family investments

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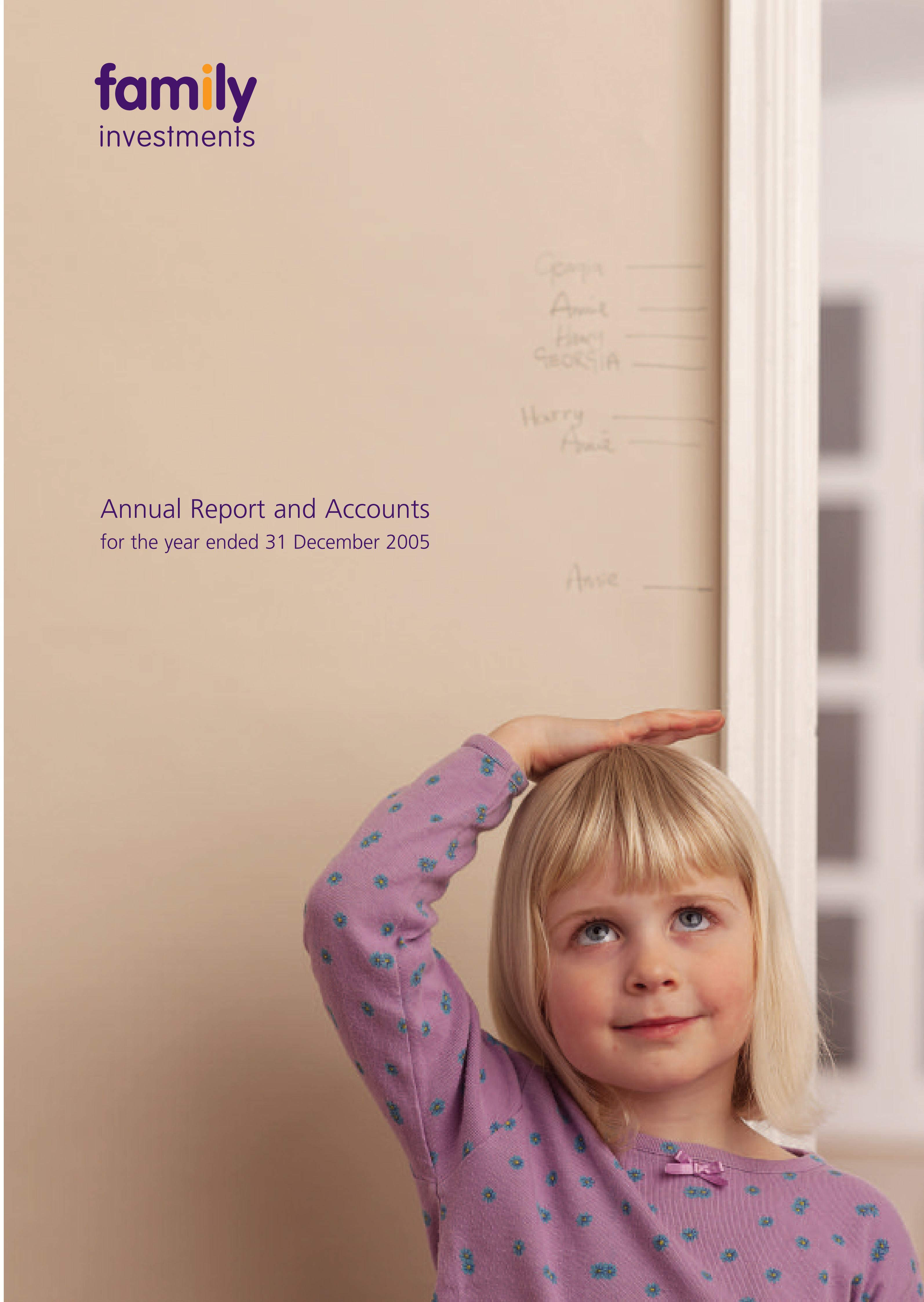
family investments

Annual Report and Accounts

for the year ended 31 December 2005





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Southwark Towers
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London SE1 9SY

Bankers
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Solicitors
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Chairman's Review

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Robert Dolman, Chairman

Overview

I am pleased to report that 2005 was a year of substantial achievement for the Society, the centrepiece being the launch of our Child Trust Fund (CTF) Account.

Building on our long experience in children's savings we are now a leading provider of the CTF which in turn was the principal reason for the introduction of some 250,000 new members during the year. This record level of new business suggests that our decision to be a major player in the CTF is proving to be a good one for the Society. Additionally, our increased scale of activity has helped us to reduce our unit costs which is essential to maintaining our competitiveness.

As a result of this rapid growth, membership stood at some 733,000 at the year end and has continued to grow strongly in the first few months of the new year.

Results

As I reported last year, we undertook a series of measures in 2004 to strengthen our reserves. This was done in anticipation of the significant level of investment necessary to achieve the growth enjoyed in 2005 and the growth we plan to achieve over the coming years. As a result our reserves reduced by £3 million in 2005 but remain comfortably in excess of statutory limits. We anticipate reducing levels of reserve strain in the next three years as our CTF business builds up steam but fully expect a positive return from the amount invested from the business already on the books. I believe that many businesses would like to achieve similar results within nine months of launch of a major new product initiative. To use an analogy, in 2005 we planted a lot of acorns which will grow into a forest of oaks and serve the Society well for many years to come.

Investment returns

World stock markets remained strong in 2005 whilst interest rates remained low. The net result was that all the Society's funds provided positive returns for members. Our managed funds did particularly well with returns between 14% and 19% after charges, the net return of our largest fund, Sovereign 3, being 15.6%. As in 2004, this return was ahead of the Sovereign fund's performance benchmark providing further evidence of the valuable contribution of New Star who manage the Society's funds.

As a result of the recovery of stock markets over the last three years, the unit prices of our managed funds were either close to or a little ahead of the peaks they reached at the turn of the millennium. Whilst we continue to believe that equities hold the best long term store of value, there can be significant fluctuations in prices in the shorter term and those Family Bond members who wish to avoid such fluctuations can switch their investment to the Safety First fund which offers complete capital security.

Products

The Child Trust Fund has made a significant impact since its launch in April 2005. Its universal nature means that all children born since 1st September 2002 will have one, which in turn has introduced many more people to the concept of long term saving.

Child Trust Funds are opened with a donation from the Government (usually £250) and it's easy for anyone to top up this amount either with a lump sum, or with regular payments by direct debit which can be started with just £10 a month. These additional payments can be made by parents, grandparents, aunts, uncles and friends. The evidence of our Christmas campaign is that they are more than willing to do so and I believe that this makes our CTF a true 'family' product in every sense of the word.

We have also been pleased by the continued support of members for our more traditional products with many choosing to extend saving through their Family and Junior Bonds with the latter providing a valuable alternative for older children who do not qualify for the CTF.

Members can also further increase their tax-exempt savings through our competitively priced equity ISAs or simply choose to invest directly into our range of unit trusts.

Customer service

It was important during the year to achieve the right staffing levels in order to continue to provide a first class service to both new and existing members.

We recruited and trained over 140 new staff, mainly on short term contracts, to handle the extra workloads brought about by the introduction of the CTF. This was a period of great challenge for all our staff both old and new and the fact that they coped so magnificently is I believe a tribute to them all.

Rapid growth can often see service levels suffer but I am pleased to report we have seen a further improvement with fewer complaints (48% down on 2004) and better than benchmark service not only directly to our members but also our partners who provide a significant proportion of our CTF distribution. Nonetheless, inevitably we sometimes get it wrong and I apologise to those members involved. We shall look to learn from any errors to get it right for the future.

During times when customer service is uppermost in your minds let me quote just a few facts from 2005:

- total contacts with our customers = 845,000 (150% increase on 2004).
- phone answering response time (answered within 20 seconds) up from 83.9% to 84.4% during a very busy year.
- all new business applications processed within 48 hours.

We shall make further investments in both systems and the training of our people as part of our process of continual service improvement.

Corporate governance

With effect from 1st January 2006 we have sought to comply fully with the 'Annotated Combined Code for Life Mutuals' which seeks to ensure a high level of corporate governance and give members further say in how their societies are run. A consequence of this is that, as you will see, we are now disclosing more information about how your Society operates. We hope you will find this of benefit but I would very much welcome your comments on this, or indeed any other matter related to your Society. As part of our review of this area we have appointed two further non-executive directors to the Committee of Management (the 'Committee'), Norman Riddell and Veronica France, who will bring fresh thinking to the Committee and cover for two anticipated retirements from the Committee in 2007.

Staff

A record year demands record effort. Our staff have responded to this challenge and I am proud of them all.

Robert Dolman, Chairman
29 March 2006

Chief Executive's Operational Report

John Reeve, Chief Executive

I am pleased to report that 2005 was an extremely successful year for your Society. Not only a record number of new members joined the Society but also record premium and contribution income was received of £172.4m, whilst the Society's managed unit linked funds achieved double-digit percentage increases in their unit prices.

Review of activities

In 2005 the Society launched its Child Trust Fund (CTF) product which is proving to be extremely successful. By the end of the year more than 240,000 new accounts had been opened and total contributions were received from the Government and from individuals of more than £78.8m. These accounts were largely sold through partnerships with prestigious distribution partners such as Barclays Bank, Post Office, Bounty and Sainsbury's, amongst others. These partnerships have enabled us to make our CTF product available through 18,000 retail outlets and it is a testament to your Society that we have the trust and confidence of such big brands. The Society has also registered with HM Revenue & Customs to receive Revenue Allocated Accounts. These are CTF accounts which have not been opened by the voucher holder, whereby after a year the Revenue allocates the accounts to providers on a rotational basis. We started to receive our allocation of these accounts in March of this year and we are confident that they will be a valuable addition to our sales volumes.

As a result of the significant volumes of new business written during 2005 total expenses have increased by 22% over 2004. However, much of this increase is due to the higher marketing costs associated with the record sales levels in the year, whilst the remainder of the increase resulted from the administrative costs associated with the substantially higher number of policies on file resulting from these large sales volumes. These increased volumes have enabled us to reduce the average administration cost per policy by taking advantage of economies of scale, and we envisage that as volumes continue to build in the coming years the average cost per policy will continue to decline. By increasing our volumes and thereby reducing our average costs per policy we will build a stronger and more secure Society, which of course in the long run is very much in the interests of all our members. We will continue to maintain tight control over our expenses to maintain downward pressure on costs per policy which clearly is essential in the context of charge capped stakeholder products such as CTF to enable the Society to grow successfully in this competitive environment.

Sales in such high volumes of the CTF product, which has no initial charge, together with the initial development costs, have also led to new business strain where the costs of selling and servicing the new business are not covered in the short term by the charges on the policy, and hence a cash deficit arises in the year. However this short term phenomenon is comfortably manageable in the context of the Society's existing financial resources and in the longer term the Committee is confident that sales of CTF add to the Society's profitability. In 2005 the new business strain has resulted in the technical account showing a deficit, i.e. a transfer from reserves of £3m and as a result total reserves fell from £49.5m to £46.5m although it should be noted that £1.6m of this reduction is due to the restatement of prior year reserves resulting from a change in accounting policy required by the introduction of a new Financial Reporting Standard on accounting for pension costs. Given that in the longer term we are projecting the CTF new business to be profitable we are confident that in the next few years reserves will recover and that our entry into this market will add significantly to the long term value of the Society whilst the infrastructure changes developed to allow us to enter the market will benefit all our members. As a result of the higher levels of sales, the Society's sales and marketing expenditure increased by £1.9m over 2004, but in terms of the average cost per policy sold this is a substantial improvement over previous years and this again is vital in a charge capped environment. In 2005 the cost of selling the CTF product was less than 25% of the cost of selling a Family Bond in the previous year.

During 2005 we successfully merged our staff pension scheme with the scheme transferred to us in 2002 as part of the merger with the Post Office Insurance Society. Due to actions taken to help us to manage the ongoing costs of the scheme, and additional one-off payments into the scheme, the scheme is now in surplus on an ongoing basis of valuation.

Future developments

The Society's focus in terms of future development remains very firmly on the CTF product. We will continue to develop our systems and processes to facilitate additional contributions to CTF accounts from our members, which are key to the value of the product from a member's point of view, whilst at the same time continuing to improve the cost efficiency of our administrative operations.

It is also our intention to continue to develop services that make our products easy to access.

Treating Customers Fairly

The Financial Services Authority has launched a new initiative under the title of Treating Customers Fairly (TCF). To do so has always been the aim of the Society but TCF has provided a further stimulus.

During 2005 we believe we have continued to treat all our members in a fair and equitable manner. Despite this we are looking at ways in which we can ensure this focus is always at the forefront in everyone's mind and that we test the effectiveness of our procedures against the question, "Are we treating all our customers fairly?" We will always adopt a learning stance whereby we will reflect and change procedures where we can to improve the way we handle customers' interactions with the Society.

Investment

Financial markets performed better in 2005 than almost anyone had expected, with the markets appearing immune to a series of external shocks. The oil price rose over 40% as growing demand could not be met after supply disruptions from hurricanes, sabotage and strikes, encouraging many forecasts of higher inflation to follow. The US monetary authorities put up interest rates eight times from 2.25% to 4.25%, raising concerns about US house price declines and consequent negative impact on US consumer spending. Despite these potential problems, the underlying global economy continued to enjoy low inflation growth, a benign background for financial markets.

In the UK, the FTSE All Share index provided a total return of 22%, with the FTSE 250 Mid Cap index up over 30% as rising corporate profits combined with a string of takeovers to push prices higher. Allied Domecq, BPB, O2 and P&O were some of the larger UK companies receiving bid approaches. Forecasts of a collapse in UK house prices were proven wrong and, after the reduction in interest rates in the second half of the year, the latest statistics suggest the housing market may pick up again in 2006.

In the rest of the world Japan ended its nine years of poor returns, rising by almost 40%, as hopes grew of an end to their long economic malaise. Europe also performed well as economic news improved and corporate restructuring continued. The real star was Emerging Markets which rose 50% as the economic boom in China continued and commodity prices moved higher to the benefit of many developing economies. The US was the major laggard as higher interest rates dampened investor enthusiasm for equities, but helped the dollar recover against other major currencies despite their large current account deficit.

The majority of the Society's funds are managed funds containing a mix of UK and overseas equities together with investments in cash and fixed interest stocks intended to reduce investment risk and improve long term returns through a diversification of holdings. For example our largest fund, the Sovereign fund, contains about 40% UK equities, 25% overseas equities with the balance mainly in bonds, property and cash.

The management of our investments is carried out for us by New Star Asset Management, a very successful and well respected fund manager. Asset allocation guidelines are determined by the Investment Sub-Committee and are designed to give our members the best prospect of a good return on their investment over the longer term. We set a target for New Star to beat the benchmark return based on the performance of the various indices for the markets in which we invest, and I am pleased to say that in 2005, and in the period since we appointed them in 2004, up until the end of the year, they beat the target for our largest fund, the Sovereign fund. This fund achieved 16.93% (before charges) against its benchmark of 15.88%, a small but valuable out-performance. The performance of our other managed funds achieved superior returns by comparison to deposit-based investments, but did not reach their performance benchmarks and we will be seeking improvements in 2006.

Economists are starting this year with optimistic forecasts. The world remains in the midst of a low-inflation expansion, liquidity remains plentiful and economic growth is sufficiently robust to allow double-digit gains in corporate earnings. Optimism about economic growth does presuppose that, as US growth weakens due to lower consumer spending, both Europe and Japan will pick up, driven by both higher exports on the back of their devalued currencies and more spirited consumer spending as employment and wage growth rise.

With the recent retreat in oil prices boosting economic growth prospects, tempering inflation concerns and allowing bond yields to drift lower, the relative valuation of equities again looks attractive and we hope this will enable 2006 to be a positive year for financial markets, with resulting positive effects on the value of your investment with the Society.

John Reeve

John Reeve, Chief Executive
29 March 2006

Committee of Management

Chairman
Robert Dolman*
Mr Dolman, aged 60, has been a member of the Committee since 1981, Vice Chairman from 1988 to 1993, and Chairman from 1993. He is a partner in a London firm of solicitors and specialises in trust and tax law.

Vice Chairman
David Jude*
Mr Jude, aged 67, Vice Chairman and Senior Independent Director, was appointed to the Committee in 1994. He was a Director of a leading City discount house, and previously worked for the National Westminster Bank Group.

Chief Executive
John Reeve FCA
Mr Reeve, aged 58, is a Chartered Accountant and has been a full-time executive of the Society since 1982. He was promoted to General Manager in 1987 and was subsequently appointed Chief Executive in 1992. He was appointed to the Committee in 1983.

Robert Weir FCA*
Mr Weir, aged 57, was appointed to the Committee in 1997. He was a Director of the Household Mortgage Corporation and has wide experience in financial and general management.

Rachael Heyhoe-Flint MBE DL*
Mrs Heyhoe-Flint MBE, aged 66, was appointed to the Committee in 1992 and has been a member of the Society for over 20 years. She runs her own marketing and public relations consultancy and is a former teacher and journalist.

John Wybrew FIA*
Mr Wybrew, aged 63, was appointed to the Committee in 1999. He is a Fellow of the Institute of Actuaries and former Chairman of a life assurance company. He is a past Chairman of the Investment and Life Assurance Group.

Norman Riddell*
Mr Riddell, aged 58, was appointed to the Committee in 2006. He is an investment consultant and a director of Norman Riddell & Associates Limited.

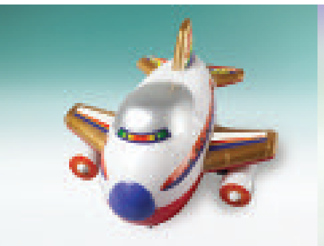
Veronica France*
Ms France, aged 44, was appointed to the Committee in 2006. She is a business development consultant and a past Chairman of the Investment and Life Assurance Group.

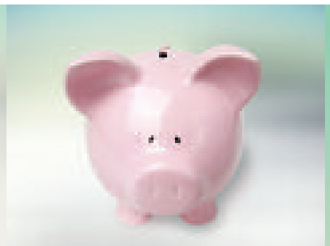
Finance Director
John Adams FCCA
Mr Adams, aged 51, is a Certified Accountant and has been a full-time executive of the Society since 1986 when he was appointed Financial Controller. He was promoted to Finance Director and appointed to the Committee in 1993.

Secretary and Corporate Services Director
Keith Meeres FCoI
Mr Meeres, aged 48, joined the Society in 1993 as Compliance Officer and became Secretary in 1996. He was appointed to the Committee in 1997. He is responsible for overseeing the Society's Regulatory Compliance, Risk, Internal Audit, Human Resources and Facilities functions.

Chief Operating Officer
Rob Edwards
Mr Edwards, aged 50, has been a full-time executive of the Society since 1988. He was appointed Operations Director in 1995, appointed to the Committee in 1997, became General Manager in 2001 and Chief Operating Officer in 2006.

*Denotes non-executive Committee members




Committee of Management's Annual Report

The Annual Report and Accounts have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations').

The Society is governed by a Committee of Management, the membership of which comprises the Chairman, six other independent non-executive directors and four executive directors. 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 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 their judgement in performing their duties. Directors' biographies and details of length of service can be found on pages 8 and 9.

Committee of Management

During 2005 the members of the Committee were as follows:

Non-executives

Robert Dolman (Chairman)
David Jude (Vice Chairman)
Rachael Heyhoe-Flint
Robert Weir
John Wybrew

Executives

John Reeve (Chief Executive)
John Adams (Finance Director)
Rob Edwards (Chief Operating Officer)
Keith Meeres (Secretary and Corporate Services Director)

The Committee has reviewed the length of service of all non-executive directors and considers that they all meet the criteria of independence. Three non-executive directors, Robert Dolman, Rachael Heyhoe-Flint and David Jude, have each served in excess of nine years on the Committee and, after careful consideration of their character, judgement, competence and experience the Committee continues to view them as suitably independent, however their service will continue to be subject to regular review. From the 2006 Annual General Meeting any non-executive director that has exceeded nine years' service will, if still considered independent by the Committee, seek re-election on an annual basis rather than every three years. Any term of service beyond six years for a non-executive director is also subject to rigorous review. As part of the Society's succession planning, two new non-executive directors, Norman Riddell (appointed 1 February 2006) and Veronica France (appointed 22 February 2006) have joined the Committee and stand for election at the 2006 Annual General Meeting. The Committee will comprise seven non-executive directors in 2006 but revert to five in 2007 when it is expected that two non-executive directors will retire.

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 22 of these Annual Report and Accounts.

Business objectives and activities of the Society and its subsidiary companies

The Group's objective is generally to promote the financial well-being of its members through the provision of life assurance and savings schemes. Your Committee believes that the expectations of its members, on which the performance of the Committee should be judged, are that the Society meets or exceeds its investment benchmarks and maintains high standards of customer service. We believe also 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.

Number of members

As at 31 December 2005, the Society had approximately 733,000 members (2004: 530,000).

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. Details of the Society's Member Relations Strategy are available on our website at www.family.co.uk or from the Society's Secretary.

Review of activities and future developments

Please refer to the Chief Executive's Operational Report on pages 5 to 7 for his review of activities and comments on future developments.

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Statement of solvency
As at 31 December 2005 the Society's margins of solvency exceeded the minimum requirements, as prescribed by the Financial Services Authority's Integrated Prudential Sourcebook, for each class of relevant business.

Financial management risk 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 interest rate risk and equity price risk. These risks arise from open positions in interest rate and equity products, 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 price, currency, credit, or interest risk for these contracts.

Interest rate risk
Interest rate risk is the only financial risk that has a materially different impact across the assets and liabilities categorised in the Group's ALM framework.

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.

Equity price risk
The Group is exposed to equity price risk as a result of its holdings in equity investments. 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 and North America).

The Group has a defined investment policy which sets limits on the Group's exposure to equities both in aggregate terms and by geography, industry and counterparty. This is monitored by the Investment Sub-Committee of the Committee (see page 14).

Reappointment of auditors
A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Society will be proposed at the forthcoming Annual General Meeting on 25 May 2006.

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.

Health and safety report
The Society is committed to maintaining high standards of health and safety and environmental controls and can report as follows:

- there were no significant accidents involving staff or visitors during the year;
- where appropriate, staff attend health and safety training, to include manual handling and display screen equipment use; and
- there is a Committee of Representatives of Employee Safety which meets regularly and includes senior managers.

Statement of responsibilities of the Committee of Management
The directors are elected and stand for re-election every three years unless they have served on the Committee in excess of nine years in which case they stand for re-election every year. Election, or re-election, is by majority vote at the Annual General Meeting.

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.

The Committee is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Society and ensure 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 Audit Committee, an ongoing review of the effectiveness of the Group's systems of internal controls and risk management and is satisfied that there are no material shortcomings. The review is undertaken by means of receiving audit and management reports, attending risk management meetings, holding discussions with executive and operational management and reviewing the risk management process. Where significant control shortcomings or risks are identified progress is monitored until the issue is satisfactorily resolved.

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 and experience of the non-executive directors provide an appropriate balance to ensure that the Society is effectively managed and controlled.

Liability insurance for officers
The Committee maintained liability insurance for officers of the Society throughout the year.

Corporate governance
The Society recognises the importance of, and is committed to, high standards of corporate governance. Corporate governance, often defined as the way a firm is controlled and directed from within, has recently been the subject of increasing focus for mutual organisations.

The Combined Code on Corporate Governance was introduced for listed companies from 2003. A new code for life mutuals, based on the existing Combined Code, became effective for accounting periods commencing 1 January 2006. The Society considers the Combined 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 even though it has not been required to do so. The Committee has set the values and standards for the Society and its staff, taking account of the principles of the Combined 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 a majority of the relevant principles and provisions of the Annotated Combined Code for Mutual Insurers (July 2005 – 'the Code'), as amplified by the Best Practice Guidelines for Mutual Insurers issued by the Association of Mutual Insurers/Association of Friendly Societies (December 2005).

In 2006 the Society intends to comply fully with the Code and, as required by the Code, we will in future years advise you of where we fail or chose not to observe the Code and why.

The Committee is primarily responsible for the strategic direction of the Society and delegates responsibility for the day to day running of the business to executive management. Progress on operational matters and key initiatives is reported through Committee meetings and all initiatives involving significant expenditure, strategic change, significant perceived risk or material departure from agreed budget or strategy require Committee consideration and approval.

The division of responsibilities between Robert Dolman, Chairman and John Reeve, Chief Executive has been agreed by the Committee and documented. David Jude, Vice Chairman, undertakes the role of Senior Independent Director.

Attendance at meetings in 2005

The following table sets out the attendance of directors at regular Committee meetings and meetings of the Audit, Nominations, Remuneration and Investment committees held in 2005. Details of the activities that each individual committee follow and the terms of reference for each committee can be found in the "member information" section of our website www.family.co.uk. The number of meetings held and the maximum number of meetings each director could have attended are shown in brackets.

	Committee of Management	Nominations Committee	Audit Committee	Investment Sub-Committee	Remuneration Sub-Committee
Robert Dolman	6 (6)	1 (1)	–	8 (8)	3 (3)
David Jude	6 (6)	1 (1)	3 (3)	–	3 (3)
Rachael Heyhoe-Flint	6 (6)	1 (1)	–	–	–
Robert Weir	6 (6)	1 (1)	3 (3)	–	–
John Wybrew	5 (6)[1]	1 (1)	3 (3)	–	1 (1)[4]
John Reeve	5 (6)[2]	–	–	7 (8)[3]	2 (2)[4]
John Adams	6 (6)	–	–	–	–
Rob Edwards	6 (6)	–	–	–	–
Keith Meeres	6 (6)	–	–	–	–

1 Mr Wybrew did not attend the Committee meeting in February due to personal commitments.
2 Mr Reeve did not attend the Committee meeting in October due to illness.
3 Mr Reeve did not attend the Investment Sub-Committee meeting in April due to illness.
4 In order to comply with the Annotated Combined Code for Life Mutuals, on 29 September 2005 Mr Reeve resigned from and Mr Wybrew was appointed to the Remuneration Sub-Committee.

The Chairman and non-executive directors meet independently of the executive directors at least four times a year.

In support of best practice, the Committee operates the following sub-committees:

Nominations Committee

Robert Dolman (Chairman)
Veronica France (appointed 22 February 2006)
Rachael Heyhoe-Flint
David Jude
Norman Riddell (appointed 1 February 2006)
Robert Weir
John Wybrew

The Nominations Committee became effective from 1 January 2005. It comprises all non-executive directors and its chairperson is appointed by the Committee of Management. It may obtain such outside legal or other independent professional advice as it deems necessary.

The Nominations Committee meets at least once a year to review the structure, size and composition of the Committee of Management. It 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.

The Nominations Committee makes recommendations to the Committee of Management regarding membership of the Audit Committee and the Remuneration and Investment Sub-Committees.

As mentioned elsewhere, the Nominations Committee made two new appointments in February 2006. Following advertising and a formal appointment process that considered in excess of 40 applicants of high quality, the Nominations Committee recommended to the Committee of Management that Norman Riddell and Veronica France offered the most suitable skills, personal qualities, knowledge and experience required for the roles.

Investment Sub-Committee

Robert Dolman (Chairman)
John Reeve
Norman Riddell (appointed 1 February 2006)
Roger Nightingale (external adviser)
David Gamble (external adviser, retired on 15 November 2005)

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

Remuneration Sub-Committee

Robert Dolman (Chairman)
David Jude
John Wybrew

The Remuneration Sub-Committee meets at least once a 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 to assess trends in the competitor and local employment markets.

Details of the remuneration packages of the directors can be found in the Remuneration Report on pages 19 to 21.

Audit Committee

David Jude (Chairman)
Robert Weir
John Wybrew

The Audit Committee meets three times a year and assists the Committee of Management in meeting its responsibilities in respect of the systems of internal control and external financial reporting. It considers the appointment of, and fees for, the external auditors and considers the effectiveness of Internal Audit, which has unrestricted access to the Audit Committee and the Committee of Management. It also takes an independent view of the appropriateness of the Group's accounting policies and practices.

The Audit Committee also undertakes the role of a "with-profits committee" in order to oversee the Society's with-profits business in accordance with Financial Services Authority rules, in particular the Principles and Practices of Financial Management published for each with-profits fund.

On behalf of the Committee of Management, the Audit Committee reviews the independence and objectivity of the external auditors before an appointment recommendation is made to members at the Annual General Meeting. The nature and extent of non-audit work and related fees are regularly reviewed by the Audit Committee, and the Committee of Management has developed a policy setting out the terms and conditions for engaging the Society's external auditors to supply non-audit services that is designed to protect objectivity and independence.

In addition to the above sub-committees a POIS Supervisory Board and a Risk Management Committee were maintained comprising directors and senior managers:

POIS Supervisory Board

The POIS Supervisory Board meets four times a year and is responsible for monitoring the performance of the business of POIS Assurance which transferred to the Society on 2 April 2002.

Risk Management Committee

The Risk Management Committee meets regularly to review the changing risks arising both from within the Group and from changes in the external environment and to consider appropriate strategies to mitigate those risks.

The Risk Management Committee monitors the adequacy of the systems of internal control which are embedded in the operations of the Group to ensure that management is capable of responding quickly to changing risks and that procedures are in place for reporting immediately to appropriate levels of management any major control weaknesses that are identified. The Risk Management Committee provides regular reports of its activities to the Committee of Management.

Performance monitoring and evaluation

Each year the Committee sets key business objectives for the Society for that year and as part of its rolling three-year plan based on the objectives outlined in the business objectives and activities section on page 11. Performance against these objectives is monitored by the Committee at regular intervals and is evaluated annually in terms of the collective performance of the Committee, its sub-committees and individual evaluation of each director.

To comply with the Annotated Combined Code for Life Mutuals, formal evaluation by the Committee will be conducted internally in 2006 by means of interviews and questionnaires completed by each director.

In addition the Chairman holds periodic meetings with each executive director and formal meetings with the non-executive directors to evaluate the performance of the Committee.

The Chairman evaluates the performance of the Chief Executive who in turn evaluates the performance of the executive directors. In addition their performance as members of the Committee is evaluated in the same way as non-executive directors.

Committee of Management's Annual Report

The Chairman's performance will be evaluated in 2006 by the Committee under the supervision of the Senior Independent Director. This evaluation system is designed to provide the Committee with high level feedback and to highlight any relevant actions.

Staffing

The Group employed an average of 318 members of staff during 2005 at a total cost of £11.5m. Of this cost, £1.7m arose as a consequence of high temporary staffing levels for the launch of CTF.

The Committee believes that the development and training of staff continues to be essential in order to ensure effective management of the Society and provision of appropriate service to members.

Equal opportunities

It is the Society's policy to treat job applicants and employees in the same way, 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.

Furthermore, the Society recognises that it has clear obligations towards all its employees and the community at large to ensure that people with disabilities are afforded equal opportunities to enter employment and progress within the Society.

In addition to complying with legislative requirements affecting the disabled, the Society will follow procedures designed to provide for fair consideration and selection of disabled applicants and to satisfy their training and career development needs.

If employees become disabled in the course of their employment steps will be taken, through retraining or redeployment if necessary, to enable them to remain in employment with the Society wherever possible. The policy applies equally to registered and non-registered disabled employees.

Employee involvement

It is the Society's belief that excellent service to members, efficiency and high productivity are best achieved in a harmonious working environment with high levels of employee involvement. Timely, consistent, open and honest communications to and between all employees are an important part of this and we have a variety of mechanisms in place to achieve this, including staff question and answer forums with the executive directors and senior management, regular team briefings and an employee forum of elected representatives who meet regularly to consult on areas of concern, health and safety and any other issues raised by members of staff.

The Society also encourages and provides for continuing personal development in line with corporate objectives.

Corporate social responsibility

Environmental matters

The Society is aware of the environmental issues facing us all and, whilst we operate from a single building, and do not have a significant impact on the environment, we take our responsibilities seriously. Our head office in Brighton was built in 1991 using ozone-friendly materials wherever possible. For example, our carpet tiles are recyclable and our office furniture is mostly made from oak from sources where comprehensive planning and reforestation are enforced. The softwood used in the building originates from sustainable sources, and non-lead based paint is always used.

The building and business continues to be managed in an environmentally-friendly manner. The air conditioning and heating systems are acoustically controlled to prevent noise pollution, and we recycle wherever possible, including printer toner cartridges and paper. We have also introduced fair trade coffee in our vending machines.

Working in the community

Corporate Social Reponsibility is taken seriously by the Society. Our community programme, which has won several awards, is now in its fifteenth year. The Society actively encourages employees to take an active role in supporting their local community. This philosophy of putting something back into the community not only benefits the local community, but is also an opportunity for employees to develop their skills. In 2004 the community programme was reviewed in line with the Society's key strategies and business opportunities with the launch of the CTF in 2005. This review resulted in the Society, with the support of Brighton and Hove City Council, sponsoring a series of art based workshops with nurseries. These workshops benefited not only the children, but also the teachers and the parents. The Society is continuing this sponsorship of nurseries in 2006 and will include three Sure Start Children's Centres, offering health guidance to parents on a wide range of issues from healthy eating to smoking.

family investments

Photo: Southern News and Pictures

Art workshop sponsored by Family Investments with children from First Steps Nursery, Rottingdean
Pictured are Oliver (3), Jimmy (3), Solomon (3)

The Society continues to support our core community projects – Blatchington Mill School, Middle Street Primary School, Brighton and Hove City College and Age Concern. A recent initiative was to invite college students to get valuable interview experience by applying for and attending mock interviews, and getting feedback on their performance. The initiative was also useful for hands-on training and development of the employees who took part.

The Society also takes part in many community challenges, including fund-raising days, assisting governors of local schools and community projects with the National Trust, the RSPCA and many others.

The Society encourages all employees to take part in our community programme, and in 2005 over 30 employees took part in staff development projects, whilst over 40 took part in challenges.

During 2005, £4,000 was donated to support local charities and the local activities of national charities. Over the last few years the Society has raised over £100,000 for local charities. No political donations were made.

KF Meeres, Secretary
29 March 2006

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 forthcoming Annual General Meeting for approval, explains how the Society has applied the Combined Code on Corporate Governance for Life Mutuals as regards directors' remuneration. No director is involved in the determination of, or votes on, any matter relating to their own remuneration.

Remuneration Sub-Committee

The role of the Remuneration Sub-Committee is outlined on page 15.

Advisers to the committee

During the year the Remuneration Sub-Committee engaged the services of Kelham Corporate Consulting, a firm of independent advisers, to provide advice and guidance on directors' and senior management remuneration. Kelham Corporate Consulting also provided advice and guidance to the Society's Human Resources department during the year.

Remuneration policy

The Society's remuneration policy is designed to attract, motivate and retain key executives, and indeed all staff, with the relevant skills to help achieve the Group's objectives and to ensure that staff 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.

During the year the Committee undertook a comprehensive benchmarking exercise, again with the assistance of Kelham, as regards the remuneration of executive directors and senior management, to ensure that salaries are in line with salaries for comparable positions in similar financial organisations.

Service contracts

It is the Society's policy that the notice period of executive directors' service contracts should not exceed one year. None of the non-executive directors has a service contract.

Fees for non-executive directors are reviewed each year and usually reset biennially.

Remuneration components comprise:

Base salary

Base salaries are determined by individual performance and by reference to market salary levels obtained from independent sources. This is the only element of remuneration which is pensionable. In order to contain future pension scheme costs, from 1 January 2006, pensionable salaries will increase by a maximum of RPI. Any increase in base salary above RPI will be non-pensionable.

Long term incentive scheme

The four executive directors, together with eight senior managers, are included within a bonus scheme targeted at increasing the embedded value of the Society. Payments are capped as a percentage of salary.

The long term incentive is achieved by withholding 50% of bonus for a period of three years during which period the accrued amount may rise or fall as determined by the increase or reduction in the Society's embedded value.

Amounts accrued for executive directors at the year end are disclosed on the following page.

Pension

The Society operates a defined benefit pension scheme (now closed to new members) in which the executive directors participate. The scheme is non-contributory.

Other benefits

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

Committee of Management remuneration

	Salary/Fees 2005 £'000	Salary/Fees 2004 £'000	Bonuses[1] 2005 £'000	Bonuses[1] 2004 £'000	Other benefits[2] 2005 £'000	Other benefits[2] 2004 £'000	Total 2005 £'000	Total 2004 £'000
Executives								
John Reeve (Chief Executive)	191	180	41	11	28	25	260	216
John Adams (Finance Director)	128	125	29	8	16	16	173	149
Rob Edwards (Chief Operating Officer)	128	117	17	7	19	21	164	145
Keith Meeres (Secretary & Corporate Services Director)	94	90	14	5	18	16	126	111
Non-executives								
Robert Dolman (Chairman)	61	61	–	–	–	–	61	61
David Jude (Vice Chairman)	26	23	–	–	–	–	26	23
Rachael Heyhoe-Flint	18	18	–	–	–	–	18	18
John Wybrew	20	18	–	–	–	–	20	18
Robert Weir	20	18	–	–	–	–	20	18
	686	650	101	31	81	78	868	759

Notes:

[1] Includes bonuses added to, and movements in, the long term incentive scheme.

[2] Includes increase in accrued pension during the year.

Long term incentive scheme

	Value at 1.1.05 £'000	Embedded value increase during 2005[1] £'000	Bonus added during 2005 £'000	Amount withdrawn during 2005 £'000	Value at 31.12.05 £'000
John Reeve (Chief Executive)	82	15	9	–	106
John Adams (Finance Director)	64	12	6	–	82
Rob Edwards (Chief Operating Officer)	6	1	6	–	13
Keith Meeres (Secretary & Corporate Services Director)	5	1	4	–	10

Note:

[1] Embedded value increased by 18.8% during the year.

Pension entitlements

The executive directors have retirement benefits accruing under the Society's defined benefit pension scheme during the year. The table below sets out these benefits:

	Age	Total accrued pension 31.12.05[1] £'000	Increase in total accrued pension during 2005 £'000	Transfer value of accrued pension at 31.12.05[2] £'000	Change in transfer value during 2005 net of directors contributions[3] £'000
Executive					
John Reeve (Chief Executive)	58	99	10	933	135
John Adams (Finance Director)	51	41	2	287	33
Rob Edwards (Chief Operating Officer)	50	37	5	246	43
Keith Meeres (Secretary & Corporate Services Director)	48	40	4	215	27

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.

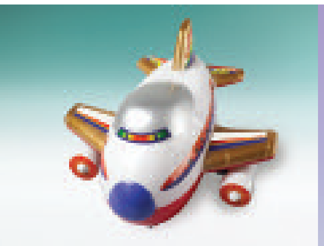
Notes:

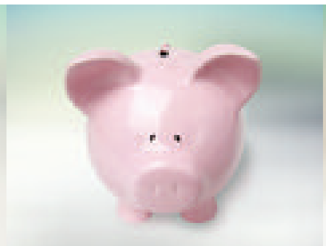
[1] The total accrued pension is the amount which the executive director would have been entitled to from normal retirement age if they had left service on 31 December 2005.

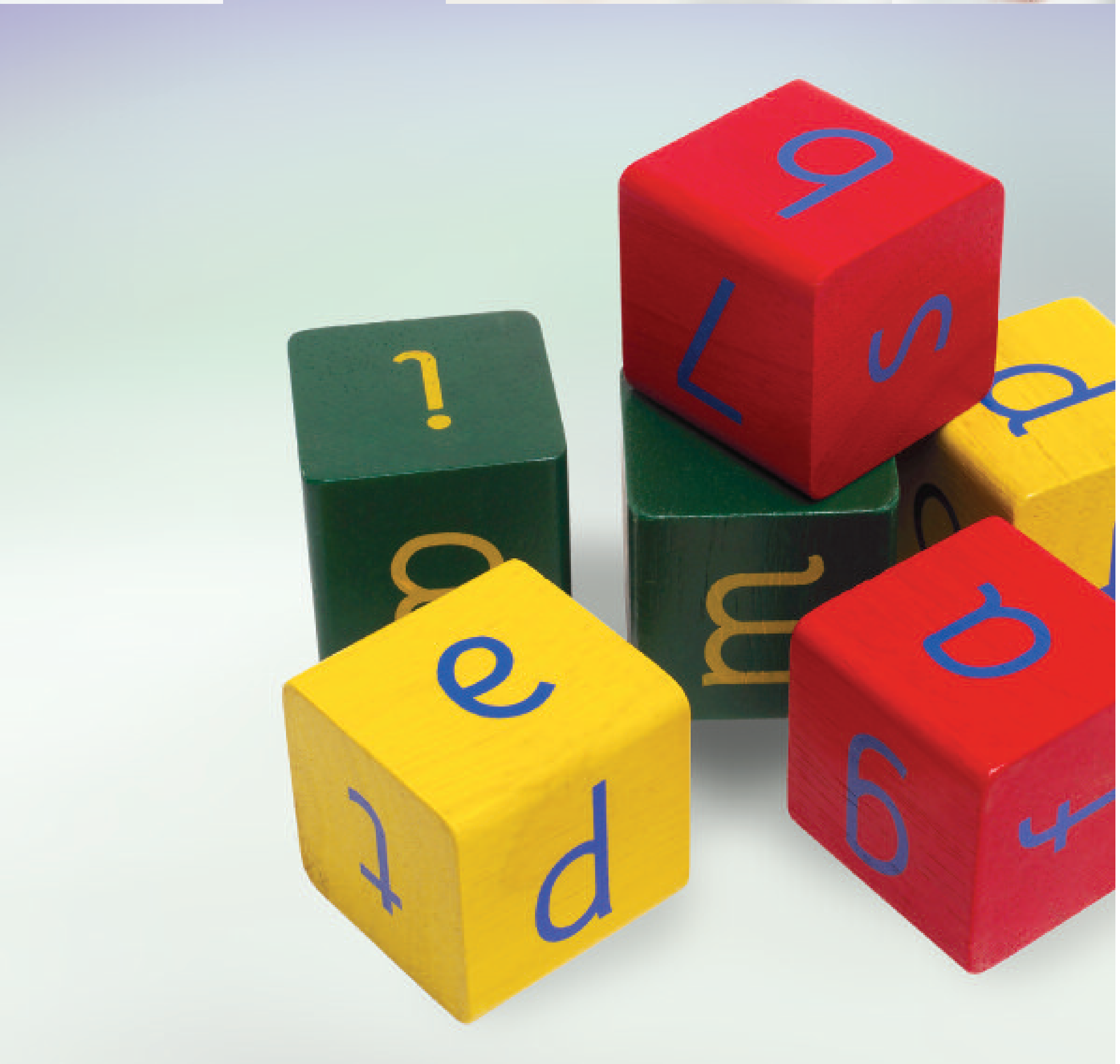
[2] The transfer values have been calculated in accordance with the Actuarial Guidance Note GN11.

[3] No contributions were payable by the executive directors during the year.

family investments







Independent Auditors' Report

TO THE MEMBERS OF FAMILY ASSURANCE FRIENDLY SOCIETY LIMITED

We have audited the financial statements of Family Assurance Friendly Society Limited for the year ended 31 December 2005 which comprise the primary financial statements such as the Income and Expenditure Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein. We are also required to report on the Committee of Management's Annual Report for the year ended 31 December 2005.

Respective responsibilities of the Committee of Management and Auditors

The Committee of Management's responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Committee of Management Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Society's members as a body in accordance with the Friendly Societies Act 1992 and the Regulations made under it and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it. In addition we report to you if, in our opinion, the Society has not kept proper accounting records, or if we have not received all the information, explanations and access to documents that we require for our audit.

We also report to you our opinion as to whether the Committee of Management's Annual Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it, and as to whether the information given therein is consistent with the accounting records and the financial statements.

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

Basis of opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's and the Group's affairs as at 31 December 2005 and of the income and expenditure of the Society and the Group for the year then ended, and have been properly prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it.

- the Committee of Management's Annual Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it, and the information given therein is consistent with the accounting records and the financial statements for the financial year.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors, London

29 March 2006

family investments

Income and Expenditure Account

TECHNICAL ACCOUNT – LONG TERM BUSINESS
for the year ended 31 December 2005

Notes		*Group 2005 £'000*	*Society 2005 £'000*	*Group 2004 £'000 Restated*	*Society 2004 £'000 Restated*
	Earned premiums, net of reassurance				
	Gross premiums written				
2	Continuing operations	83,361	83,361	95,354	95,354
	Outward reassurance premiums	(354)	(354)	(573)	(573)
	Net earned premiums	83,007	83,007	94,781	94,781
3	Investment income	49,274	49,274	57,719	57,719
3	Unrealised gains on investments	113,629	111,724	45,299	45,995
3	Realised gains on investments	19,613	19,613	1,649	1,649
5	Other technical income	3,376	–	2,485	–
	Total Technical Income	**268,899**	**263,618**	**201,933**	**200,144**
	Claims incurred, net of reassurance				
	Claims paid				
	Gross amount	(186,383)	(186,383)	(132,705)	(132,705)
	Reassurers' share	144	144	189	189
		(186,239)	(186,239)	(132,516)	(132,516)
17	Change in provision for claims				
	Gross and net amount	(1,784)	(1,784)	606	606
	Net claims incurred	(188,023)	(188,023)	(131,910)	(131,910)
17	**Change in technical provisions, net of reassurance**				
	Long term business provision, net of reassurance				
	Gross amount	9,353	9,353	221,897	221,897
	Reassurers' share	(1)	(1)	(410)	(410)
		9,352	9,352	221,487	221,487
	Other technical provision, net of reassurance				
	Technical provision for linked liabilities	(64,095)	(64,095)	(32,482)	(32,482)
	Net change in technical provisions	(54,743)	(54,743)	189,005	189,005
	Other expenditure				
4	Net operating expenses	(18,938)	(18,938)	(18,027)	(18,027)
3	Investment expenses and charges	(2,595)	(2,595)	(2,262)	(2,262)
5	Other technical charges	(5,280)	–	(250,925)	(249,208)
		(26,813)	(21,533)	(271,214)	(269,497)
	Total Technical Charges	**(269,579)**	**(264,299)**	**(214,119)**	**(212,402)**
	Deficit of technical income over technical charges before taxation	**(680)**	**(681)**	**(12,186)**	**(12,258)**
6	Tax attributable to the long term business	(423)	(422)	(428)	(356)
	Deficit on Technical Account – Long Term Business	**(1,103)**	**(1,103)**	**(12,614)**	**(12,614)**
21	Actuarial (loss) / gain on pension scheme	(1,888)	(1,888)	880	880
17	Transfer from the fund for future appropriations	**2,991**	**2,991**	**11,734**	**11,734**
	Balance on the Technical Account – Long Term Business	**–**	**–**	**–**	**–**

The deficit on the Technical Account – Long Term Business in 2004 was made up of a surplus on continuing business of £5,576k reduced by £18,190k for reserves transferred as part of a transfer of engagements.

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 2005

Notes		Group 2005 £'000	Society 2005 £'000	Group 2004 £'000 Restated	Society 2004 £'000 Restated
	Investments				
9	Land and buildings	3,837	3,837	4,086	4,086
10	Investments in Group Undertakings				
	Investments in subsidiaries	–	5,648	–	7,553
11	Other financial investments				
	Shares, variable yield securities and units in unit trusts	11,009	10,103	11,856	10,352
	Debt securities and other fixed income securities	135,473	135,473	142,482	142,482
	Deposits with credit institutions	21,323	17,044	23,441	16,970
		171,642	172,105	181,865	181,443
12	**Assets held to cover linked liabilities**	1,162,368	1,162,368	1,098,273	1,098,273
	Reassurers' share of technical provisions				
	Long term business provision	517	517	518	518
	Other assets				
13	Tangible assets				
	Fixtures, fittings and equipment	337	337	460	460
14	Other debtors	2,620	2,235	3,734	3,553
	Cash at bank and in hand	2,453	2,231	1,050	814
	Prepayments and accrued income				
	Accrued interest and rent	1,878	1,878	1,998	1,998
	Other prepayments and accrued income	1,071	1,071	1,576	1,576
21	**Pension asset**	568	568	557	557
		1,343,454	1,343,310	1,290,031	1,289,192

Balance Sheet

family investments

LIABILITIES
as at 31 December 2005

Notes		Group 2005 £'000	Society 2005 £'000	Group 2004 £'000 restated	Society 2004 £'000 restated
17	**Reserves**				
	Fund for future appropriations	46,473	46,473	49,464	49,464
17	**Technical provisions**				
	Long term business provision	124,792	124,792	134,145	134,145
	Claims outstanding	3,488	3,488	1,704	1,704
17	**Technical provision for linked liabilities**	1,162,368	1,162,368	1,098,273	1,098,273
15	**Creditors**				
	Other creditors, including taxation and social security	3,845	4,707	3,759	4,504
	Accruals and deferred income	2,488	1,482	2,686	1,102
		1,343,454	1,343,310	1,290,031	1,289,192

Approved by the Committee of Management on 29 March 2006, and signed on its behalf by:

Robert Dolman, Chairman R A Dolman

John Reeve, Chief Executive John Reeve

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.

Change in accounting policy
FRS17 'Retirement benefits' has been adopted in full in 2005. The effect of this change in accounting policy was to decrease the transfer to the fund for future appropriations for the year by £0.99m (2004: increase by £2.14m).

Basis of consolidation
The Group Accounts comprise the assets, liabilities and profit and loss 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 or amortised value. 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 Friendly Society Limited 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 asset 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 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 asset 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 is closed to new entrants. 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. 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, which the directors do not believe is materially different from current value.

Land and buildings, other than those occupied by the Society, are valued by the Committee of Management at open market value, determined by reference to the indicative selling price. Land and buildings occupied by the Society are valued annually by independent professional advisors at market value based on vacant possession. 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.

family investments

1 Principal accounting policies (continued)

Under the Friendly Societies Act 1992, land and buildings are required to be depreciated over their expected useful economic lives. In respect of investment properties, this requirement conflicts with the generally accepted accounting principle set out in SSAP 19, that no depreciation should be provided in respect of such investments. The Committee of Management considers that to depreciate the investment properties would not give a true and fair view and accordingly the provisions of SSAP 19 have been adopted. Depreciation is only one of the factors reflected in the annual valuations, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

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.

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	3 - 4 years
Computer software	1 - 4 years

Research and development expenditure
Research and development expenditure represents computer software and product 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.

This fund includes surpluses arising on the former Family Life Assurance Limited closed funds and on the former POIS Assurance Limited closed fund which are ring fenced according to the transfer of engagements agreements.

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 Integrated Prudential Sourcebook for Insurers. The calculation in respect of term of 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 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
a)	**Gross premiums written:**				
	Life assurance business:				
	Linked	72,316	72,316	80,130	80,130
	Non-linked	9,162	9,162	11,076	11,076
	Pension business:				
	Linked	1,541	1,541	2,729	2,729
	Non-linked	–	–	893	893
	Annuity business	342	342	526	526
	Total gross premiums written	83,361	83,361	95,354	95,354
	Regular premiums	81,176	81,176	90,721	90,721
	Single premiums	2,185	2,185	4,633	4,633
	Total gross premiums written	83,361	83,361	95,354	95,354

		Society 2005		Society 2004	
		Single £'000	Regular £'000	Single £'000	Regular £'000
b)	**Gross new business premiums:**				
	New business premiums	644	2,986	1,408	6,445

In classifying new 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.
- New recurrent single premium contracts, including Department for Work and Pensions rebates on certain pension products, are included in annual new business premiums to the extent that they are deemed likely to renew.

		Group 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
c)	**Contributions received for Child Trust Fund, Equity ISAs and direct unit trust investments:**				
	Regular contributions	16,380	–	9,398	–
	Single contributions	73,009	–	1,264	–
		89,389	–	10,662	–

Contributions relate to business conducted by three of the Society's regulated subsidiaries, Family Equity Plan Limited, Family PEP Managers Limited and Family Investment Management 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 2005	Society 2005	Group 2004	Society 2004
d)	**Average number of policies on file:**				
	Continuing business	763,995	601,690	685,278	640,634
	Business transferred in 2004	–	–	23,966	23,966
	Average number during the year	763,995	601,690	709,244	664,600

3 Investment return summary

	Group 2005 £'000	Society 2005 £'000	Group 2004 £'000 Restated	Society 2004 £'000 Restated
Investment income:				
Income from listed investments	38,965	38,965	47,812	47,812
Income from other investments	10,024	10,024	9,768	9,768
Net return on pension scheme (see note 21)	285	285	139	139
	49,274	49,274	57,719	57,719
Investment expenses and charges:				
Investment management expenses, including interest	(2,595)	(2,595)	(2,262)	(2,262)
Unrealised gains on investments	113,629	111,724	45,299	45,995
Realised gains on investments	19,613	19,613	1,649	1,649
Net investment return included in the Technical Account – Long Term Business	179,921	178,016	102,405	103,101

4 Net operating expenses

		Group 2005 £'000	Society 2005 £'000	Group 2004 £'000 Restated	Society 2004 £'000 Restated
Acquisition costs:					
Incurred in the year:	Commission	955	955	1,201	1,201
	Other acquisition expenses	8,454	8,454	5,836	5,836
Change in deferred acquisition costs		–	–	418	418
Charge for the year		9,409	9,409	7,455	7,455
Research and development costs		1,989	1,989	3,088	3,088
Administration expenses		7,540	7,540	7,484	7,484
		18,938	18,938	18,027	18,027
Included in net operating expenses and other technical charges are:					
Depreciation charge for the year (see note 13)		388	388	539	539
Interest and similar charges made in respect of bank overdrafts		20	20	21	21
Remuneration of the Auditors in respect of audit and related services:		217	168	235	205
Statutory audit		149	110	123	98
Further assurance services		10	–	10	5
Tax services		58	58	54	54
Other services		–	–	48	48

5 Other technical income and charges

	Group 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
Other technical income:				
Income generated in subsidiary companies	3,376	–	2,485	–
Other technical charges:				
Expenses incurred in subsidiary companies	5,280	–	1,717	–
Assets transferred under Transfer of Engagements agreement	–	–	249,208	249,208
	5,280	–	250,925	249,208

On 30 September 2004, certain Life and Pensions long term business was transferred to Reliance Mutual Insurance Society Limited. The long term business transferred included all the assets and liabilities of two of the closed funds of the former Family Life Assurance Limited together with certain Life and Pensions long term business of the Society's ordinary long term business fund. The value of the long term assets and liabilities at the date of the transfer are set out below:

	Group and Society 2004 £'000
Assets:	
Investments	240,809
Debtors	1,256
Other assets	7,172
Liabilities:	
Claims outstanding	(22)
Other liabilities	(7)
	249,208
Represented by:	
Long term business technical provision	206,339
Technical provision for linked liabilities	24,679
Fund for future appropriations	18,190
	249,208

6 Taxation

	Group 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
UK Corporation tax:				
Current year	682	681	520	448
Tax payable on unrealised gains on unit-linked assets	70	70	6	6
Prior year	(329)	(329)	(98)	(98)
	423	422	428	356

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 £681k (2004: £448k) relating to taxable business has been provided for. Taxes have been charged at various rates ranging from 20% to 30% (2004: 20% to 31%).

	Group 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
Deferred tax asset /(liability):				
Unit trust deemed disposals	(155)	(155)	(203)	(203)
Unrealised capital gains on equity assets	(94)	(94)	(5)	(5)
Actuarial reserves	–	–	(54)	(54)
Deferred tax liability	(249)	(249)	(262)	(262)
Deferred acquisition expenses	249	249	262	262
Deferred tax balance	–	–	–	–

There is an unrecognised deferred tax asset of £539k (2004: £567k), of which £249k (2004: £262k) has been set aside to shelter unrecognised deferred tax liabilities. The balance of £290k (2004: £287k) represents the net unrecognised deferred tax asset. This balance comprises, inter-alia, two principal components: ISA tax losses, which are being carried forward to future periods to offset any future taxable profits arising on ISA business, and deferred acquisition expenditure which will unwind in future periods to reduce taxable income 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.

family investments

7 Employee information

The average numbers of employees (including Committee of Management) during the year were:	*Group 2005 Number*	*Society 2005 Number*	*Group 2004 Number*	*Society 2004 Number*
Marketing	20	20	23	23
Investments	10	10	12	12
Administration and finance	288	288	213	213
	318	318	248	248

Staff costs for the above employees were:	*Group 2005 £'000*	*Society 2005 £'000*	*Group 2004 £'000*	*Society 2004 £'000*
Wages and salaries	9,321	9,321	6,902	6,902
Pension costs	1,354	1,354	1,272	1,272
Social security costs	798	798	615	615
	11,473	11,473	8,789	8,789

All employees are employed and remunerated directly by the Society.

8 Committee of Management emoluments

	Group 2005 £'000	*Society 2005 £'000*	*Group 2004 £'000*	*Society 2004 £'000*
Fees and benefits to the Chairman and non-executive directors	145	145	138	138
Salaries and benefits to executive directors	601	601	566	566
Performance related bonuses	101	101	31	31
	847	847	735	735

Chairman

The aggregate remuneration paid, comprising salary and benefits, to Mr Robert Dolman for the year ended 31 December 2005 amounted to £61k (2004: £61k).

Highest paid committee member

The aggregate remuneration paid to Mr John Reeve for the year ended 31 December 2005, comprising salary, benefits and the change in his accrued pension during the year, amounted to £260k (2004: £216k). Had Mr Reeve left service and pensionable service in the Staff Pension Scheme at 31 December 2005, his deferred pension at leaving would have been £99k per annum (2004: £89k per annum).

Pension contributions

All of the executive directors had retirement benefits accruing under defined benefit pension schemes during the year. There were no other pension contributions paid by the Society for the benefit of any of the directors during the year.

Further details of the emoluments of the Committee of Management can be found in the Remuneration Report on pages 19 to 21.

Long term incentive scheme

The executive directors had benefits under a long term incentive scheme during the year. The scheme is targeted at increasing the embedded value of the Society and amounts accrued, for the benefit of the executive directors, as at 31 December 2005 are £211k (2004: £157k). Benefits are receivable three years after the bonus declaration, contingent on the overall improvement of the Society's embedded value. The criteria used for determining executive directors' bonuses are the same as those which apply to the general bonus scheme applicable to all staff and bonuses are capped as a percentage of salary.

Loans to committee members

Two executive directors held loans from the Society during the year. There were no amounts outstanding at the end of the year (2004: £3,889). All loans were interest free and were repayable by equal monthly instalments within three years of being granted.

9 Land and buildings

	Group 2005 £'000	*Society 2005 £'000*	*Group 2004 £'000*	*Society 2004 £'000*
Movements during the year:				
As at 1 January	4,086	4,086	3,996	3,996
Revaluation during the year	(249)	(249)	90	90
As at 31 December	3,837	3,837	4,086	4,086
Types of land and buildings held at 31 December:				
Investment property – Freehold	2,000	2,000	2,560	2,560
Owner-Occupied – Short leasehold	1,837	1,837	1,526	1,526
	3,837	3,837	4,086	4,086
Cost of land and buildings held at 31 December:				
Investment property – Freehold	2,560	2,560	2,560	2,560
Owner-Occupied – Short leasehold	1,626	1,626	1,626	1,626
	4,186	4,186	4,186	4,186

Land and buildings were valued for the purpose of the 2005 and 2004 Annual Report and Accounts at open market value on vacant possession basis. The valuation of the Owner-Occupied property was made by Nelson Bakewell, a firm of independent Chartered Surveyors, on 16 December 2005. The Investment property was valued by the Committee of Management and, as it is currently being actively marketed, they are satisfied that the value attributed to it reflects its market value.

Notes to the Accounts

10 Investment in group undertakings

Subsidiaries	Society 2005 £'000	Society 2004 £'000
Ordinary shares at directors' valuation:		
As at 1 January	7,553	6,857
Repayment of capital reserve	–	(3,000)
Purchase of Share Capital	–	3,000
Revaluation during the year	(1,905)	696
As at 31 December	5,648	7,553

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	CTF, ISA and PEP manager
Family PEP Managers Limited	PEP manager
Family Enterprise Limited	Administrative services
Family Assurance Staff Pension Scheme Trustees Limited	Corporate trustee of the Staff Pension Scheme
Post Office Insurance Society Trustees Limited	Dormant
Family.co.uk Limited	Dormant

11 Other financial investments

	Group 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
At cost:				
Shares, variable yield securities and units in unit trusts	8,545	7,639	11,005	9,501
Debt securities and other fixed income securities	135,680	135,680	144,421	144,421
Deposits with credit institutions	21,323	17,044	23,441	16,970
	165,548	160,363	178,867	170,892
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	11,211	10,103	11,916	10,352
Debt securities and other fixed income securities	133,100	133,100	142,482	142,482
	144,311	143,203	154,398	152,834

12 Assets held to cover linked liabilities

	Group and Society 2005 £'000	Group and Society 2004 £'000
Market value as at 31 December	1,162,368	1,098,273
Cost as at 31 December	1,001,596	1,048,168

13 Tangible assets

	Group and Society Equipment £'000	Computer hardware £'000	Computer software £'000	Total £'000
At cost:				
As at 1 January 2005	1,980	2,438	4,814	9,232
Additions	125	99	41	265
Disposals	–	(137)	(1,049)	(1,186)
As at 31 December 2005	2,105	2,400	3,806	8,311
Accumulated depreciation:				
As at 1 January 2005	1,892	2,124	4,756	8,772
Charge for the year	151	138	99	388
Eliminated on disposals	–	(137)	(1,049)	(1,186)
As at 31 December 2005	2,043	2,125	3,806	7,974
Net book value as at 31 December 2005	62	275	–	337
Net book value as at 31 December 2004	88	314	58	460

14 Other debtors

	Group 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
Amounts falling due within one year:				
Amounts owed by linked funds	345	345	708	708
Loans to members	1,368	1,368	1,592	1,592
Taxation recoverable	36	14	1,029	1,029
Sundry debtors	871	508	405	224
	2,620	2,235	3,734	3,553

15 Other creditors

	Group 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
Due to subsidiary undertakings	–	1,302	–	1,242
Taxes payable	934	567	772	346
Sundry creditors	2,911	2,838	2,987	2,916
	3,845	4,707	3,759	4,504

16 Assets of the long term business

	Group and Society 2005 £'000	Group and Society 2004 £'000
The total assets relating to the long term business are:		
Assets held to cover linked liabilities	1,162,368	1,098,273
Investments	113,902	120,737
Deposits and cash at bank	14,946	15,373
Debtors, prepayments and accrued income	3,551	4,276
Reassurers' share of technical provisions	517	518
	1,295,284	1,239,177

17 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*
Technical provisions as at 1 January 2005 (as previously reported)	134,145	1,098,273	1,704	47,907
Prior year adjustment	–	–	–	1,557
Technical provisions as at 1 January 2005 (as restated)	134,145	1,098,273	1,704	49,464
Changes in technical provisions:				
Gross change in technical provisions, net of reassurance	(9,352)	64,095	1,784	–
Reassurers' share of the change in technical provisions	(1)	–	–	–
Transfer to the Technical Account – Long Term Business	–	–	–	(2,991)
Technical provisions as at 31 December 2005	124,792	1,162,368	3,488	46,473

Principal assumptions:
The valuation of non-linked with-profits business has been carried out using a net premium valuation method using the following principal assumptions:

	Interest rate % 2005	*Interest rate %* 2004	*Mortality rate* 2005	*Mortality rate* 2004
Taxable with-profits POIS fund	2.00	2.25	100% of AM80/AF80	100% of AM80/AF80
Non taxable with-profits POIS fund	2.75	3.25	100% of AM80/AF80	100% of AM80/AF80

The level of expenses included in the valuation are based on the current year's expenses allowing for cost inflation of 4%.

The principal changes to valuation assumptions made since the previous year-end were a decrease in the interest rates used, reflecting the change in interest yields on backing assets, and a decrease in the level of expenses included in the valuation, reflecting the change in the ongoing administration expense levels the Society operates at. The overall effect of changes to assumptions has been to decrease the long term business provision, net of reassurers' share, by £0.6m.

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 0.5%, the long term business provision would increase by approximately £2.5m. This does not include the corresponding effect on the valuation of assets.

18 Bonuses and rebates

	Group and Society 2005 £'000	Group and Society 2004 £'000
Cost of bonuses declared, as at 31 December:		
Other bonuses	592	512
Reversionary bonuses	837	911
	1,429	1,423

19 Capital position statement

Available capital resources

	former POIS Assurance Limited UK with-profits £'000	former Family Life Assurance Limited UK with-profits £'000	UK non-profit £'000	Total £'000
As at 31 December 2005:				
Fund for future appropriations	13,749	297	32,427	46,473
Adjustment to assets	–	–	(568)	(568)
Allocation of Group capital	–	–	(1,066)	(1,066)
Other adjustments	–	–	(30)	(30)
Total available capital resources	13,749	297	30,763	44,809
As at 31 December 2004:				
Fund for future appropriations	14,006	342	35,116	49,464
Adjustment to assets	–	–	(615)	(615)
Allocation of Group capital	–	–	(303)	(303)
Other adjustments	–	–	(4,262)	(4,262)
Total available capital resources	14,006	342	29,936	44,284

Technical provisions

	former POIS Assurance Limited UK with-profits £'000	former Family Life Assurance Limited UK with-profits £'000	UK non-profit £'000	Total £'000
As at 31 December 2005:				
Unit-linked	–	1,482	1,160,886	1,162,368
With-profits liabilities	92,988	13,138	–	106,126
Non-profit liabilities	1,075	–	17,591	18,666
	94,063	14,620	1,178,477	1,287,160
Claims outstanding	1,325	–	2,163	3,488
Reassurance	(515)	–	(2)	(517)
Technical provisions in the balance sheet	94,873	14,620	1,180,638	1,290,131
As at 31 December 2004:				
Unit-linked	–	1,323	1,096,950	1,098,273
With-profits liabilities	97,941	13,169	–	111,110
Non-profit liabilities	1,174	–	21,861	23,035
	99,115	14,492	1,118,811	1,232,418
Claims outstanding	1,382	–	322	1,704
Reassurance	(513)	–	(5)	(518)
Technical provisions in the balance sheet	99,984	14,492	1,119,128	1,233,604

There were no material options or guarantees included within the Technical provisions at either 31 December 2005 or 31 December 2004.

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 and has significant resources and financial strength.

In reporting financial strength, capital and solvency is measured using the regulations prescribed by the Financial Services Authority (FSA). 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 maintain financial strength to support new business growth;
- To satisfy the requirements of its policyholders, regulators and rating agencies;
- 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.

Restrictions on available capital resources

The Society is required to hold sufficient capital to meet the FSA'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 £44.8m (2004: £44.3m) of which £14.0m (2004: £14.3m) is held in with-profits funds and £30.8m (2004: £30.0m) 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 each 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. The available surplus held outside the with-profit funds is generally available to meet any requirements.

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 485% of its capital requirement of £9.1m (2004: 469%).

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 the unit-linked investments held by the Group would reduce reserves by approximately £6m.

19 Capital position statement (continued)

- 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. A 0.8% increase in the rate of administration expense inflation (currently 4% per annum) would reduce reserves by approximately £2m.

- Persistency risk in relation to unit-linked business, which would arise if there was a significant increase in surrender rates, would deprive the Society of the future income that business provides. An increase in surrender rates of 80%, or 50% after the point where premiums have ceased, would reduce reserves by approximately £1m.

  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 this way, liabilities would be increased to anticipate the future impact of the worse experience with immediate impact on 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.

20 Actuarial function holder

The Actuarial Function Holder of the Society is Mr D Addison of Watson Wyatt Limited. 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 Watson Wyatt Limited for professional services, which in 2005 amounted to £370k (2004: £463k), of which £nil (2004: £42k) related to work in respect of transfers of engagements.

21 Staff pension provision

At the previous accounting date the Society operated two separate defined benefit pension schemes, the POIS Staff Superannuation Fund ('the POIS Scheme') and the Family Assurance Friendly Society Limited Staff Pension Scheme ('the Family Scheme'). During the year, the Family Scheme was merged into the POIS Scheme and the combined scheme was renamed 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 is closed to new entrants. 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. Comparative figures are the previous year's figures for the Family Scheme and POIS Scheme combined.

Actuarial valuations were carried out for the POIS Scheme as at 31 December 2004 and for the Family Scheme as at 31 December 2001 and the figures for the combined scheme were updated to 31 December 2005 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 following table sets out the key FRS17 assumptions used for the Scheme. The table also sets out, as at 31 December 2005, 2004 and 2003, 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).

Assumptions	*2005*	*2004*	*2003*
Inflation	2.9%	2.6%	2.5%
Pension increases:			
pre April 1997 pension	0.0%	0.0%	2.5%
post April 1997 pension	2.9%	2.5%	2.5%
post April 2005 pension	2.2%	–	–
Salary growth	2.9%	3.6%	3.5%
Discount rate	4.9%	5.7%	5.8%
Investment returns:			
Equities	7.5%	8.0%	8.0%
Bonds and cash	4.1%	4.6%	4.8%
Other assets	4.9%	5.7%	5.8%

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 25.55 years (2004: 25.46 years). Allowance is made for future improvements in life expectancy.

Fair value of assets	*2005* *£'000*	*2004* *£'000*	*2003* *£'000*
Equities	17,183	11,212	9,901
Bonds and cash	4,423	5,515	5,063
Other net assets	45	32	44
Total fair value of assets	21,651	16,759	15,008
Present value of liabilities	(21,083)	(16,202)	(15,595)
Gross pension asset / (liability)	568	557	(587)

Over the year to 31 December 2005, regular contributions of £803k were made to the Scheme (these include contributions made to both the POIS and Family Schemes prior to the merger). It was agreed with the Trustees that with effect from the date of the merger, 1 June 2005, the Society would contribute at the rate of 21% of members' pensionable salaries.

In addition, the Society paid a one-off contribution of £1m on 2 June 2005 plus a further £0.5m contribution paid in equal monthly instalments from June 2005 to December 2005 inclusive.

In addition, over the year to 31 December 2005, employee AVC's totalling £12k were paid into the Scheme.

With effect from 1 January 2006 the Society will contribute at the rate of 16.6% of members' pensionable salaries, plus payments of £35k per month until 31 December 2006, amounts equal to the Scheme's Pension Protection Fund levies and all the administration costs of the Scheme. The contribution rate will be reviewed following the next valuation, due no later than 31 December 2007.

The Scheme is closed to new entrants and, under the method used to calculate pension costs in accordance with FRS17, the cost as a percentage of pensionable payroll will tend to increase as the average age of the membership increases, although in monetary terms is likely to decline.

family investments

21 Staff pension provision (continued)

The post retirement surplus or deficit under FRS17 moved as follows:

	2005 £'000	2004 £'000
Post retirement surplus / (deficit) as at 1 January	**557**	**(587)**
Contributions (employee and employer)	2,303	742
Operating charge:		
Current service cost (employer's part only)	(689)	(617)
Other net finance income:		
Expected return on pension scheme assets	1,217	1,051
Interest on post retirement liabilities	(932)	(912)
Net return credited to finance income	285	139
Actuarial gain or (loss):		
Actual return less expected return on pension scheme assets	1,756	300
Experience losses arising on pension scheme liabilities	(270)	(386)
(Loss) / gain due to changes in assumptions underlying the present value of scheme liabilities	(3,374)	966
Actuarial (losses) / gains recognised in the fund for future appropriations	(1,888)	880
Post retirement surplus as at 31 December	**568**	**557**

History of experience gains and losses

	2005 £'000	2004 £'000	2003 £'000	2002 £'000
Actual return less expected return on pension scheme assets	1,756	300	549	(2,526)
As a percentage of pension scheme liabilities at end of year	8%	2%	4%	20%
Experience losses arising on pension scheme liabilities	(270)	(386)	(450)	(803)
As a percentage of pension scheme liabilities at end of year	1%	2%	3%	6%
Actuarial (losses) / gains recognised in the fund for future appropriations	(1,888)	880	(1,289)	(1,015)
As a percentage of pension scheme liabilities at end of year	9%	5%	8%	8%

22 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.

With the exception of the information given below, no members of the Committee of Management of Family Assurance Friendly Society Limited and its key management had material transactions with any of the Group's related parties.

Mr John Reeve (Chief Executive) and members of his family had investments in products of the Society of approximately £102k as at 31 December 2005 (2004: £108k).

Mr Robert Dolman (Chairman) is a partner in a London firm of solicitors which provided legal advice to the Society during the year at a cost of £2k (2004: £2k).

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

	Group 2005 £'000	Society 2005 £'000	Group 2004 £'000	Society 2004 £'000
Family Asset Trust	449,125	449,125	436,283	436,283
Family Charities Ethical Trust	7,240	7,240	5,072	5,072
Family Regency Unit Trust	2,311	1,457	2,450	1,308
Family Safety Net Stockmarket Unit Trust	267	–	445	–
	458,943	457,822	444,250	442,663

During 2005, the Society and Group made the following new investments of policyholders' funds into the above unit trusts. All purchases of units were made at arms length based on the buying price.

	Group 2005 £'000	Society 2005 £'000	Group 2005 units	Society 2005 units
Family Asset Trust	768	768	424,000	424,000
Family Charities Ethical Trust	1,327	1,327	260,000	260,000
Family Regency Unit Trust	149	–	164,791	–
Family Safety Net Stockmarket Unit Trust	53	–	29,649	–
	2,297	2,095	878,440	684,000

family investments

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