own plans to launch the Family Foundation, so that we can benefit from an established programme.

It is our intention to invest £1 million per year into a combined Foundation with a first payment being made during 2015 and subsequent payments in each of the next four years. Awards of up to £25,000 are available for customers to apply for in order to make something better for their community, and personal grants of up to £500 exist to make life simpler or easier for them, or those close to them.

No political donations were made.

Remuneration report.

This report sets out the Society's policy in relation to the remuneration of directors. The report, which will be submitted to the 2015 AGM for approval, explains how the Society has applied the UK Corporate Governance Code requirements and the changes that have been made to directors' bonus schemes.

Remuneration Sub-Committee.

The role of the Remuneration Sub-Committee is outlined on page 18.

Remuneration policy.

The Society's remuneration policy complies with the requirements of the UK Corporate Governance Code and the Remuneration Code (the latter governed by the Financial Conduct Authority). The policy is designed to attract, motivate and retain key executives (indeed all employees) with the relevant skills to help achieve the Group's objectives and to ensure that employees are rewarded for enhancing the level of service that we provide to our members. It is also designed to achieve an effective link between pay and performance whilst not encouraging undue risk taking.

The Society believes it is important that its mutual status is reflected in its remuneration policy. Bonus schemes are designed to be aligned to our members' interests by rewarding performance against key criteria that are important to our members, for example customer service, product performance and financial strength. This means that our bonus schemes reward for performance that is demonstrably of benefit to our members.

All employees were able to participate in a bonus scheme and 92% received a pro-rata bonus, based on their individual performance and the group performance in 2014, which averaged 12%, up from 11.3% in 2013.

No director is involved in the determination of, or votes on, any matter relating to their own remuneration.

Service contracts.

It is the Society's policy that the notice period of executive directors' service contracts should not exceed one year and any compensation for loss of office should not exceed 12 months' remuneration. None of the non-executive directors has a service contract. Fees for non-executive directors are reviewed each year.

Remuneration components comprise:

Base salary.

Base salaries are determined by the scope and responsibilities of each role, individual performance and by reference to market salary levels obtained from independent sources such as Towers Watson. This is the only element of remuneration which is pensionable.

Bonus schemes.

In 2013 the Society redefined its strategy to further improve, for the benefit of members, the Society's efficiency, its services and to broaden the product range so as to enhance the long term value of the Society (commonly referred to as Embedded Value).

The Remuneration Sub-Committee has redefined the current bonus schemes so as to motivate and reward the implementation and delivery of the new strategy through the achievement of short term and longer term objectives. The bonus schemes are outlined below. They have been designed in consultation with independent expert consultants (E&Y) and the scheme rules have been defined to ensure compliance with the relevant remuneration codes.

The key principles that underpin each scheme include:

- reward linked to individual and business performance (using Balanced Scorecard measurement against key criteria including customer service, financial and operational performance, risk control). Performance related elements are stretching and designed to promote the long term success of the Society for the benefit of its members.
- deployment of appropriate moderators to discourage excessive risk-taking, including the requirement for deferral of payment of a proportion of bonus and provisions to enable reduction, claw-back or forfeiture of bonus under certain defined scenarios.
- reward of between 25-50% of maximum bonus potential for achievement of budgeted targets and up to 100% for achievement of stretch targets.

Ultimately, any payment under the bonus schemes is at the discretion of the Remuneration Sub-Committee.

a) Short term Incentive Scheme.

The 2013 scheme was open to four Executive Directors and two non-board directors; the 2014 scheme was open to three Executive Directors and two senior executives.

Remuneration report (continued).

The key threshold targets are to generate specified minimum levels of income and profit. The scheme rules require that 60% of all bonus entitlements are paid following completion of the financial year. The remaining 40% must be deferred and are payable in equal parts on the first and second anniversary of the initial payment. The deferred payment is re-valued at the end of each year in line with the Society's largest member investment fund, thus aligning the movement of deferred bonus with the movement in members' policies.

b) Long term Incentive Scheme.

The 2013 scheme was open to four Executive Directors and the 2014 scheme was open to three Executive Directors. The key threshold targets are to achieve specific Embedded Value growth targets. The scheme rules provide that payment of 50% of any bonus award shall be made only upon the third anniversary of the completion of the financial year on which the bonus award is made. The remaining 50% must be deferred and is payable in equal parts on the first and second anniversary of the initial payment.

A provision has been made for potential awards under this scheme.

Pension.

The Society participates in a Stakeholder pension scheme managed by Legal & General. Both the employer and the employee can make payments into this scheme. All of the executive directors participate in the scheme. The Society previously operated a defined benefits pension scheme which was closed to future accrual of benefit from 31st December 2009.

Other benefits.

The Society provides other benefits to the executive directors including life assurance and private medical insurance.

Committee of Management remuneration.

	Salary / Fees [1]		*Bonuses* [2]		*Other benefits*[3]		*Sub-total*		*Deferred Bonuses*[2]		*Total remuneration*	
	2014	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*	*2014*	*2013*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Executives												
Simon Markey	384	300	203	162	37	66	624	528	136	108	760	636
John Adams	202	184	53	51	9	28	264	263	36	31	300	294
Keith Meeres	177	161	46	43	8	26	231	230	29	26	260	256
Miles Bingham[6]	22	131	-	31	3	5	25	167	-	18	25	185
John Reeve[4]	-	-	-	28	-	-	-	28	-	-	-	28
Rob Edwards[5]	-	377	-	-	-	50	-	427	-	-	-	427
Non-executives												
Robert Weir[7]	32	79	-	-	-	-	32	79	-	-	32	79
Norman Riddell	67	42	-	-	-	-	67	42	-	-	67	42
Ian Buckley	41	34	-	-	-	-	41	34	-	-	41	34
Peter Box	36	34	-	-	-	-	36	34	-	-	36	34
Veronica Oak	36	34	-	-	-	-	36	34	-	-	36	34
	997	**1,376**	**302**	**315**	**57**	**175**	**1,356**	**1,866**	**201**	**183**	**1,557**	**2,049**

Note 1 – Excluding new appointments, promotions and retirements noted below, year on year the Salaries and Fees paid to the Committee of Management have increased by 4% (2013:3%).

Note 2 – Bonuses include amounts added to, and movement in, the value of the previous long term incentive scheme and the 2013 short term incentive scheme.

Note 3 – The figures include the contributions paid by the Society into the Stakeholder Pension Scheme.

Note 4 – Mr Reeve retired on 31st October 2012.

Note 5 – Mr Edwards left the Society on 13th September 2013. All severance payments were made within the parameters of the remuneration policy.

Note 6 – Mr Bingham left the Society on 28th February 2014. All severance payments were made within the parameters of the remuneration policy.

Note 7 – Mr Weir left the Society on 22nd May 2014.

Previous long term incentive scheme.

	Value at 1.1.2014	*Bonus paid during 2014*	*Amount added in lieu of pension contributions*	*Movement on accrued value during 2014*	*Value at 31.12.2014*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Executives					
John Reeve[1]	148	148	-	-	-
John Adams	23	23	-	-	-
Keith Meeres	26	-	-	2	28
Miles Bingham[2]	22	22	-	-	-
	219	193	-	2	28

Note 1 – Mr Reeve retired on 31st October 2012. He withdrew his benefits accrued under the long term incentive scheme during 2014.

Note 2 – Mr Bingham left the Society on 28th February 2014. All severance payments were made within the parameters of the remuneration policy.

Short term incentive scheme.

	Value at 1.1.2014	*Bonus paid during 2014*	*Movement on accrued value during 2014*	*Bonus added during 2014, to be paid during 2015*	*Deferred bonus for 2014 short term incentive scheme, to be paid after 2015[1]*	*Value at 31.12.2014*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Executives						
Simon Markey	270	162	6	203	136	453
John Adams	78	47	2	53	36	122
Keith Meeres	64	37	1	44	29	101
Miles Bingham	45	45	-	-	-	-
	457	291	9	300	201	676

Note1 – The deferred payments are re-valued at the end of each year in line with the Society's largest member investment fund, thus aligning the movement of deferred bonus with the movement in members' policies.

Remuneration report (continued).

Pension entitlements.

Three executive directors have retirement benefits accruing under the Society's defined benefit pension scheme. This scheme closed to future accrual of benefits from 31st December 2009.

Five executive directors receive benefits under the Society's defined contribution pension scheme. The table below sets out these benefits:

	Age at 31.12.2014	*Normal retirement age*	*Total deferred DB pension at date of Scheme closure[1]*	*Single pension figure for 2014[2]*	*Comparator single pension figure for 2013*
			£'000	*£'000*	*£'000*
Executives					
Simon Markey	49	65	-	13	45
John Adams	59	65	58	7	27
Rob Edwards[3]	59	65	53	-	49
Keith Meeres	57	65	56	6	24
Miles Bingham[4]	48	65	-	1	4

The main terms applying to the final salary pension of each executive director 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 deferred pension is the annual pension amount accrued by the executive director as at 31st December 2009, the date the Scheme closed to all future accrual. Deferred defined benefit pensions receive statutory revalution up to Normal Retirement Age and inflationary increases in payment as specified in the Scheme rules.

Note 2 – This single figure is equal to the contributions to the Directors' stakeholder pension scheme paid by the Society during 2014. Contributions in to the defined benefit scheme were nil.

Note 3 – Mr Edwards left the Society on 13th September 2013.

Note 4 – Mr Bingham left the Society on 28th February 2014.

During the accounting period, at the Society's request, the Family Assurance Staff Pension Scheme ("the Scheme") granted a discretionary increase to pensions in payment for former members of the Family Assurance Friendly Society Limited Staff Pension. The Society paid an additional contribution to the Scheme in respect of the discretionary increase. Included in this was one former director, who received a discretionary increase to his pension in payment of £218 pa (which will receive further inflationary increases in payment as specified in the Scheme Rules.) The estimated value of the additional pension granted to the former director was £5,600.

Independent auditor's report.

To the Members of Family Assurance Friendly Society Limited.

Opinion on financial statements.

In our opinion the financial statements of Family Assurance Friendly Society Limited for the year ended 31 December 2014:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and Society's affairs as at 31 December 2014 and of the Group's and Society's result for the year then ended; and
- have been properly prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements of Family Assurance Friendly Society Limited for the year ended 31 December 2014 which comprise the Group and Society Income and Expenditure Account, the Group and Society Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our assessment of the risks of material misstatement.

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Disposal of the Post Office Insurance Society (POIS) business;

- **The risk:** On 26 September 2014, the Society transferred to Foresters Friendly Society its POIS business which it held as a ring-fenced fund as a transfer of engagements (a portfolio transfer of policies) under the Friendly Societies Act 1992. The presentation of this transfer in the financial statements was considered for reporting at 31 December 2014.
- **Our response:** We reviewed management's calculation of the impact of the disposal of the business and checked that it accorded with the agreements entered into and the actual investments and insurance liabilities transferred. We challenged management on the accounting and disclosures produced to ensure they adequately reflected, in our view, the underlying substance of the transaction. We also enquired into whether there was any evidence of matters coming to light post-transfer that might have a financial impact.

Measurement of the long term business provisions and the appropriateness of methods and assumptions used in the measurement;

- **The risk:** Following the POIS disposal, the Society principally manages linked funds, for which the policyholder bears the financial risks arising from their investments, and has limited exposure to risk arising from occurrences of death or illness within its activities. Significant judgments using statistical methods are made by the Society and its Actuarial Function Holder to assess whether additional reserves need to be held in respect of linked business and the other elements of long term business provision. The subjective nature of the management judgments and assumptions required means there is an inherent risk that the liability will prove to be materially misstated as the contracts are satisfied over the course of time.
- **Our response:** We challenged management's assumptions used to establish that no additional reserve was required in respect of linked business should losses arise from administering the policies, and examined a sensitivity analysis on their assumptions, to ensure there were no indicators of material misstatement or management bias. We made use of our own appropriately qualified actuarial experts employed by our firm to assist our evaluation of the actuarial calculations for this and the other elements of long term business provision and the appropriateness of assumptions used to determine the provisions and associated disclosures.

Valuation of investments and the appropriateness of the methods and assumptions made in valuation and the risk arising from the type of investments held within certain funds;

- **The risk:** The Society invests in financial assets in order to fund its capital requirements and on behalf of its linked fund policyholders. Accordingly the portfolio of investments is a significant item within the financial statements. The existence and valuation of the investment portfolio is a risk that requires particular audit attention.
- **Our response:** We obtained third party confirmation of investments held as at 31 December 2014 directly from the independent custodian. Controls over the investment of member monies in to the underlying collective investment funds managed by the Group were tested. Investment valuations were agreed

Independent auditor's report (continued).

to an independent source of market prices. Valuations of properties held by the Society were agreed to advice from independent experts engaged by the Society. We challenged managements' judgments relating to the recoverability of the amounts invested in hedge funds by the Group's collective investments.

Measurement of the pension fund liability and the appropriateness of methods and assumptions used in the measurement and valuation of the investments held;

- **The risk:** The Society operates a defined benefit pension scheme which is closed to new members and to future accrual. The Society must ensure that the net position of the scheme arising from a comparison of the value of investments held by the scheme and its liability for future pension payments is properly reflected in the financial statements. Due to the subjective nature of the management judgments and assumptions made in this assessment, there remains an inherent risk that the net position of the scheme will be materially misstated.
- **Our response:** We obtained the report commissioned by management from their pension actuary and with the support of our own pensions actuary critically reviewed the judgments made in setting the valuation assumptions. We confirmed the valuation of investments to the result of the concurrent audit of the scheme by our firm and challenged the findings of their work. We considered the underlying financial position of the pension fund and challenged management's judgment that it was appropriate not to reflect the amount by which the pension asset exceeded the pension liability in the balance sheet.

Capital management

- **The risk:** The Society is required to have sufficient surplus assets, or capital, to enable it to meet its obligations having regard to uncertain future outcomes as to the payments required to satisfy insurance contracts and the performance of investment markets designed to underpin the liability.
- **Our response:** The Society operates within a highly regulated industry that sets strict minimum capital requirements. The regulations require the Society to produce evidence that it has properly considered the specific risks it faces as a product provider and that it has set aside funds of appropriate security and liquidity accordingly. We examined the Society's compliance with regulations in this area for evidence of sound and prudent management. This work is not indicative of any heightened concern over the ability of the Society and its subsidiaries to continue as a going concern.

The Risk and Audit Sub-Committee's consideration of these risks is set out on page 16.

The audit procedures relating to the above mentioned matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks and we do not express an opinion on these individual risks.

Our assessment and application of materiality.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement. The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions the users of the financial statements may take based on the information included in the financial statements.

Based on our professional judgement the level of overall materiality we set for the financial statements is outlined below:

- **Overall Group materiality:** The overall materiality level we set for the Society's financial statements was £2.3m.
- **Benchmark applied:** This has been calculated with reference to the Society's fund for future appropriations (of which it represents approximately 5%).
- **Basis for chosen benchmark:** The fund for future appropriations is a measure of accumulated surplus and we have determined, in our professional judgment, it to be one of the principal benchmarks within the financial statements relevant to members in assessing financial position and financial performance.

We agreed with the Risk and Audit Sub-Committee that we would report to the Sub-Committee all audit differences in excess of £70,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Risk and Audit Sub-Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

Scope of the audit of the financial statements.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether accounting policies are appropriate to the Group's and Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Committee of Management Strategy and Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

There are six legal entities in the Group, one being the Society itself, which together account for 100% of the Group's revenue, 100% of surplus of technical income over technical charges before taxation and 100% of total assets. All were subject to full scope audits for the year ended 31 December 2014 undertaken by the Group audit team using materiality levels that were applicable to each entity and which individually were lower than the materiality set for the group financial statements as a whole. These entity materiality levels ranged from £1,000 to £2.3m.

Opinion on other matters prescribed by the Friendly Societies Act 1992.

In our opinion:

- the Committee of Management's Strategy and Annual Report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under; and
- the information given in the Committee of Management's Strategy and Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception.

Under the International Standards on Auditing (ISAs) (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We have no exceptions to report arising from these responsibilities.

Under the Friendly Societies Act 1992 we are required to report to you, in our opinion:

- adequate accounting records have not been kept by the Society; or
- the Society's financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have no exceptions to report arising from these responsibilities.

In accordance with our instructions from the Society we review whether the Corporate Governance Report reflects the Society's compliance with the 9 provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals.

Independent auditor's report (continued).

We have nothing to report having performed our review.

Respective responsibilities of directors and auditor.

As explained more fully in the Statement of responsibilities of the Committee of Management set out on page 14, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Raymond Tidbury (Senior Statutory Auditor)
for and on behalf of Mazars LLP,
Chartered Accountants and
Statutory Auditor

Tower Bridge House,
St Katharine's Way,
London E1W 1DD

10 March 2015

Income and expenditure account.

Technical Account – Long Term Business

for the year ended 31 December 2014

Notes		*Group 2014 £'000*	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
2	Earned premiums	27,592	29,975	27,592	29,975
3	Investment income	24,515	28,309	24,515	28,309
3	Unrealised gains on investments	28,984	82,180	30,496	87,783
3	Realised gains on investments	11,751	10,133	11,751	10,133
5	Other technical income	27,658	24,327	1,232	924
	Total Technical Income	**120,500**	**174,924**	**95,586**	**157,124**
	Claims incurred, net of reassurance				
	Claims paid				
	Gross amount	(78,274)	(88,410)	(78,274)	(88,410)
16	Change in provision for claims				
	Gross and net amount	177	101	177	101
	Net claims incurred	(78,097)	(88,309)	(78,097)	(88,309)
16	**Change in technical provisions, net of reassurance**				
	Long term business provision, net of reassurance				
	Gross amount	1,847	703	1,847	703
	Reassurers' share	(5)	-	(5)	-
		1,842	703	1,842	703
	Other technical provisions, net of reassurance				
	Technical provision for linked liabilities	(216)	(49,382)	(216)	(49,382)
	Net change in technical provisions	1,626	(48,679)	1,626	(48,679)
	Other expenditure				
4	Net operating expenses	(14,366)	(11,568)	(14,366)	(11,568)
3	Investment expenses and charges	(883)	(715)	(883)	(715)
5	Other technical charges	(22,895)	(19,819)	-	-
		(38,144)	(32,102)	(15,249)	(12,283)
	Total Technical Charges	**(114,615)**	**(169,090)**	**(91,720)**	**(149,271)**
	Surplus of technical income over technical charges before taxation	**5,885**	**5,834**	**3,866**	**7,853**
6	Tax attributable to the long term business	(1,242)	2,132	777	113
	Surplus on technical account from continuing operations	**4,643**	**7,966**	**4,643**	**7,966**
23	Gain / (loss) on discontinued operations	374	(925)	374	(925)
	Surplus on technical account	**5,017**	**7,041**	**5,017**	**7,041**
20	Actuarial (loss) / gain on pension scheme	(3,639)	1,846	(3,639)	1,846
20	Pension adjustment for asset limitation	1,626	(2,156)	1,626	(2,156)
16	Transfer to the fund for future appropriations	**(3,004)**	**(6,731)**	**(3,004)**	**(6,731)**
	Balance on the technical account - long term business	-	-	-	-

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

Balance sheet.

ASSETS

As at 31 December 2014

Notes		Group 2014 £'000	Group 2013 £'000	Society 2014 £'000	Society 2013 £'000
	Investments				
9	Land and buildings	2,037	1,906	2,037	1,906
10	Investments in group undertakings				
	Investments in subsidiaries	-	-	19,364	17,751
11	Other financial investments				
	Shares, variable yield securities and units in unit trusts	34,871	65,319	34,871	65,319
	Deposits with credit institutions	10,568	12,549	-	4,000
		47,476	79,774	56,272	88,976
12	**Assets held to cover linked liabilities**	1,036,314	1,068,996	1,036,314	1,068,996
	Reassurers' share of technical provisions				
	Long term business provision	33	574	33	574
	Other assets				
13	Tangible assets	-	-	-	-
14	Other debtors	8,002	10,430	5,282	5,493
	Cash at bank and in hand	10,507	13,062	3,557	6,681
	Prepayments and accrued income				
	Accrued interest and rent	866	590	-	24
	Other prepayments and accrued income	386	317	386	317
		1,103,584	**1,173,743**	**1,101,844**	**1,171,061**

Balance sheet.

LIABILITIES

As at 31 December 2014

Notes		*Group 2014 £'000*	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
16	Reserves				
	Fund for future appropriations	46,475	52,900	46,475	52,900
16	Technical provisions				
	Long term business provision	1,770	35,114	1,770	35,114
	Claims outstanding	510	1,091	510	1,091
16	Technical provision for linked liabilities	1,036,314	1,068,996	1,036,314	1,068,996
15	Creditors				
	Other creditors, including taxation and social security	5,117	4,170	7,278	6,261
	Accruals and deferred income	13,398	11,472	9,497	6,699
		1,103,584	**1,173,743**	**1,101,844**	**1,171,061**

Approved by the Committee of Management on 10 March 2015, and signed on its behalf by:

Norman Riddell, Chairman

Simon Markey, Chief Executive

Keith Meeres, Secretary

Notes to the accounts.

1 Principal accounting policies.

Basis of accounting.

The Accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('Regulations') and in accordance with applicable Accounting Standards in the United Kingdom including the guidance provided by the Association of British Insurers in their Statement of Recommended Practice ('ABI SORP') dated December 2005 and as amended December 2006.

Basis of consolidation.

The Group Accounts comprise the assets, liabilities and income and expenditure account transactions of the Society together with its subsidiary undertakings. The activities of the Society and the Group are accounted for in the Technical Account - Long Term Business. The results of subsidiary undertakings are included from the date of acquisition.

Premiums.

Premiums for non-linked business are accounted for on a receivable basis. Premiums for unit-linked business are accounted for when the policy liability is established.

Outward reassurance premiums are accounted for in accordance with the contract terms when due, reflecting the period in which risk is transferred.

Investment return.

Investment return comprises investment income, including realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Dividends are included as investment income on the date that the shares become quoted ex-dividend. Interest, rents and expenses are included on an accruals basis.

Realised gains and losses on investments are calculated as the difference between net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their purchase price, or if they have been previously valued, their valuation at the last balance sheet date. The movement in unrealised gains and losses recognised in the year also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Claims.

Maturity claims and annuities are charged against revenue when due for payment. Surrenders are accounted for when paid or, if earlier, on the date the policy ceases to be included within the calculation of the long term business provision and/or the technical provision for linked liabilities. Death claims and all other claims are accounted for on notification.

Claims payable include all related internal and external claims handling costs. Reassurance recoveries are accounted for in the same period as the related claim.

Pensions costs.

The Group operates a defined benefit pension scheme, the Family Assurance Staff Pension Scheme ('the Scheme'). The Scheme's funds are administered by trustees and are independent of the Group's finances. The Scheme is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In intervening years the actuary reviews the continuing appropriateness of the rates.

The pension liability recognised in the balance sheet is the value of the Scheme's assets less the present value of the Scheme's liabilities.

The pension cost for the Scheme is analysed between current service cost, past service cost (until closed to accrual) and net return on pension scheme assets. Current service cost is the actuarially calculated present value of the benefits earned by the active employees in each period. Past service costs, relating to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits, are recognised in the Technical Account - Long Term Business on a straight line basis over the period in which the increase in benefits vest.

Net expected return on the pension liability comprises the expected return on the pension scheme assets less interest on pension scheme liabilities.

The actuarial gains and losses, which arise from a valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date, are included as a separate line in the Technical Account - Long Term Business immediately above the line for transfer to or from the fund for future appropriations and are reflected in that transfer.

The defined benefit scheme closed to new accruals on 31st December 2009. In its place the Society makes pension contributions to a defined contribution stakeholder pension scheme on behalf of staff when they become eligible for pension benefits. Contributions are reflected in the Technical Account - Long Term Business in the period the contributions become payable.

Investments.

Investments are stated at market value at the balance sheet date. Any appreciation or impairment in value during the year is accounted for in the Technical Account - Long Term Business.

Investments in subsidiary undertakings are stated at net asset value (see note 10).

Land and buildings occupied by the Society are valued annually by independent professional advisers at market value. No depreciation is provided on owner-occupied properties as it is considered that their useful economic lives and residual values are such that their depreciation is immaterial, both individually and in aggregate. An impairment review is also performed on owner-occupied properties.

Unrealised gains and losses arising on the revaluation of land and buildings are taken to the Technical Account - Long Term Business.

Assets held to cover linked liabilities.

Assets held to cover linked liabilities reflect the terms of the related policies and are valued on a basis consistent with the related liabilities.

Reassurers' share of technical provisions.

The reassurers' share of technical provisions is calculated on a basis consistent with that of the corresponding liabilities.

Deferred tax.

Deferred tax is calculated on a full provision basis and consists of the estimated taxation, or relief from taxation, which is expected to arise in the foreseeable future from material timing differences using expected future rates of tax where applicable. Credit is taken for relief from trading losses only to the extent that the Committee of Management anticipates that profits will absorb such losses in the foreseeable future.

1 Principal accounting policies (continued).

Tangible assets.

Tangible assets are valued at cost less depreciation or amortisation. Depreciation or amortisation is provided on tangible assets at rates calculated to write-off the cost of each asset over its expected useful life as follows:

Furniture, fixtures and fittings and office equipment	2 years
Computer hardware	4 years
Computer software	In full in year of purchase
Computer platform	5 years

Research and development expenditure.

Research and development expenditure represents product and related systems development costs incurred and written off during the year.

Foreign currencies.

Assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Foreign exchange differences, which arise principally on the investment portfolio, are included in investment gains and losses in the Technical Account - Long Term Business.

Fund for future appropriations.

The fund for future appropriations incorporates amounts for which allocation has not yet been determined between the different categories of policyholders based on the Rules and Tables of the Society. Transfers to and from this fund reflect the excess or deficiency of income over expenditure arising from the business underwritten by the Society.

Long term business provision.

The long term business provision is determined by the Society's actuary following the annual investigation of the long term business, and is calculated initially on a statutory solvency basis to comply with the reporting requirements of the Interim Prudential Sourcebook for Insurers. The calculation in respect of term assurance and annuities in payment uses the gross premium valuation method, the calculation for all other types of business uses the net premium valuation method and as such, includes explicit provision for vested bonuses (including those vesting following the current valuation). Implicit provision is made for future reversionary bonuses, but not terminal bonuses, by means of a reduction in the valuation rate of interest. The valuation is then adjusted for certain items, including the removal of certain contingency and other reserves. This adjusted basis is referred to as the modified statutory solvency basis.

The long term business provision includes the life cover and expenses associated with the linked liabilities of the Society.

Segmental reporting.

In the opinion of the Committee of Management, the Group operates in one business segment being that of long term insurance and retail investment business in the United Kingdom.

2 Premium analysis.

All business is written in the United Kingdom and is direct business relating exclusively to individual policyholders.

	Group and Society	
	2014	*2013*
a) Gross premiums written:	*£'000*	*£'000*
Life assurance business:		
Linked	27,582	29,952
Pension business:		
Linked	10	23
Total gross premiums written	27,592	29,975
Regular premiums	27,582	29,952
Single premiums	10	23
Total gross premiums written	27,592	29,975
b) Gross new life business premiums:	1,514	1,717

In classifying new regular life business premiums the following basis of recognition is adopted:

- Incremental increases under existing policies are classified as new business premiums.
- Where regular premiums are received other than annually the regular new business premiums are on an annualised basis.
- Products substituted due to the exercise of standard contract terms are not included in the new business statistics.
- Premiums arising on discontinued operations are disclosed in note 23.

	Group	*Group*	*Society*	*Society*
	2014	*2013*	*2014*	*2013*
c) Contributions received for products administered by subsidiary companies:	*£'000*	*£'000*	*£'000*	*£'000*
Regular contributions	107,389	102,930	-	-
Single contributions	1,139,629	558,737	-	-
	1,247,018	661,667	-	-

Contributions relate to business conducted by four of the Society's regulated subsidiaries, Family Equity Plan Limited, Family PEP Managers Limited, Family Investment Management Limited and Governor Finance Limited. The business is defined as retail investment business and accordingly the contributions received are not included in 'Earned premiums' as disclosed in the Technical Account – Long Term Business. The income and expenditure from this business is included in 'Other technical income' and 'Other technical charges' as disclosed in the Technical Account – Long Term Business (see note 5).

	Number of policies		*Number of policies*	
	Group	*Group*	*Society*	*Society*
d) Policies on file:	*2014*	*2013*	*2014*	*2013*
Average during the year	1,935,101	1,957,573	275,859	310,926
As at 31 December	1,920,903	1,949,299	253,584	298,133

3 Investment return summary.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Investment income:				
Income from listed investments	10,127	13,742	10,127	13,742
Income from other investments	14,388	14,567	14,388	14,567
	24,515	28,309	24,515	28,309
Unrealised gains on investments	28,984	82,180	30,496	87,783
Realised gains on investments	11,751	10,133	11,751	10,133
Investment expenses and charges:				
Investment management expenses, including interest	(883)	(715)	(883)	(715)
Net investment return included in the Technical Account - Long Term Business	64,367	119,907	65,879	125,510

4 Net operating expenses.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Acquisition costs incurred in the year:				
Commission	82	107	82	107
Other acquisition expenses	156	256	156	256
	238	363	238	363
Research and development costs	10,814	7,490	10,814	7,490
Administration expenses	3,314	3,715	3,314	3,715
	14,366	11,568	14,366	11,568

Included in net operating expenses and other technical charges are:

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Depreciation charge for the year (see note 13)	-	3	-	-
Interest paid and similar charges to customers	17	39	17	39
Remuneration of the Auditor in respect of audit and related services:	459	209	393	145
Statutory audit - Society	143	134	143	134
Statutory audit - Subsidiaries	48	47	-	-
Auditing of staff pension scheme	11	11	11	11
Auditing of certain unit trusts	18	17	-	-
Due diligence	192	-	192	-
Other services	47	-	47	-

5 Other technical income and charges.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Other technical income:				
Income relating to subsidiary companies	27,658	24,327	1,232	924
Other technical charges:				
Costs relating to subsidiary company products:				
Acquisition expenses	3,458	4,480	-	-
Research and development costs	3,476	505	-	-
Administration expenses	15,961	14,834	-	-
	22,895	19,819	-	-

6 Taxation.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
UK Corporation tax:				
Current year	83	100	83	100
Adjustments in respect of prior periods	(860)	(213)	(860)	(213)
Deferred tax on unrealised tax losses	2,019	(2,019)	-	-
	1,242	(2,132)	(777)	(113)

Tax arising on discontinued operations is disclosed in note 23. The Society's main product, the Family Bond, represents tax-exempt business under Section 460 of the Income and Corporation Taxes Act 1988. The Society also writes taxable business, principally temporary annuities, together with other life and pensions business.

A taxation liability of £100k (2013: £100k) relating to taxable business has been provided for. Taxes have been charged at 20% (2013: 20%).

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Deferred tax:				
Unit trust deemed disposals	400	334	400	334
Actuarial reserves	-	1	-	1
Deferred tax liability	400	335	400	335
Deferred acquisition expenses	(400)	(335)	(400)	(335)
Unrealised tax losses	-	(2,019)	-	-
Deferred tax balance	-	(2,019)	-	-

There are unrealised tax losses in respect of Family Equity Plan Limited, Governor Finance Limited, Family PEP Managers Limited and Family Enterprise Limited. The group has taken the view that it is uncertain whether these losses will be recovered over the next three years and has therefore decided not to recognise the benefit of the deferred tax asset. The amount of unprovided deferred tax asset is £2,506k (2013: £3,210k).

There is a potential deferred tax asset of £810k (2013: £1,031k), in respect of the mutual business carried on by the Society, of which £400k (2013: £335k) has been set aside to offset recognised deferred tax liabilities of the mutual business. The balance of £410k (2013: £696k) represents the net unrecognised deferred tax asset. This balance comprises, inter-alia, two principal components: excess management expenses and deferred acquisition expenditure which will both unwind in future periods to reduce taxable income and gains (as appropriate) arising from life business. The Society has taken the view that there is insufficient evidence that the net deferred tax asset will be recoverable, and has therefore decided not to recognise any benefit.

7 Employee information.

The average numbers of employees (including Committee of Management) during the year were:	*Group 2014 Number*	*Group 2013 Number*	*Society 2014 Number*	*Society 2013 Number*
Marketing	29	24	29	24
Investments	10	11	10	11
Administration	313	365	313	365
	352	400	352	400

Staff costs for the above employees were:	*Group 2014 £'000*	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Wages and salaries	13,686	14,205	13,686	14,205
Pension costs	799	886	799	886
Social security costs	1,068	1,161	1,068	1,161
	15,553	16,252	15,553	16,252

All employees are employed and remunerated directly by the Society.

8 Committee of management emoluments.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Fees and benefits to the Chairman and non-executive directors	212	223	212	223
Salaries and benefits to executive directors	842	1,328	842	1,328
Performance related bonuses	503	498	503	498
	1,557	2,049	1,557	2,049

Chairman.

The aggregate remuneration paid, comprising salary and benefits, to Mr Norman Riddell amounted to £67k (2013: £42k). The aggregate remuneration paid to Mr Robert Weir for 2014 until he left the Society on 22 May, comprising salary and benefits amounted to £32k (2013: £79k).

Highest paid Committee members.

The aggregate remuneration paid to Mr Simon Markey amounted to £760k (2013: £636k).

Pension contributions.

Four of the executive directors had contributions paid into the Stakeholder Pension Scheme during the year. Two of the executive directors had retirement benefits accruing under a defined benefit pension scheme during the year. Further details of the emoluments of the Committee of Management can be found in the Remuneration Report.

Short term incentive scheme.

The executive directors had benefits under a short term incentive scheme during the year. The scheme is targeted at increasing the value of the Management Fund and amounts accrued, for the benefit of the executive directors, as at 31 December 2014 are £676k (2013: £457k). Benefits are receivable over the following three years after the bonus declaration, 40% of which is revalued in line with movements in the Sovereign fund unit price. The criteria used for determining executive directors' bonuses are the same as those which apply to the general bonus scheme applicable to all staff.

Long term incentive scheme.

Two executive directors had benefits under an existing long term incentive scheme during the year, which has now been closed. The scheme was targeted at increasing the embedded value of the Society and amounts accrued, for the benefit of the executive directors, as at 31 December 2014 are £28k (2013: £219k). Benefits are receivable three years after the bonus declaration, contingent on the overall improvement of the Society's embedded value. A provision is also held for potential awards under new 2013 and 2014 schemes.

9 Land and buildings.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Movements during the year:				
As at 1 January	1,906	1,770	1,906	1,770
Revaluation during the year	131	136	131	136
As at 31 December	2,037	1,906	2,037	1,906
Types of land and buildings held at 31 December:				
Owner-occupied - Short leasehold	2,037	1,906	2,037	1,906
Cost of land and buildings held at 31 December:				
Owner-occupied - Short leasehold	1,626	1,628	1,626	1,628

Land and buildings were valued for the purpose of the 2014 and 2013 Annual Report and Accounts at open market value. The valuation of the owner-occupied property was made by Capita Symonds, a firm of independent Chartered Surveyors, on 2 December 2014.

10 Investment in group undertakings.

Subsidiaries	*Society 2014 £'000*	*Society 2013 £'000*
Ordinary shares at directors' valuation:		
As at 1 January	17,751	11,847
Purchase of Share Capital[1]	100	300
Revaluation during the year	1,513	5,604
As at 31 December	19,364	17,751

The subsidiaries are included in the consolidated Group accounts at their net asset value, however the directors are of the opinion that the net realisable value of the subsidiaries is significantly greater than the capital invested therein but have elected to use the net asset value as their valuation due to the uncertainty inherent in precisely quantifying the valuation of the subsidiaries' future profits.

The Society owns 100% of the ordinary share capital of all its subsidiaries, all of which are registered in England and Wales, are included in the Group accounts and are listed below:

Names of subsidiaries	Nature of business
Family Investment Management Limited	Unit trust manager
Family Equity Plan Limited	ISA & CTF manager
Family PEP Managers Limited	ISA manager
Governor Finance Limited	ISA & Savings manager
Family Enterprise Limited	Administrative services
Family Assurance Staff Pension Scheme Trustees Limited	Corporate trustee of the Staff Pension Scheme
Governor Finance Nominees Limited	Dormant
Post Office Insurance Society Trustees Limited	Dormant
Family.co.uk Limited	Dormant
Family Nominees Limited	Dormant
Family Money Limited	Dormant

[1] On 19 March 2013 Governor Finance Limited issued 100,000 £1 shares at par to the Society for cash.

On 12 August 2013 Governor Finance Limited issued 200,000 £1 shares at par to the Society for cash.

On 25 June 2014 Governor Finance Limited issued 100,000 £1 shares at par to the Society for cash.

11 Other financial investments.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
At cost:				
Shares, variable yield securities and units in unit trusts	32,628	65,298	32,628	65,298
Deposits with credit institutions	10,568	12,549	-	4,000
	43,196	77,847	32,628	69,298

Included in other financial investments are investments, listed on a recognised investment exchange, with market values of:

Shares, variable yield securities and units in unit trusts	34,871	65,319	34,871	65,319

£30m of the shares, variable yield securities and units in unit trusts shown above are held in Exchange Traded Funds, which in turn invest in fixed income securities (2013: £57m).

12 Assets held to cover linked liabilities.

	Group and Society 2014 £'000	*Group and Society 2013 £'000*
Market value as at 31 December	1,036,314	1,068,996
Cost as at 31 December	836,198	892,278

13 Tangible assets.

	Group Equipment £'000	*Group Computer hardware £'000*	*Group Computer software £'000*	*Group Computer platform £'000*	*Group Total £'000*
At cost:					
As at 1 January 2014	639	1,493	3,191	625	5,948
Additions	-	-	-	-	-
As at 31 December 2014	639	1,493	3,191	625	5,948
Accumulated depreciation:					
As at 1 January 2014	639	1,493	3,191	625	5,948
Charge for the year	-	-	-	-	-
As at 31 December 2014	639	1,493	3,191	625	5,948
Net book value as at 31 December 2014	-	-	-	-	-
Net book value as at 31 December 2013	-	-	-	-	-

14 Other debtors.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Amounts falling due within one year:				
Due from subsidiary undertakings	-	-	3,545	3,754
Amounts owed by linked funds	1,436	1,083	1,436	1,083
Loans to members	-	170	-	170
Taxation recoverable	41	2,246	41	227
Interest receivable	4,354	5,239	-	-
Sundry debtors	2,171	1,692	260	259
	8,002	10,430	5,282	5,493

15 Other creditors.

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Due to subsidiary undertakings	-	-	2,556	2,496
Taxes payable	383	369	379	364
Sundry creditors	4,734	3,801	4,343	3,401
	5,117	4,170	7,278	6,261

16 Policyholder liabilities and reserves in respect of the society and the group.

	Long term business technical provision £'000	*Technical provision for linked liabilities £'000*	*Claims outstanding £'000*	*Fund for future appropriations £'000*
As at 1 January 2014	35,114	1,068,996	1,091	52,900
Changes in technical provisions:				
Gross change in technical provisions and claims outstanding, net of reassurance (continuing business)	(1,842)	216	(177)	-
Movement in funds for future appropriations	-	-	-	3,004
Reassurers' share of the change in technical provisions (continuing business)	(5)	-	-	-
Transfer from the Technical Account - Long Term Business in respect of discontinued operations (note 24)	(31,497)	(32,898)	(404)	(9,429)
As at 31 December 2014	1,770	1,036,314	510	46,475

Principal assumptions:
The valuation of the business has been carried out using a net premium valuation method using the following principal assumptions:

	Interest rate %		*Mortality rate*	
	2014	*2013*	*2014*	*2013*
Non-linked business - Non profit annuities	0.50	1.50	Nil	Nil
Unit-linked business - Non taxable	0.50	1.50	Unisex AMC00/ AFC00 (104%)	Unisex AMC00/ AFC00 (104%)

The level of expenses included in the valuation are based on the current year's expenses allowing for cost inflation of 3.5%.

The principal changes to valuation assumptions made since the previous year-end were:

- a reduction in the gross valuation rate of interest from 1.50% to 0.50% for business in the Management Fund to reflect decreases in gilt yields during 2014.
- changes in the assumed level of volatility of assets backing policies with guarantees, reflecting current economic experience.
- changes in the expense inflation from 4.00% to 3.50% and a reduction in the unit price growth rate from 4.50% to 3.40%.

The overall impact of the changes described above has been to decrease the long term business provision, net of reassurance, by £0.1 million.

A reduction in interest rates would reduce the impact of discounting on the long term business provision, resulting in an increased provision. If, for example, the valuation interest rate were to be reduced by 0.50%, the long term business provision would increase by approximately £0.03m. This does not include the corresponding effect on the valuation of assets.

17 Bonuses and rebates.

	Group and Society	
	2014	*2013*
	£'000	*£'000*
Cost of bonuses declared, as at 31 December:		
Reversionary bonuses	-	159

18 Capital position statement.

Available capital resources	*UK non-profit*	*Former POIS Assurance Limited UK with-profits*	*Total*
	£'000	*£'000*	*£'000*
As at 31 December 2014			
Fund for future appropriations	46,475	-	46,475
Allocation of Group capital	(4,050)	-	(4,050)
Other adjustments	(10)	-	(10)
Total available capital resources	42,415	-	42,415
As at 31 December 2013			
Fund for future appropriations	43,359	9,541	52,900
Fund for future appropriations	(2,019)	-	(2,019)
Allocation of Group capital	(3,794)	-	(3,794)
Other adjustments	(30)	-	(30)
Total available capital resources	37,516	9,541	47,057

Movement in available capital resources	*UK non-profit*	*Former POIS Assurance Limited UK with-profits*	*Total*
	£'000	*£'000*	*£'000*
Available capital resources as at 31 December 2013	37,516	9,541	47,057
Opening adjustments (disposal of POIS division)	2,311	(9,541)	(7,230)
Effect of investment variations	2,285	-	2,285
Effect of experience variations	(1,782)	-	(1,782)
Effect of change in valuation basis	(74)	-	(74)
New business strain	(1,593)	-	(1,593)
Operating profit in the subsidiaries	3,328	-	3,328
Other factors	424	-	424
Available capital resources as at 31 December 2014	42,415	-	42,415

Technical provisions	*UK non-profit £'000*	*Former POIS Assurance Limited UK with-profits £'000*	*Total £'000*
As at 31 December 2014			
Unit-linked	1,036,314	-	1,036,314
Non-profit liabilities	1,770	-	1,770
	1,038,084	-	1,038,084
Claims outstanding	510	-	510
Reassurance	(33)	-	(33)
Technical provisions in the balance sheet	1,038,561	-	1,038,561
As at 31 December 2013			
Unit-linked	1,068,996	-	1,068,996
With-profits liabilities	-	30,646	30,646
Non-profit liabilities	3,617	851	4,468
	1,072,613	31,497	1,104,110
Claims outstanding	687	404	1,091
Reassurance	(38)	(536)	(574)
Technical provisions in the balance sheet	1,073,262	31,365	1,104,627

The were no material options or guarantees included within the Technical provisions at either 31 December 2014 or 31 December 2013.

Management of insurance risk.

Capital management
The Society maintains sufficient capital, consistent with the Group's risk profile and the regulatory and market requirements of its business.

The Society is subject to a number of regulatory capital tests and also employs a number of realistic tests to allocate capital and manage risk. Overall the Society meets all of these requirements.

In reporting financial strength, capital and solvency is measured using the regulations prescribed by the PRA. These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the Society.

Capital management policies and objectives.
The Society's objectives in managing its capital are:
- To match the profile of its assets and liabilities, taking into account the risks inherent in the business;
- To satisfy the requirements of its policyholders, regulators and rating agencies;
- To maintain financial strength to support new business growth;
- To retain financial flexibility by maintaining strong liquidity and access to a range of financial markets;
- To allocate capital efficiently to support growth; and
- To manage exposures to movements in interest and exchange rates.

18 Capital position statement (continued).

Management of insurance risk.

Restrictions on available capital resources

The Society is required to hold sufficient capital to meet the PRA's capital requirements. The capital requirements for both with-profits and non-profit business are calculated on the statutory basis. Account is also taken of the Individual Capital Assessment which considers certain business risks not reflected in the statutory basis.

The Society's total available capital resources are £43m (2013: £49m) of which nil (2013: £9.5m) is held in with-profits funds and £43m (2013: £39.5m) is held in the general fund.

The available capital is subject to certain restrictions as to its availability to meet capital requirements. The available surplus held in the with-profit fund can only be applied to meet the requirements of the fund itself or to be distributed to policyholders of that particular fund.

It remains the intention of management to ensure that there is adequate capital to exceed the Society's regulatory requirements. At 31 December the Society's available capital was 1955% of the capital requirement of £2.2m (2013: 1324% of £3.7m).

Capital resource sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets and the effect that changes in investment conditions may have on the value of liabilities. It is also sensitive to assumptions and experience relating to expenses and persistency and, to a lesser extent, mortality.

The most significant sensitivities arise from the following three risks:

- Market risk in relation to the unit-linked business, which would arise if there were adverse changes in the value of unit-linked assets. The Society's most significant income stream is derived as a fixed percentage of the market value of unit-linked assets. A 30% decrease in the value of the unit-linked investments held by the Group would reduce available capital resources by approximately £24m (2013: £23.2m), including the impact of the staff pension scheme.

- Expense risk in relation to the costs of running the business and administering the policies held by the Society, which would arise if there was an increase in expense inflation and / or the cost structure of the Society. An immediate 20% increase in the costs of administration on all policies would reduce available capital resources by approximately £3.9m (2013: £3.9m).

- Persistency risk in relation to unit-linked business, which would arise if there was a significant increase in surrender rates which would deprive the Society of the future income that business provides. An increase in surrender rates of 50% would reduce available capital resources by approximately £1.4m (2013: 50% to £2.7m).

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed to reflect it. In the capital position. Examples of possible management action would be to alter the investment allocation in the unit-linked funds to reduce anticipated adverse market movements and to reduce the discretionary expenditure of the Society.

19 Actuarial function holder.

The Actuarial Function Holder of the Society is Mr D Addison of Towers Watson. The Society has requested him to furnish it with the particulars required in Section 77 of the Friendly Societies Act 1992. Mr. Addison has confirmed that neither he nor his family have any financial or pecuniary interests in the Society, with the exception of the fees paid to Towers Watson for professional services, which in 2014 amounted to £802k (2013: £540k).

20 Staff pension provision.

The Society operates a defined benefit pension scheme, the Family Assurance Staff Pension Scheme ("the Scheme"). The Scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the Scheme in accordance with the recommendations of an independent actuary.

The defined benefit scheme closed to all further benefit accrual with effect from 31 December 2009. In its place the Society makes pension contributions to a defined contribution stakeholder pension scheme on behalf of new staff when they become eligible for pension benefits. The stakeholder scheme is administered by Legal & General Assurance Society Limited.

Details in respect of the Scheme are provided below in accordance with FRS17.

An actuarial valuation was carried out as at 31 December 2013 and updated to 31 December 2014 by an independent qualified actuary in accordance with FRS17. As required by FRS17, the defined benefit liabilities have been measured using the projected unit method.

The expected rate of return on assets for the financial year ending 31 December 2014 was 6.6% pa (2013: 6.1% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the Scheme was invested in at 31 December 2013.

The following table sets out the key FRS17 assumptions used for the Scheme. The table also sets out, as at 31 December 2014, 2013 and 2012, the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS17 liabilities and the surplus or deficit of the assets over the FRS17 liabilities (the gross pension asset or liability).

20 Staff pension provision (continued).

Under FRS17, the pension asset which can be recognised on the balance sheet is limited to the extent that it is recoverable by the employer through reduced contributions for future pensionable service and agreed refunds. Given that no refunds have been agreed and as no future service contributions are currently expected, the maximum asset that may be recognised is nil. The impact of this limit on the balance sheet, profit and loss, and the actuarial gains and losses entries are shown in the figures below.

Assumptions:	*2014*	*2013*	*2012*
Retail Prices Index Inflation	3.3%	3.6%	3.2%
Consumer Prices Index Inflation	2.3%	2.6%	2.5%
Revaluation in deferment	2.3%	2.6%	2.5%
Pension increases:			
pre April 1997 pension	0.0%	0.0%	0.0%
post April 1997 pension	3.2%/2.3%*	3.4%/2.6%*	3.1%/2.5%*
post April 2005 pension	1.9%*	2.0%*	2.0%*
Salary growth	n/a	n/a	n/a
Discount rate	3.7%	4.6%	4.5%

*assumption for members who transferred in to the Scheme from the Family Assurance Society Limited Staff Pension Scheme.

Investment returns:**			
Equities	n/a	7.6%	7.0%
Gilts	n/a	3.6%	3.0%
Corporate bonds	n/a	4.6%	n/a
Diversified growth / absolute return funds	n/a	6.9%	6.3%
Cash	n/a	1.3%	0.5%
Other assets	n/a	4.6%	4.5%
Life expectancy:			
male aged 65 at the balance sheet date	23.2 years	23.0 years	22.7 years
male aged 65 in 2039 (25 years from balance sheet date)	26.0 years	25.8 years	24.9 years

** FRS 17 is being replaced by a new set of standards. Under these new standards the expected return on assets is being replaced by interest on the assets.

Fair value of assets	*2014* *£'000*	*2013* *£'000*	*2012* *£'000*
Equities	24,996	22,551	19,651
Gilts	7,303	6,864	6,064
Corporate bonds	2,276	779	-
Diversified growth / absolute return funds	4,957	4,696	4,257
Cash	(48)	9	18
Other net assets	307	299	292
Total fair value of assets	39,791	35,198	30,282
Present value of liabilities	(37,929)	(32,604)	(31,984)
Pension (deficit) / surplus	1,862	2,594	(1,702)
Adjustment for asset limit	(1,862)	(2,594)	-
Gross pension liability	-	-	(1,702)

Over the year to 31 December 2014, the Society made contributions amounting to £2,013k to the Scheme (2013: £2,012k). As part of a staged programme of additional contributions designed to remove the deficit by 31 May 2015, the Society will pay £833k into the Scheme in 2015. However, if the deficit is not eliminated by 31 May 2015 the Scheme's Rules require that deficit contributions continue to be paid at least at the rate of £166,667 per month until the Scheme Actuary certifies that the deficit has been cleared. The Society will also pay contributions into the Scheme to meet the Pension Protection Fund levies due, where these are met from the Scheme assets.

The post retirement deficit under FRS17 moved as follows:

	2014 £'000	2013 £'000
Post retirement deficit as at 1 January	**-**	**(1,702)**
Contributions (employee and employer)	2,013	2,012
Other net finance income:		
Past service cost	-	(13)
Past service cost extinguished due to unrecognised surplus	-	13
Expected return on pension scheme assets	2,379	1,866
Interest on post retirement liabilities	(1,485)	(1,415)
Restriction on expected return due to unrecognised surplus	(894)	(451)
Actuarial (loss) / profit		
Actual return less expected return on pension scheme assets	835	2,125
Experience gain arising on pension scheme liabilities	382	47
Loss due to changes in assumptions underlying the present value of scheme liabilities	(4,856)	(326)
Actuarial (loss) / gain recognised in the fund for future appropriations	(3,639)	1,846
Gain / (loss) due to movement in the balance sheet limitation	1,626	(2,156)
Post retirement deficit as at 31 December	-	-

History of experience gains and losses	2014 £'000	2013 £'000	2012 £'000	2011 £'000
Actual return less expected return on pension scheme assets	835	2,125	834	(2,153)
As a percentage of pension scheme liabilities at end of year	-2%	-6%	-3%	8%
Experience gain / (loss) arising on pension scheme liabilities	382	47	(18)	(13)
As a percentage of pension scheme liabilities at end of year	-1%	0%	0%	0%
Actuarial (loss) / gain recognised in the fund for future appropriations	(3,639)	1,846	(1,246)	(3,079)
As a percentage of pension scheme liabilities at end of year	10%	-6%	4%	11%

21 Related party transactions.

Family Assurance Friendly Society Limited and its subsidiaries, (the Group), have a number of transactions between themselves, all of which are undertaken in the normal course of business. As these Accounts cover the Society and the Group, no transactions or balances between Group entities, which eliminate on consolidation, require disclosure in accordance with the exemption given in FRS8.

No members of the Committee of Management of Family Assurance Friendly Society Limited or its key management had material transactions with any of the Group's related parties.

The Society and Group had the following investments in Collective Investment Schemes managed by a subsidiary, Family Investment Management Limited, as at 31 December:

	Group 2014 £'000	*Group 2013 £'000*	*Society 2014 £'000*	*Society 2013 £'000*
Family Asset Trust	37,376	65,781	37,376	65,781
Family Charities Ethical Trust – Accumulation Units	9,389	9,460	9,389	9,460
Family Balanced International Fund – Share Class A	826,388	839,478	826,388	839,478
Family Balanced International Fund – Share Class C	321	87	321	87
	873,474	914,806	873,474	914,806

During 2014, the Society and Group made the following new investments of policyholders' funds. All purchases of units were made at arms length based on the buying price:

	Group 2014 £'000	*Group 2014 units*	*Society 2014 £'000*	*Society 2014 units*
Family Asset Trust	447	168,000	447	168,000
Family Balanced International Fund – Share Class A	6,169	1,857,125	6,169	1,857,125
Family Balanced International Fund – Share Class C	226	185,954	226	185,954
	6,842		6,842	

22 Other financial commitments.

The Society and Group have the following commitments under non-cancellable operating leases:

	Land & Buildings		*Other*	
	2014 £'000	*2013 £'000*	*2014 £'000*	*2013 £'000*
Less than a year	-	-	-	-
Between 2 and 5 years	-	-	62	62
More than 5 years	-	-	-	-
	-	-	62	62

23 Discontinued operations.

During the year, the Group entered into a transfer agreement in order to sell its POIS business to Foresters Friendly Society. The disposal was effected as part of the overall Family Investments business strategy, driven by a gradual change in core products. The disposal was completed on 26 September 2014 by way of an insurance business transfer scheme under Part VII of the Financial Services and Markets Act 2000. The results and cash flows of the discontinued operations, which have been included in the consolidated technical account are as follows:

	Group and Society	
	2014	*2013*
	£'000	*£'000*
Earned premiums	5,216	7,295
Outward reassurance premiums	-	(89)
Earned premiums, net of reassurance	5,216	7,206
Investment income	1,286	1,453
Unrealised gains on investments	-	2,692
Realised gains on investments	3,673	397
Total technical income	**10,175**	**11,748**
Claims incurred, net of reassurance		
Claims paid		
Gross amount	(10,935)	(13,236)
Reassurers' share	-	30
	(10,935)	(13,206)
Change in provision for claims		
Gross and net amount	(6)	96
Net claims incurred	(10,941)	(13,110)
Change in technical provisions, net of reassurance		
Long term business provision, net of reassurance		
Gross amount	4,858	6,374
Reassurers' share	-	(28)
	4,858	6,346
Other technical provision, net of reassurance		
Technical provision for linked liabilities	963	(4,582)
Net change in technical provisions	5,821	1,764
Other expenditure		
Investment expenses and charges	(968)	(1,327)
Unrealised losses on investments	(4,121)	-
	(5,089)	(1,327)
Technical charges	**(10,209)**	**(12,673)**
Deficit of technical income over technical charges before taxation	(34)	(925)
Tax attributable to the long term business	(78)	-
Gain on disposal (note 24)	486	-
Gain / (loss) on discontinued operations	**374**	**(925)**

24 Disposal of business.

As referred to in note 23, on 26 September 2014 the Group disposed of its POIS business to Foresters Friendly Society.

The net assets at the date of disposal and at 31 December 2013 were as follows:

	Group and Society	
	2014	*2013*
	£'000	*£'000*
ASSETS		
Investments		
Other financial investments		
Shares, variable yield securities and units in unit trusts	34,380	39,182
Assets held to cover linked liabilities	31,935	32,898
Reassurers' share of technical provisions		
Long term business provision	536	536
Other assests		
Other debtors	914	709
Cash at bank and in hand	596	1,192
Prepayments and accrued income		
Accrued interest and rent	53	72
Other prepayments and accrued income	1	6
	68,415	74,595
LIABILITIES		
Reserves		
Fund for future appropriations	9,429	9,541
Technical provisions		
Long term business provision	26,639	31,497
Claims outstanding	410	404
Technical provision for linked liabilities	31,935	32,898
Creditors		
Other creditors, including taxation and social security	-	253
Accruals and deferred income	2	2
	68,415	74,595

Gain on disposal, net of selling costs	486
Add back: selling costs	(414)
Add back: value of future with profits reserves paid	(500)
Total consideration	1,400
Purchase consideration received in cash and cash equivalents, net of selling costs paid	900
Less: cash and cash equivalents disposed of	(596)
Net cash outflow arising on disposal	304

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