

Financial summary

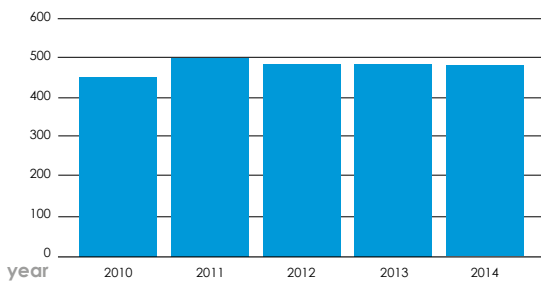
Year ended 31 December 2014

How we are doing

Financial performance for the year ended 31 December 2014

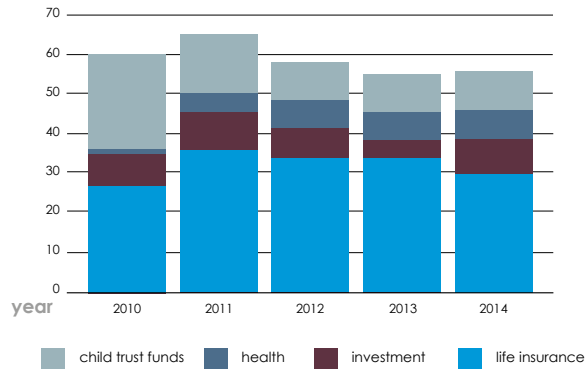
The following charts highlight our key financial indicators for the year.

group customers customers



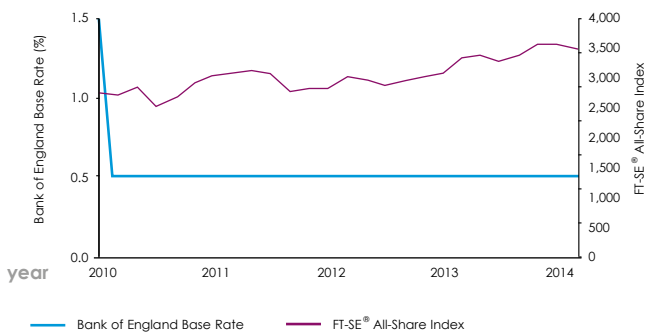
Customer numbers are broadly stable at 2014 : 489,058 (2013 :496,752).

premiums from customers £m



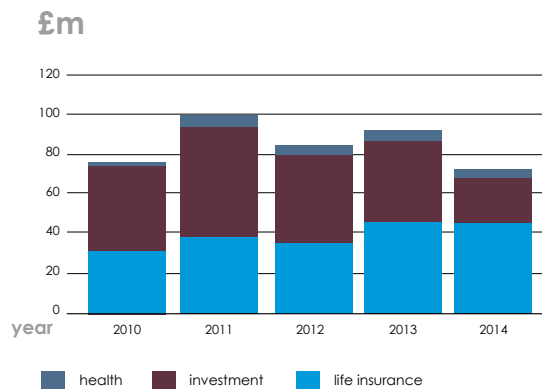
Growth in all lines of business, Over 50s, Health premiums and Investment premiums contributed to the overall position. Overall premiums of £53.3m are 1.7% higher than the prior year.

FT-SE® all-share index and Bank of England Base Rate



Equity markets were volatile over the year, however the FT-SE All-Share Index ending the year broadly in line, down 2.1%. The Bank Of England Base Rate was unchanged over the year at 0.5%.

claims paid to customers £m



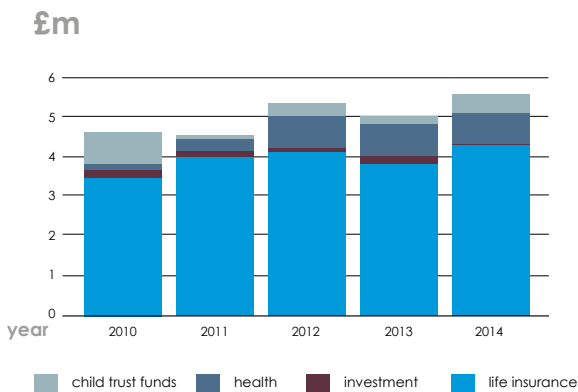
Claims paid to our customers totalled £75.9m in 2014, comprising of £47.6m of life insurance benefits, £22.4m of maturing investment policies and £5.9m of health benefits.

How we are doing (continued)

Financial performance for the year ended 31 December 2014

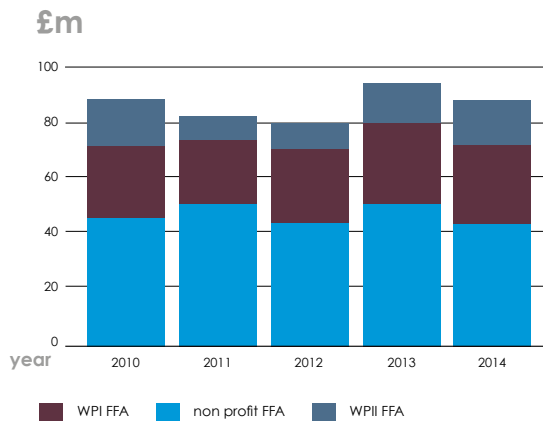
The following charts highlight our key financial indicators for the year.

new business performance



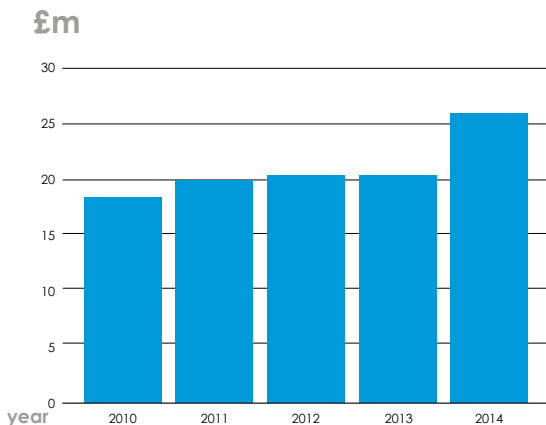
New business sales grew by 12% to £5.6 million overall. Sales of our core over 50s life insurance product grew 3% year on year to £3.5m, CTF income mirrored the growth in the assets and our health insurance product sales grew 9% to £0.8m.

group fund for future appropriations



Overall the fund for future appropriations, representing funds not yet allocated to members, reduced by 7% to £88.7million, primarily due to investment in the future merger of the business and continued cost of regulatory change activity. We continue to hold capital in excess of three times that required by the regulator.

group expenses

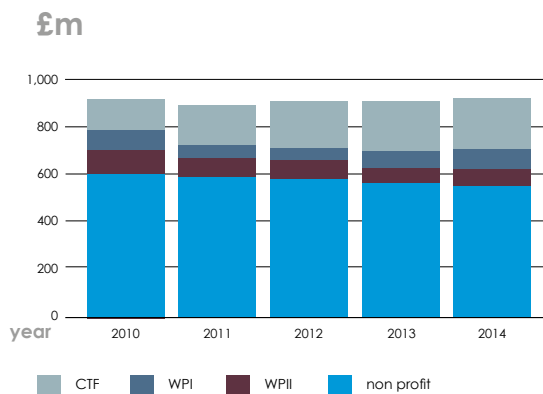


Within the £26.1 million detailed above are the following significant expenses incurred:

Merger Activity Costs	£2.4m
Legal entity closure reserve	£1.8m
Solvency II in year costs	£0.9m

When the above costs are removed from the overall 31 December 2014 cost position the year on year comparison for the ongoing operating expenses of the business shows a small increase of £0.6m to £21.0m (2013: £20.4m less one off Health specific project costs of £1.4m to arrive at a comparable balance of £19.0m).

group assets



Group assets remained stable at £942 million. This comprises £218 million of CTF assets under management and £723 million assets recorded on the Society balance sheet.

Group results

	2014 £m	2013 £m
Technical account, long-term business		
Premium income	23.9	23.5
Claims incurred	(30.6)	(40.1)
Net Investment return	37.7	49.3
Net operating and investment expenses	(23.8)	(16.3)
Change in provisions	(10.0)	0.2
Other income, charges and tax	(4.9)	(3.9)
Transfer to/(from) fund for future appropriations	(7.9)	12.8
Technical account, general business		
Premium income	7.4	7.0
Claims incurred	(6.0)	(5.4)
Net operating expenses	(1.6)	(3.4)
Other charges	(0.6)	(0.5)
Balance on the general business technical account	(0.8)	(2.3)
Non-technical account		
Balance on the general business technical account	(0.8)	(2.3)
Income from subsidiaries	3.6	4.2
Expenses incurred by subsidiaries	(1.6)	(2.4)
Other income, charges and tax		(0.0)
Loss on ordinary activities	1.2	(0.5)
Group statement of total recognised gains and losses		
Loss on ordinary activities	1.2	(0.5)
Actuarial movement on pension scheme	0.3	(1.1)
Change in unrecognised pension scheme surplus	(0.6)	0.8
Total recognised gains and losses in the year	0.8	(0.8)
Balance sheet at 31 December 2014		
Investment in land and buildings	5.1	5.1
Financial investments	605.1	624.1
Reinsurers' share of the long-term business provisions	74.2	52.8
Other assets	36.6	38.4
Prepayments and accrued income	2.6	2.5
Total assets	723.6	722.9
Fund for future appropriations	88.7	95.8
Technical provisions	280.4	253.7
Gross liabilities for investment contracts	343.3	364.3
Creditors, accruals and deferred income	11.1	9.0
Total liabilities	723.6	722.9

How Directors are remunerated

As a mutual, we are required to prepare accounts in accordance with the Friendly Societies Act 1992 and applicable accounting standards. However, in the interests of good corporate governance, we go beyond that and use the disclosure requirements contained in the Companies Act 2006 as a basis for the disclosure of Directors' remuneration.

This report provides details of the remuneration of the Executive Directors and the Non-Executive Directors.

policy on remuneration for Executive Directors and other executives

The Remuneration Committee is responsible for the Group's Executive remuneration policy.

When determining the remuneration policy for executives, the Committee considers a number of factors including:

- the need to recruit and retain good quality and highly motivated people;
- the remuneration practices of competitor businesses, including other mutuals; and
- compliance with the appropriate regulatory code of practice.

The remuneration includes a performance related element which is linked to the achievement of business and personal objectives.

Throughout the Group, we aim to ensure that our people are rewarded fairly for their contribution. To achieve this, we obtain independent benchmarking data from Towers Watson Limited and set remuneration for each individual, whether Executive Director or staff member, by reference to a relevant role benchmark. The Remuneration Committee thereby ensures that Executive Director remuneration is determined using processes consistent with those adopted for all employees, and is set at a level designed to reflect similar roles carrying comparable responsibility in other organisations.

components of Director remuneration

There are three components of Executive Director remuneration:

- basic salary and associated benefits, including medical insurance;
- performance related pay, which is based on achievement of objectives set annually; the payment of any bonus award is deferred over four years in line with best practice guidance for financial services organisations, and paid subject to continued satisfactory business performance; and
- pension arrangements.

Each is dealt with separately below.

basic salary

It is the Committee's policy to ensure that the basic salary for each Executive Director is appropriate and competitive for the responsibilities involved. Salaries are reviewed annually by the Committee in February and any changes are introduced with effect from 1 March. Only basic salary is pensionable. Executive Director salaries are shown in table a.

performance related pay

The Group operates a discretionary performance related pay scheme for Executive Directors. The Committee meets annually to agree objectives and set incentive targets. The measures used to assess performance are taken from the Group's management information and balanced scorecard.

How Directors are remunerated (cont'd)

The objectives and weightings applied for 2013 and 2014 were similar. They reflect the continuing need for robust financial management, balanced with progress in the implementation of the Group's strategic direction in terms of customer development, infrastructure maintenance and people management. Hence the framework comprises:

- financial results in the year 47.5% (2013: 50%)
- customer community development and service 20%
- infrastructure maintenance and strategic development 22.5% (2013: 20%)
- people management and development 10%.

Under the combined scheme for 2014, the Executive Directors were eligible for an award of up to 50% of basic salary. 40% of the award is paid in the following year, with the balance deferred over a further three years subject to continued satisfactory business performance. On target performance will result in an award of 30% of basic salary. Awards made under the performance related pay scheme are shown in table a and c.

pension arrangements

During 2014 the Society operated a Defined Contribution pension scheme.

The Executive Directors each receive an employer contribution of 10% of basic salary paid into a Defined Contribution pension scheme.

Pension details are set out in table a.

service contracts

Executive Directors have service contracts with a one year notice period. No Non-Executive Director has a service contract.

share options

As a mutual, we do not operate a share or share option plan.

Non-Executive Directorships

The Committee believes that Non-Executive Directorships of external organisations represent an important opportunity for personal development. Accordingly, and subject to Board approval, Executive Directors may take such appointments. At this time Peter Burrows is a director of the Association of Financial Mutuals, the trade body representing the interests of the mutual insurance sector. He is also a governor of York College, an educational establishment. He does not receive remuneration for either position.

Non-Executive Directors

The remuneration of our Non-Executive Directors is recommended by the Chairman and Chief Executive for the Remuneration Committee to agree annually.

The remuneration is determined on the basis of an agreed minimum number of days committed to Group business and is also benchmarked against Non-Executive remuneration in other financial services organisations of similar size, including other mutuals.

The remuneration of Non-Executive Directors does not include any incentive element and Non-Executive Directors are not entitled to participate in any of the Group's pension schemes.

Non-Executive Directors are elected for a period of three years. The Board may resolve to reappoint a non-executive director at or before the expiry of their term. It is our policy to allow Non-Executive Directors to serve no more than nine years in aggregate. The Board acknowledges that Christina McComb has served the Society for ten years, but her skills experience and contribution to the Society are such that the Board wish her to continue as a director.

Details of the year of appointment and fees of our Non-Executive Directors are shown in table d.

How Directors are remunerated (cont'd)

emoluments of Directors for the year ending 31 December 2014

table a – Executive Directors' total remuneration

Executive Directors	Date of appointment to the Board	Basic Salary £'000	Benefits £'000	Current year annual performance award Paid in year £'000	Current year annual performance award Deferred £'000	Pension £'000	Total £'000
2014							
Peter Burrows	10-Nov-10	252	1	36	54	25	368
Karl Elliott	4-Dec-07	164	1	23	35	16	239
Maria Leighton	2 Apr 2014	94	1	18	27	9	149
Total		510	3	77	116	50	756
2013							
Peter Burrows	10-Nov-10	208	10	47	71	20	356
Karl Elliott	4-Dec-07	143	8	31	46	14	242
Total		351	18	78	117	34	598

notes

- (1) Benefits represent car allowance and medical insurance.
 (2) Pension contributions in the year are all made through the Defined Contribution scheme for Peter Burrows £25,000 (2013 : £20,000), Karl Elliott £16,400 (2013 : £15,200) and Maria Leighton £12,500 (2013 : n/a)

table b – value of defined benefit pension benefits for Executive Director

	Accrued benefit at 31 December £'000	Accrued benefit at 31 December prior year £'000	Transfer value of increase in accrued pension less member contributions £'000	Transfer value as at 31 December £'000	Transfer value as at 31 December prior year	Increase in transfer value less member contributions
Karl Elliott						
2014	32	31	21	610	810	200
2013	31	30	16	523	613	89

How Directors are remunerated (cont'd)

table c – long-term performance award

Executive Directors	Date of Appointment to Board	Deferred performance award – b/f £'000	Current year performance award £'000	Current year performance award – Paid in year £'000	Deferred performance award – Paid in year £'000	Deferred performance award – C/f £'000
2014						
Peter Burrows	10 Nov 2010	128	90	(36)	(63)	119
Karl Elliott	04 Dec 2007	92	58	(23)	(48)	79
Maria Leighton	02 Apr 2014	-	45	(18)	-	27
Total		220	193	(77)	(111)	225
2013						
Peter Burrows	10 Nov 2010	97	118	(47)	(40)	128
Karl Elliott	04 Dec 2007	92	77	(31)	(46)	92
Total		189	195	(78)	(86)	220

notes

- (1) Andrew Haigh resigned as a Director on 24 December 2012.
- (2) Karl Elliott transferred his pension contributions into a Defined Contribution scheme on 1 January 2013 following the closure of the Society's Defined Benefit scheme to future accruals on 31 December 2012.

table d – Non-Executive Directors' remuneration

Non-Executive Director	Date of Appointment	2014 fees £'000	2013 fees £'000
Christina McComb (1)	11-May-05	52	35
Andrew Gosling	24-Mar-11	35	35
Paul Chandler	01-Oct-12	35	35
Nigel Masters	01-Jun-12	35	35
Caroline Fawcett (2)	28-May-13	35	23
David Robinson (3)	03-Aug-10	20	60
Peter Mason	09-Dec-05	-	3
Total		212	226

notes

- (1) Christina McComb was appointed chairman on 30 April 2014.
- (2) Caroline Fawcett joined the Board on 28 May 2013.
- (3) David Robinson resigned from the Board on 30 April 2014



Engage Mutual Assurance, Hornbeam Park Avenue, Harrogate, HG2 8XE tel: 01423 855000 fax: 01423 855181.

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