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GROWTH FOR THE FUTURE

ANNUAL REPORT AND ACCOUNTS

For the year ended 31 December 2007

family investments

ANNUAL REPORT AND ACCOUNTS 2007

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The front section of this Annual Report and Accounts is printed on paper produced with 80% recovered fibre and 20% virgin TCF fibre sourced from sustainable forests, with the back section stock manufactured from 100% recycled fibre.

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SOLICITORS
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London SE1 9BB

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London WC1R 4LR

CHAIRMAN'S REVIEW

Robert Dolman, Chairman

Overview

I am pleased to report that 2007 was another successful year for the Society, which has continued to grow strongly through its leadership of the Child Trust Fund (CTF) market.

We now administer more than 1,000,000 policies of which over 500,000 are CTF accounts. As such the CTF is now the major engine of growth for the Society and with it we are encouraging many families to start the saving habit.

The spectacular growth of the Society through the medium of CTF would not have been possible without the continued support of the existing membership base and we are grateful for their loyalty and mindful of our duty to ensure they share in the success of the Society.

Results

In 2007 our membership increased by more than 11% to over 909,000 which has allowed us to put downward pressure on our unit costs whilst maintaining a high level of service to our members.

Our reserves increased by £2.1m and remain comfortably in excess of statutory limits. We expect that our reserves will continue to increase in future years, as surpluses gradually emerge from the significant volumes of new business written in the past three years.

World Stock Markets, in contrast to the previous three years of steady growth, were volatile in 2007. The second half of the year in particular saw sharp fluctuations in most of the major markets and asset classes.

We continue to believe that equities hold the best long-term store of value, but there might well be further stock market turbulence in 2008. For those Family Bond members who wish to avoid such fluctuations we offer the ability to switch their investment to our Safety First Fund, which aims to protect your capital.

Products

The Child Trust Fund has continued to make a significant impact since its launch in April 2005. All children born since 1st September 2002 will have one and this 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 is easy for anyone to top up this amount either with ad hoc lump sums or with regular payments by direct debit which can be started from just £10 a month. We have been encouraged by the increasing number of additional payments being made by families, grandparents, uncles, aunts and friends. Around one third of our CTF accounts are now receiving additional contributions from family and friends, an excellent start but we wish to engage more parents to save for the future benefit of their children.

Towards the end of 2006, we broadened our product range by enabling our CTF customers to invest in the Society's ethical unit trust. This has proved to be an increasingly popular choice for CTF investors.

Last year we were delighted that Nectar selected Family as its CTF provider. This has provided an interesting "save as you spend" dimension for those who take out their CTF via Nectar in enabling them to convert Nectar points into CTF top up contributions.

We have also been pleased by the continued support of members for our more traditional products through our Family and Junior Bonds, ISAs and Unit Trusts. Many members decide to retain their policies beyond their original maturity date and many see this option as providing valuable flexibility in giving them the ability to time withdrawals when markets are more stable.

Customer Service

Our members expect excellent service and to be treated fairly. I am pleased to report that we have seen continued service improvement in 2007 with a further reduction in complaints (30% down on 2006) and better than benchmark service to our members and our distribution partners who introduce a significant proportion of our CTF business. Nonetheless, there can be no room for complacency. Where we do make mistakes, we will seek to learn from them, ensure our members are fairly recompensed where appropriate and further fine tune our service.

Corporate Governance

From the 1st January 2006 we have sought to comply fully with the Annotated Combined Code for Mutual Insurers, which seeks to ensure a high level of Corporate Governance and provide members with more information on how their Society is run. We hope you find the increased amount of information available of benefit but welcome your comments on this, or indeed any other matter related to your Society.

PricewaterhouseCoopers LLP have been the Society's auditors for many years and we have been pleased with their service. However in keeping with best practice, last year we conducted a periodic review of our audit arrangements. Following detailed presentations from three audit firms the Society's Audit Committee felt that it was time for change and Mazars LLP were appointed as our auditors from 18th July 2007, subject to ratification at our 2008 Annual General Meeting.

Employees

Our employees take great pride in the success of your Society. The Committee of Management is proud of what they have achieved to date and I thank them for their efforts.

R A Dolman

Robert Dolman, Chairman
March 2008

CHIEF EXECUTIVE'S OPERATIONAL REPORT

John Reeve, Chief Executive

Review of Activities

Our entry into the CTF market has been extremely successful. We have now opened over 500,000 new accounts since launch of the CTF with total CTF funds under management exceeding £250m. Of these, more than 100,000 new accounts were opened in 2007 with total contributions in 2007 from all products exceeding £144m.

Our CTF continues to be sold primarily through partnerships with our prestigious distribution partners such as Barclays Bank, Post Office, Bounty and Sainsbury's amongst others, making our CTF product available through 15,000 retail outlets. Our market reach was further enhanced midway through 2007 when Nectar joined us as a distribution partner.

The volume of business introduced to us directly in 2007 increased significantly, driven in particular by investment in our ethical fund.

The large volumes of new business written over the past three years, coupled with tight control of our expenses means that we have been able to reduce the average administration cost per policy by taking advantage of economies of scale, and we expect this to continue. Maintaining downward pressure on costs per policy, enables the Society to continue to grow and is particularly essential in the context of a charge capped product such as the stakeholder CTF.

We have also been meeting regularly with Treasury, HMRC and trade bodies to help shape the future development of the CTF. We have been leading the argument for the Government to review the necessity for CTF providers to collect the physical CTF voucher, something that we consider hinders parents from using more convenient methods such as the phone and internet to set up their account. We are pleased that the Government recently agreed to make this change, as simplification of the CTF application process is in line with our principle of always trying to make it easier for our customers to deal with us. There is clear evidence that, regardless of individual economic circumstances, a person who actively places their child's CTF voucher with a provider is far more likely to also contribute to the CTF than someone who has merely had the voucher allocated by HMRC.

CTF is only part of our product range and we were pleased that many existing Family and Junior Bond members continue to retain and extend their policies with us beyond their original payment terms. We also serve the Post Office work force through our POIS division, which continues to prove a successful venture following our acquisition of POIS Assurance in 2002.

While less significant in numbers, sales of our ISAs and Unit Trusts exceeded their targets for the year.

Treating Customers Fairly

As mentioned in the Chairman's report, we have continued to give high priority to the fair treatment of our customers and the provision of excellent service and if we fail to deliver this for you we encourage you to let us know. Our management information is designed to highlight areas of concern for our members and measure the efficiency of our service when responding to your questions:

- 100% of all the correspondence we received was answered within 5 days
- All new business applications (sales) totalling 116,000 were processed within 24 hours
- We received 270,000 telephone calls and the average response time was 10 seconds. We answered 91% of calls within 20 seconds.

Investment

Global stock markets delivered healthy returns in the first half of 2007 extending the revival in share prices since March 2003. However the second half of the year proved to be a challenging time for stock markets with equities suffering unusual volatility in the face of fears that contagion from the US sub-prime lending crisis could lead to a serious deterioration in global economic growth. The FTSE All Share Index finished the year up 5.3%, a modest return compared to, for example, the Emerging Markets.

Government bond markets went in the opposite direction. They fell in the first half of the year, worried about European and Japanese central bank monetary tightening in response to increased inflation and diminishing hopes that the US Federal Reserve would loosen its monetary policies to counter weaker economic growth. They then rallied in the second half of the year as investors sought safe havens from the unfolding credit crisis.

As a result of this, investment returns generally were dull in 2007 and the majority of the Society's funds failed, for the first time under the management of New Star Institutional Managers Limited, to beat their investment benchmarks. We are intolerant of poor performance and we are in active discussion with our investment managers to rectify matters.

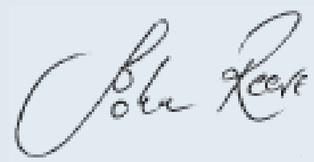
Central banks, led by the US Federal Reserve have begun a series of interest rate cuts designed to stimulate economic activity. However so far equity values have remained volatile whilst markets consider whether this latest "shot in the arm" will be sufficient to avoid a slow down or recession. Despite these concerns we retain our belief in equities as the best store of value in the longer term.

Future Developments

The CTF product will remain central to the Society's strategy to enable us to capitalise further on its successful launch.

We will therefore continue to develop our systems and processes to facilitate additional contributions to CTF accounts, for the mutual benefit of both the Society and its members and to improve the cost efficiency of our administrative operations.

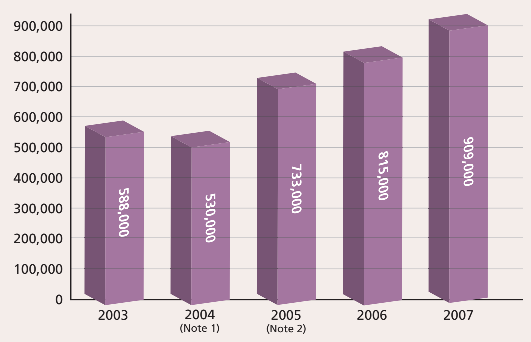
However using our skills in high volume and low cost administration, we have also identified opportunities to broaden our strategy beyond the CTF which will support our mission of providing simple and affordable savings for all the family.



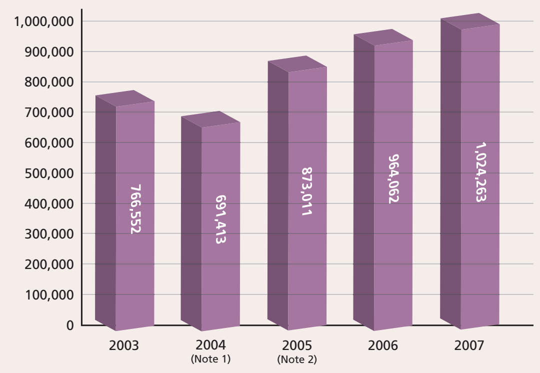
John Reeve, Chief Executive
March 2008

KEY PERFORMANCE INDICATORS

Membership

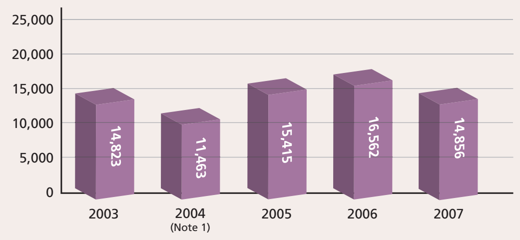


Policy Numbers (Note 4)

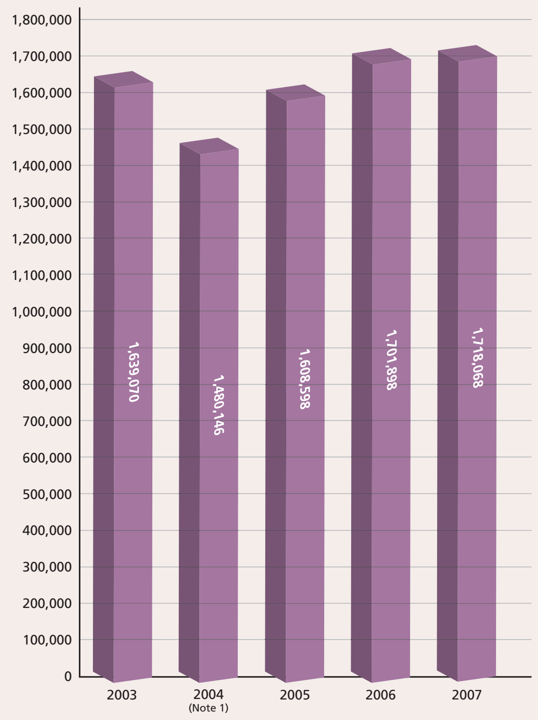


Customer Contributions – £000

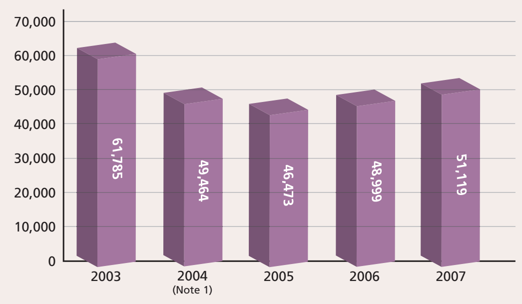
Operating Expenses – £000



Funds Under Management – £000



Reserves – £000



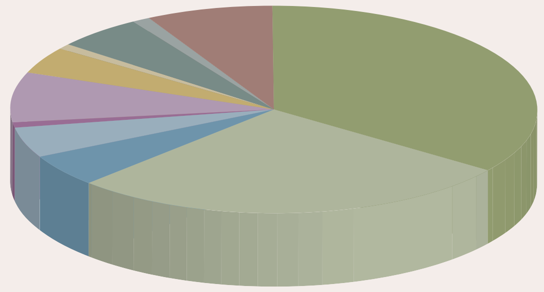
Notes:

1. During 2004 the Society transferred its with-profits pensions business to Reliance Mutual. As part of the sale we transferred assets of £254m, reserves of £18m and 17,000 members which accounts for the reduction in 2004 in the graphs above for membership, policy numbers, reserves, funds under management and contributions.
2. The impact of the Society's entry into the CTF market in 2005 can clearly be seen in the graphs for membership and policies.
3. Contributions received in 2005 and 2006 were inflated due to the take up of CTFs for children born since 1st September 2002. In 2007 the contributions have settled down to a normal level.
4. In previous years policy numbers were shown as an average across the year. However this year they show the year end figures.

SPREAD OF INVESTMENTS

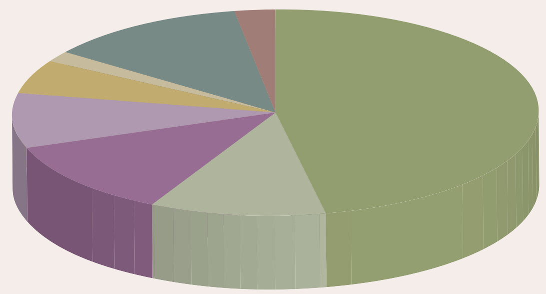
as at 31 December 2007

Sovereign Fund



	Sovereign Fund	Child Trust Fund
UK Equities	35.1%	47.6%
UK Bonds	27.6%	10.9%
Hedge Fund	4.9%	0.0%
Property	4.8%	0.0%
Cash	0.8%	11.1%
North American Equities	7.8%	8.7%
Far East Equities	4.2%	5.2%
Australian Equities	0.9%	1.8%
European Equities	5.1%	12.2%
Emerging Markets	1.1%	0.0%
Overseas Bonds	7.7%	2.5%

Child Trust Fund




Family Forest

COMMITTEE OF MANAGEMENT

Non-Executive Directors

Chairman
Robert Dolman
Mr. Dolman, aged 62, 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
Robert Weir FCA
Mr. Weir, aged 59, has been a member of the Committee since 1997 and was appointed Vice Chairman and Senior Independent Director in 2007. He was a Director of the Household Mortgage Corporation and has wide experience in financial and general management.

Veronica France
Ms. France, aged 46, was appointed to the Committee in 2006. She is a business development consultant and a past Chairman of the Investment and Life Assurance Group.

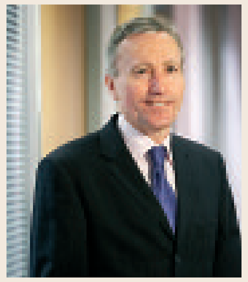
Norman Riddell
Mr. Riddell, aged 60, was appointed to the Committee in 2006. He is an investment consultant and Chairman of Novitas Partners LLP.

John Wybrew FIA
Mr. Wybrew, aged 65, 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.

Executive Directors

Chief Executive
John Reeve FCA
Mr. Reeve, aged 60, is a Chartered Accountant and has been a full-time executive of the Society since 1982. He joined the Committee in 1983 and has led the Society since 1987, firstly as General Manager and from 1992 as Chief Executive.

Finance Director
John Adams FCCA
Mr. Adams, aged 53, 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.



Chief Operating Officer
Rob Edwards
Mr. Edwards, aged 52, has been a full-time executive of the Society since 1988. He was appointed to the Committee in 1997, became General Manager in 2001 and Chief Operating Officer in 2006. He is responsible for overseeing the Society's Marketing, Customer Services, Operational Finance, Corporate Projects and IT functions.

Secretary and Corporate Services Director
Keith Meeres FCoI
Mr. Meeres, aged 50, 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.

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. Following the previously announced retirement of two non-executive directors at the 2007 Annual General Meeting, membership of the Committee comprised the Chairman, four 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 10 and 11.

Committee of Management

During 2007 the members of the Committee were as follows:

Non-executives
Robert Dolman (Chairman)
Robert Weir (appointed as Vice Chairman 25th May 2007)
David Jude (retired 24th May 2007)
Veronica France
Rachael Heyhoe-Flint (retired 24th May 2007)
Norman Riddell
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 the non-executive directors and considers that they all meet the criteria of independence. In keeping with the Annotated Combined Code for Mutual Insurers, any non-executive director who 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. Three non-executive directors, Robert Dolman, John Wybrew and Robert Weir, have each served in excess of nine years on the Committee. After careful consideration of their character, judgement, competence and experience the Committee continues to view them as suitably independent and they will therefore stand for re-election in 2008, however their service will continue to be subject to annual review. Any term of service beyond six years for a non-executive director is also subject to rigorous review.

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 31st December 2007, the Society had approximately 909,000 members (2006: 815,000).

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 and its products.

From time to time the Society conducts independent research and surveys with its members which provide valuable feedback to help the Society measure and where necessary improve its services. We hope that members will continue to participate in our surveys. Details of the Society's Member Relations Strategy are available on our website at www.family.co.uk or from the Society's Secretary.

Review of activities, key performance indicators and future developments

Please refer to the Chief Executive's Operational Report on pages 4 to 5 for his review of activities, key performance indicators and comments on future developments.

As at 31st December 2007 the Society's margins of solvency exceeded the minimum requirements, as prescribed by the Financial Services Authority, for each class of relevant business.

Financial risk management objectives

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

The most important components of this financial risk are 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

The Group is exposed to interest rate risk due to the sensitivity of the value of its assets and liabilities to changes in current interest rates.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

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 holdings in equity investments held by both the Society's unit linked funds and by the Unit Trusts that it manages.

The Group's most significant income stream is derived as a fixed percentage of the market value of the unit-linked funds and Unit Trusts. 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 17).

Reappointment of auditors

PricewaterhouseCoopers LLP have been the Society's auditors for many years and we have been pleased with their service. In keeping with best practice, last year we conducted a periodic review of our audit arrangements. Following detailed presentations from three audit firms the Society's Audit Committee felt that it was time for change and Mazars LLP were appointed as our auditors from 18th July 2007, subject to ratification at our 2008 AGM. There were no contractual or other matters that restricted the Audit Committee's decision.

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 has developed a health and safety framework which requires management to have suitable procedures in place to ensure compliance with applicable laws and regulations and, wherever possible, to employ best practice.

One of the key issues for the Society is the creation of a work environment free from injury and illness and the constant improvement of our health and safety performance. This is driven not only by our legal responsibility, but also by the ethical desire to protect our employees. We are pleased to report that in 2007 there were no serious accidents or injuries.

The Society has a health and safety committee which comprises senior management and employees. The committee reviews performance in health and safety matters, promotes good practice and ensures appropriate consultation on any intended changes to its health and safety management systems.

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 AGM.

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.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

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 been the subject of increasing focus for mutual organisations.

A new Corporate Governance code for life mutuals (the Annotated Combined Code for Mutual Insurers (July 2005) as amplified by the Best Practice Guidelines for Mutual Insurers (December 2005)) became effective from 1st 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 employees, 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 all of the relevant principles and provisions of the Annotated Combined Code for Mutual Insurers.

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.

Robert Weir, Vice Chairman, undertakes the role of Senior Independent Director.

Anti-fraud measures

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

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

Attendance at meetings in 2007

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 2007. The number of meetings that each director could have attended is shown in brackets.

Details of the activities of each individual committee are summarised below and the terms of reference for each committee can be found in the "member information" section of our website www.family.co.uk.

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

Notes:

1 Mrs Heyhoe-Flint and Mr Jude attended all Committee of Management meetings and Mr Jude attended all Audit Committee meetings prior to their retirement on 24th May 2007.

2 Mr Wybrew was on holiday for the April meeting.

3 The Nominations Committee did not meet during 2007.

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
Rachael Heyhoe-Flint (retired 24th May 2007)
David Jude (retired 24th May 2007)
Norman Riddell
Robert Weir
John Wybrew

The Nominations Committee 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 usually 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.

Investment Sub-Committee

Robert Dolman (Chairman)
John Reeve
Norman Riddell
Roger Nightingale (external adviser)

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

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

Remuneration Sub-Committee
John Wybrew (appointed Chairman 25th May 2007)
Robert Dolman (Chairman until 24th May 2007)
David Jude (retired 24th May 2007)
Robert Weir (appointed 25th May 2007)

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, and independent external advisers where appropriate, to assess trends in the competitor and local employment markets.

Details of the directors' remuneration can be found in the Remuneration Report on pages 23 to 25.

Audit Committee
Robert Weir (appointed Chairman 25th May 2007)
Veronica France (appointed 1st January 2007)
John Wybrew
David Jude (retired 24th May 2007)

The Audit Committee generally 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 AGM. 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 2nd 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 and Audit Committee.

Performance monitoring and evaluation
Each year the Committee of Management sets key business objectives for the Society for that year and as part of its rolling three year plan based on the objectives outlined in the business objectives and activities section on pages 12 to 13. Performance against these objectives is monitored by the Committee at regular intervals.

In compliance with the Annotated Combined Code for Mutual Insurers, the Committee conducts a formal evaluation annually of the performance of the Chairman and each director and of the performance of the sub-committees and Committee as a whole. In 2007 the evaluation was conducted by questionnaires and reviewed by an independent consultant who provided summary reports to the Chairman, Vice Chairman and Committee. No significant issues or material points of action arose from the 2007 review, other than to recognise the need to further consider board succession planning. 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.

Employees
The Group employed an average of 282 employees during 2007 at a total cost of £10m.

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

In 2007 the Society took appropriate steps to familiarise its managers with new employment legislation. The Society also encourages and provides for continuing personal development in line with corporate objectives. To this end, as an example, in 2007 it developed an in-house Leadership Development Programme, aimed at increasing the all-round skills and abilities of its front line managers.

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. These mechanisms include employee question and answer forums with the executive directors and senior management, regular team briefings and an employee forum of elected representatives which meets regularly to consult on areas of concern, health and safety and any other issues raised by employees. Regular business updates enable employees to link their personal objectives to the overall business strategy. The Society also operates an annual employee survey, which allows a further channel of communication.

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.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

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. With this in mind, the Society has developed and maintained strong links with a variety of charities supporting applicants who may consider themselves affected by disability.

If employees become disabled in the course of their employment steps will be taken, through making reasonable adjustments to their role, 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

The Values initiative launched in 2006 continues to encourage employees to build upon and maintain the high levels of service that we aim to provide to our members. We continue to focus on five core values, which we aim to demonstrate in all dealings with our members: professionalism, respect, honesty and customer and commercial focus. In 2007 three Values initiatives led by senior managers focused on effective communication, an evaluation of the employee Performance Review Process and the development of the Leadership Development Programme.

The Society already enables its employees to participate in the Government's Childcare Voucher Scheme and from 2008 will also enable its employees to benefit from the Government's Cycle to Work scheme.

Corporate social responsibility

Our role as an institutional investor

The majority of the Society's funds are managed by New Star Institutional Managers Limited which has outsourced its corporate governance, research and proxy voting to Research, Recommendations and Electronic Voting (RREV).

RREV analyse all resolutions of the companies in which we invest in the context of the Combined Code on Corporate Governance in the UK, and its equivalents abroad, and vote according to best practice as so defined. Where there is a very contentious issue it is referred to the appropriate fund manager to decide how to proceed.

Environmental matters

The Society is working towards the continual improvement of environmental matters. During 2007 we undertook an environmental survey in conjunction with The Carbon Trust to measure our energy consumption and identify energy saving opportunities. This is the first time the Society has been able to measure its energy efficiency in the form of a carbon footprint, something that is an ever-important issue with employees as well as being high on the Government's agenda. It was very encouraging to the Society that the report showed the performance of the Society's West Street building as better than average for its sector.

The Society recognises the importance of being environmentally proactive and will strive to play its part to reduce the impact of global warming. With this in mind we will continue to identify where we can be more energy efficient, review and audit our policies, monitor energy and water consumption, recycle where possible and procure materials from sustainable sources.

Working in the community

During the eighteen years that the Community Programme has been running, we have won a number of awards and contributed to many Charities and youth initiatives.

We are proactive in the encouragement of our employees to actively get them involved in supporting the local community. As an integral part of employee development it plays a key part in learning and developing skills as well as giving something back to the community in which the Society is based.

The launch of the Child Trust Fund in 2005 enabled us to re-align our programme to work alongside the Society's key business objectives and we began working with local charitable or non-profit nurseries in the local area, helping to improve co-ordination, imagination and communication using art, music and developing key areas for story telling and play.

The Society continues to support its core projects, Blatchington Mill School, Middle Street Primary School, Brighton and Hove City College and Age Concern. In addition in 2008 we have forged a new link with Education in the City, who are rolling out "Financial Capability" presentations to primary schools. The aim of the project is to educate all primary school children in the concept of "What Money Means" and employees are invited to join a maths class or workshop to support children in learning about finance. It is expected that in the forthcoming years children will learn about the Child Trust Fund in school, and it is a good opportunity for the Society and employees to be involved with our new investors.

The Society's "Interview Skills" day for local colleges continues to be a success, providing invaluable experience and practice to students of an interview process with feedback. An added benefit is that it allows employees to develop interviewing skills. We also facilitated leadership and motivational training for young people from local colleges to develop team working and communication skills.

The Society continued its support for the Family Festival at the Brighton Dome Theatre. 2007 was the fifth year in which over 400 performers from local schools and colleges put on a dance and music extravaganza.

Employees are encouraged to participate in the Community Programme and in 2007 100 employees were involved in team challenges and more than 30 took part in community events.

During 2007 donations and fundraising activities raised £30,000 (2006: £19,000) to support local charities and the local activities of national charities. Over the past twelve years the Society has raised over £140,000 for local charities. The Society has also made small donations, via the Share Foundation, to Child Trust Fund accounts of children in care. No political donations were made.

The Society remains mindful of its role and responsibility to the local community and has extended the range of donations being made to the Child Trust Funds of children in care, so that during 2008 every qualifying child's account in both East and West Sussex will benefit from our donations.

The Community Programme continues to uphold the values and commitment that is associated with the Society. The support for the programme is outstanding and firmly embossed within the Society's ethos.

Family Investments Ethical Child Trust Fund and Tree Appeal

The launch of our Ethical Child Trust Fund in November 2006 gave eco-conscious parents the choice of an ethical version of our stakeholder CTF. Family's Ethical CTF is unique as it is the only actively managed ethical stakeholder CTF account currently available in the market. It invests in a Unit Trust called the Family Charities Ethical Trust, which is managed by New Star and avoids investing in unethical companies.

COMMITTEE OF MANAGEMENT'S ANNUAL REPORT

David Bellamy and children from Dorothy Stringer and other schools planting trees in a Family Forest.

The popularity of our ethical account shows that many parents are just as concerned about the long-term sustainability of the planet as they are about their child's financial future.

Parents opening an Ethical CTF who also set up a direct debit are given the choice of eco-friendly gift vouchers or to have a tree planted on their behalf. As a result, just one year from launch, Family were delighted to find they were committed to planting over 1,500 trees.

In November 2007 we formed a relationship with the Tree Appeal who agreed to plant these trees on our behalf. Our first 1,500 trees were donated to the Dorothy Stringer School in Brighton, and every pupil had the opportunity to plant their own tree.

Around 20 of our employees were able to get involved with our first tree-planting day, held on 21st November. Throughout the day, representatives from Family Investments and Tree Appeal worked with teachers from Dorothy Stringer and other local schools, to help the children plant their trees under the enthusiastic direction of David Bellamy!

After the success of our first tree-planting venture we are already looking for a site on which to plant our next donation of 1,500 trees. We are looking forward to working with the Tree Appeal for many years to come, to create several Family Forests throughout the UK.

Keith Meeres, Secretary
March 2008

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 AGM for approval, explains how the Society has applied the Annotated Combined Code for Mutual Insurers 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 18.

Advisers to the Committee

During the year the Remuneration Sub-Committee engaged the services of Kelham Corporate Consulting (Kelham), a firm of independent advisers, to provide advice and guidance on directors' and senior management remuneration. Kelham 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 employees, with the relevant skills to help achieve the Group's objectives and to ensure that employees are rewarded for enhancing the level of service that we provide to our members. It is also designed to achieve an effective link between pay and performance.

During 2007 the Sub-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.

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 1st January 2006, pensionable salaries have increased 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 a proportion of the total bonus due 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.

REMUNERATION REPORT

Committee of Management remuneration

	Salary/Fees[2]		Bonuses[3]		Other benefits[4]		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executives								
John Reeve	229	212	50	59	8	17	287	288
John Adams	149	145	33	41	6	6	188	192
Rob Edwards	157	148	32	35	7	5	196	188
Keith Meeres	127	117	27	28	5	7	159	152
Non-executives								
Robert Dolman	65	63	–	–	–	–	65	63
Robert Weir	27	23	–	–	–	–	27	23
Veronica France	24	20	–	–	–	–	24	20
Rachael Heyhoe-Flint[1]	9	20	–	–	–	–	9	20
David Jude[1]	12	28	–	–	–	–	12	28
Norman Riddell	31	28	–	–	–	–	31	28
John Wybrew	24	23	–	–	–	–	24	23
	854	**827**	**142**	**163**	**26**	**35**	**1,022**	**1,025**

Note [1] – Rachael Heyhoe-Flint and David Jude retired from the Committee of Management on 24th May 2007.
Note [2] – Excluding the retirements noted above, year on year growth in the Salaries and Fees paid to the Committee of Management has increased by 6.9%.
Note [3] – Bonuses include amounts added to the long term incentive scheme (shown below).
Note [4] – Includes increase in accrued pension during the year (shown on adjacent page).

Long term incentive scheme

	Value at 1.1.2007 £'000	Bonus withdrawn during 2007[1] £'000	Embedded value increase during 2007[2] £'000	Bonus added during 2007 £'000	Value at 31.12.2007 £'000
Executives					
John Reeve	133	–	6	19	158
John Adams	102	–	5	12	119
Rob Edwards	25	7	1	13	32
Keith Meeres	20	–	1	10	31

Note[1] – Withdrawals are allowable three years after the bonus was added, adjusted by the movement in the embedded value over the period left invested in the scheme.
Note[2] – Embedded value increased by 4.47% during the year.

Pension entitlements

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

	Age	Total accrued pension 31.12.2007[1] £'000	Increase in total accrued pension during the year £'000	Transfer value of accrued pension at 31.12.2007[2] £'000	Change in transfer value during the year net of directors contributions[3] £'000
Executives					
John Reeve	60	118	5	1,423	122
John Adams	53	49	4	458	53
Rob Edwards	52	44	4	403	49
Keith Meeres	50	48	3	366	40

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

Note[1] - The total accrued pension is the annual pension amount which the executive director would have been entitled to from normal retirement age if they had left service on 31st December 2007.
Note[2] - The transfer values have been calculated in accordance with the Actuarial Guidance Note GN11.
Note[3] - No contributions were payable by the executive directors during the year.

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 31st December 2007 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.

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

Respective responsibilities of the Committee of Management and Auditors

As described in the Statement of the Committee of Management' Responsibilities, the Society's directors are responsible for the preparation of financial statements in accordance with applicable law and United Kingdom Auditing Standards (United Kingdom Generally Accepted Accounting Practice).

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

The Society has also instructed us to review the Society's compliance with provisions C1.1, C2.1 and C3.1 to C3.7 of the Annotated Combined Code.

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. We also report to you if, in our opinion, the Society has not kept proper accounting records, if we have not received all the information and explanations we require for the audit, or if information specified by law regarding Committee of Management's remuneration and transactions with the Society is not disclosed.

We read the Committee of Management's Report and consider the implications for our report if we become aware of any apparent misstatement or material inconsistencies with 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 and the Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's and the Group's affairs as at 31st December 2007 and of the income and expenditure of the Society and the Group for the year then ended, and the financial statements have been properly prepared in accordance with the Friendly Societies Act 1992.

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.

Mazars LLP
Chartered Accountants and Registered Auditors, London
12th March 2008

INCOME AND EXPENDITURE ACCOUNT

TECHNICAL ACCOUNT – LONG TERM BUSINESS

for the year ended 31 December 2007

Notes		Group 2007 £'000	Society 2007 £'000	Group 2006 £'000	Society 2006 £'000
2	Earned premiums	67,715	67,715	72,983	72,983
	Outward reassurance premiums	(266)	(266)	(308)	(308)
	Earned premiums, net of reassurance	67,449	67,449	72,675	72,675
3	Investment income	48,656	48,656	47,536	47,536
3	Unrealised gains on investments	–	–	14,639	14,235
3	Realised gains on investments	29,856	29,856	40,280	40,280
5	Other technical income	5,670	–	4,531	–
	Total Technical Income	**151,631**	**145,961**	**179,661**	**174,726**
	Claims incurred, net of reassurance				
	Claims paid				
	Gross amount	(119,818)	(119,818)	(166,017)	(166,017)
	Reassurers' share	64	64	124	124
		(119,754)	(119,754)	(165,893)	(165,893)
17	Change in provision for claims				
	Gross and net amount	(884)	(884)	(915)	(915)
	Net claims incurred	(120,638)	(120,638)	(166,808)	(166,808)
17	**Change in technical provisions, net of reassurance**				
	Long term business provision, net of reassurance				
	Gross amount	11,733	11,733	15,082	15,082
	Reassurers' share	(17)	(17)	(37)	(37)
		11,716	11,716	15,045	15,045
	Other technical provision, net of reassurance				
	Technical provision for linked liabilities	21,363	21,363	(3,529)	(3,529)
	Net change in technical provisions	33,079	33,079	11,516	11,516
	Other expenditure				
4	Net operating expenses	(7,656)	(7,656)	(9,620)	(9,620)
3	Investment expenses and charges	(2,484)	(2,484)	(3,543)	(3,543)
3	Unrealised losses on investments	(36,210)	(37,617)	–	–
5	Other technical charges	(13,568)	(6,505)	(10,487)	(5,380)
		(59,918)	(54,262)	(23,650)	(18,543)
	Total Technical Charges	**(147,477)**	**(141,821)**	**(178,942)**	**(173,835)**
	Surplus of technical income over technical charges before taxation	**4,154**	**4,140**	**719**	**891**
6	Tax attributable to the long term business	(449)	(435)	134	(38)
	Surplus on technical account – long term business	**3,705**	**3,705**	**853**	**853**
21	Actuarial (loss)/gain on pension scheme	(1,585)	(1,585)	1,673	1,673
17	Transfer to the fund for future appropriations	**(2,120)**	**(2,120)**	**(2,526)**	**(2,526)**
	Balance on the technical account – long term business	**–**	**–**	**–**	**–**

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

BALANCE SHEET
ASSETS
as at 31 December 2007

Notes		Group 2007 £'000	Society 2007 £'000	Group 2006 £'000	Society 2006 £'000
	Investments				
9	Land and buildings	2,363	2,363	2,129	2,129
10	Investments in group undertakings				
	Investments in subsidiaries	–	8,837	–	10,244
11	Other financial investments				
	Shares, variable yield securities and units in unit trusts	3,993	3,978	10,753	10,402
	Debt securities and other fixed income securities	114,471	114,471	120,783	120,783
	Deposits with credit institutions	29,811	22,598	22,290	13,919
		150,638	152,247	155,955	157,477
12	**Assets held to cover linked liabilities**	1,144,534	1,144,534	1,165,897	1,165,897
	Reassurers' share of technical provisions				
	Long term business provision	463	463	480	480
	Other assets				
13	Tangible assets				
	Fixtures, fittings and equipment	225	225	269	269
14	Other debtors	1,669	1,397	3,137	2,640
	Cash at bank and in hand	1,932	1,368	3,567	3,109
	Prepayments and accrued income				
	Accrued interest and rent	2,011	2,011	1,984	1,984
	Other prepayments and accrued income	789	789	908	908
21	**Pension asset**	1,922	1,922	2,960	2,960
		1,304,183	1,304,956	1,335,157	1,335,724

BALANCE SHEET
LIABILITIES
as at 31 December 2007

Notes		Group 2007 £'000	Society 2007 £'000	Group 2006 £'000	Society 2006 £'000
17	**Reserves**				
	Fund for future appropriations	51,119	51,119	48,999	48,999
17	**Technical provisions**				
	Long term business provision	97,977	97,977	109,710	109,710
	Claims outstanding	5,287	5,287	4,403	4,403
17	**Technical provision for linked liabilities**	1,144,534	1,144,534	1,165,897	1,165,897
15	**Creditors**				
	Other creditors, including taxation and social security	3,217	4,307	3,638	4,676
	Accruals and deferred income	2,049	1,732	2,510	2,039
		1,304,183	1,304,956	1,335,157	1,335,724

Approved by the Committee of Management on 12 March 2008, and signed on its behalf by:

Robert Dolman, Chairman

John Reeve, Chief Executive

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

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

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. 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 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.

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.

NOTES TO THE ACCOUNTS

1 PRINCIPAL ACCOUNTING POLICIES (continued)

Tangible assets

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

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

Research and development expenditure

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

Foreign currencies

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

Fund for future appropriations

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

This fund includes surpluses arising on the former Family Life Assurance Limited closed fund 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 assurance and annuities in payment uses the gross premium valuation method, the calculation for all other types of business uses the net premium valuation method and as such, includes explicit provision for vested bonuses (including those vesting following the current valuation). Implicit provision is made for future reversionary bonuses, but not terminal bonuses, by means of a reduction in the valuation rate of interest. The valuation is then adjusted for certain items, including the removal of certain contingency and other reserves. This adjusted basis is referred to as the modified statutory solvency basis.

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

Segmental reporting

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

2 PREMIUM ANALYSIS

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

		Group and Society	
		2007	*2006*
a)	**Gross premiums written:**	*£'000*	*£'000*
	Life assurance business:		
	Linked	58,999	62,326
	Non-linked	6,521	7,919
	Pension business:		
	Linked	1,948	2,351
	Annuity business	247	387
	Total gross premiums written	67,715	72,983
	Regular premiums	65,387	69,906
	Single premiums	2,328	3,077
	Total gross premiums written	67,715	72,983

		Society 2007		*Society 2006*	
		Single	*Regular*	*Single*	*Regular*
b)	**Gross new business premiums:**	*£'000*	*£'000*	*£'000*	*£'000*
	New business premiums	380	2,805	726	2,960

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	*Society*	*Group*	*Society*
		2007	*2007*	*2006*	*2006*
c)	**Contributions received for Child Trust Fund, Equity ISAs and direct unit trust investments:**	*£'000*	*£'000*	*£'000*	*£'000*
	Regular contributions	37,847	–	28,802	–
	Single contributions	38,784	–	68,779	–
		76,631	–	97,581	–

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	*Society*	*Group*	*Society*
d)	**Policies on file:**	*2007*	*2007*	*2006*	*2006*
	Average during the year	994,163	522,952	901,303	549,085
	As at 31 December	1,024,263	503,912	964,062	541,992

3 INVESTMENT RETURN SUMMARY

	Group 2007 £'000	Society 2007 £'000	Group 2006 £'000	Society 2006 £'000
Investment income:				
Income from listed investments	36,063	36,063	35,373	35,373
Income from other investments	11,936	11,936	11,713	11,713
Net return on pension scheme (see note 21)	657	657	450	450
	48,656	48,656	47,536	47,536
Investment expenses and charges:				
Investment management expenses, including interest	(2,484)	(2,484)	(3,543)	(3,543)
Unrealised (losses)/gains on investments	(36,210)	(37,617)	14,639	14,235
Realised gains on investments	29,856	29,856	40,280	40,280
Net investment return included in the Technical Account – Long Term Business	39,818	38,411	98,912	98,508

4 NET OPERATING EXPENSES

	Group 2007 £'000	Society 2007 £'000	Group 2006 £'000	Society 2006 £'000
Acquisition costs incurred in the year (see † in note 5):				
Commission	48	48	(5)	(5)
Other acquisition expenses	1,288	1,288	1,569	1,569
	1,336	1,336	1,564	1,564
Research and development costs (see † in note 5)	517	517	116	116
Administration expenses	5,803	5,803	7,940	7,940
	7,656	7,656	9,620	9,620
Included in net operating expenses and other technical charges are:				
Depreciation charge for the year (see note 13)	298	298	255	255
Interest and similar charges made in respect of bank overdrafts	54	53	75	69
Remuneration of the Auditors in respect of audit and related services:	134	98	211	156
Statutory audit – Society	88	88	105	105
Statutory audit – Subsidiaries	24	–	37	–
Auditing of staff pension scheme	9	9	21	21
Auditing of certain unit trusts	12	–	10	–
Tax services	1	1	38	30

5 OTHER TECHNICAL INCOME AND CHARGES

	Group 2007 £'000	Society 2007 £'000	Group 2006 £'000	Society 2006 £'000
Other technical income:				
Income generated in subsidiary companies	5,670	–	4,531	–
Other technical charges:				
Acquisition expenses (see † below)	5,777	5,758	4,288	4,260
Research and development costs (see † below)	1,222	747	1,120	1,120
Administration expenses	6,569	–	5,079	–
	13,568	6,505	10,487	5,380

† Acquisition and development costs incurred by the Society in respect of products administered by its Subsidiary companies are now disclosed as other technical charges. In the 2006 Annual Report and Accounts they were disclosed as net operating expenses.

6 TAXATION

	Group 2007 £'000	Society 2007 £'000	Group 2006 £'000	Society 2006 £'000
UK Corporation tax:				
Current year	544	544	59	59
Tax payable on unrealised gains on unit-linked assets	(85)	(85)	60	60
Adjustments in respect of prior periods	(10)	(24)	(253)	(81)
	449	435	(134)	38

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 £459k (2006: £119k) relating to taxable business has been provided for. Taxes have been charged at various rates ranging from 20% to 30% (2006: 20% to 30%).

	Group 2007 £'000	Society 2007 £'000	Group 2006 £'000	Society 2006 £'000
Deferred tax liability:				
Unit trust deemed disposals	(113)	(113)	(230)	(230)
Unrealised capital gains on property assets	(62)	(62)	(48)	(48)
Actuarial reserves	(17)	(17)	(8)	(8)
Deferred tax liability	(192)	(192)	(286)	(286)
Deferred acquisition expenses	192	192	286	286
Deferred tax balance	–	–	–	–

There is an unrecognised deferred tax asset of £487k (2006: £627k), of which £192k (2006: £286k) has been set aside to offset unrecognised deferred tax liabilities. The balance of £295k (2006: £341k) 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.

7 EMPLOYEE INFORMATION

	Group 2007 Number	*Society 2007 Number*	*Group 2006 Number*	*Society 2006 Number*
The average numbers of employees (including Committee of Management) during the year were:				
Marketing	16	16	14	14
Investments	11	11	10	10
Administration and finance	255	255	265	265
	282	282	289	289

	Group 2007 £'000	*Society 2007 £'000*	*Group 2006 £'000*	*Society 2006 £'000*
Staff costs for the above employees were:				
Wages and salaries	8,474	8,474	9,105	9,105
Pension costs	703	703	1,135	1,135
Social security costs	807	807	765	765
	9,984	9,984	11,005	11,005

All employees are employed and remunerated directly by the Society.

8 COMMITTEE OF MANAGEMENT EMOLUMENTS

	Group 2007 £'000	*Society 2007 £'000*	*Group 2006 £'000*	*Society 2006 £'000*
Fees and benefits to the Chairman and non-executive directors	192	192	205	205
Salaries and benefits to executive directors	672	672	631	631
Performance related bonuses	142	142	163	163
Increase in total accrued pensions	16	16	26	26
	1,022	1,022	1,025	1,025

Chairman

The aggregate remuneration paid, comprising salary and benefits, to Mr. Robert Dolman for the year ended 31 December 2007 amounted to £65k (2006: £63k).

Highest paid Committee member

The aggregate remuneration paid to Mr. John Reeve for the year ended 31 December 2007, comprising salary, benefits and the change in his accrued pension during the year, amounted to £287k (2006: £288k). Had Mr. Reeve left service and pensionable service in the Staff Pension Scheme at 31 December 2007, his deferred pension at leaving would have been £118k per annum (2006: £113k 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 23 to 25.

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 2007 are £340k (2006: £280k). 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.

9 LAND AND BUILDINGS

	Group 2007 £'000	*Society 2007 £'000*	*Group 2006 £'000*	*Society 2006 £'000*
Movements during the year:				
As at 1 January	2,129	2,129	3,837	3,837
Disposals	–	–	(1,750)	(1,750)
Revaluation during the year	234	234	42	42
As at 31 December	2,363	2,363	2,129	2,129
Types of land and buildings held at 31 December:				
Owner-occupied – Short leasehold	2,363	2,363	2,129	2,129
Cost of land and buildings held at 31 December:				
Owner-occupied – Short leasehold	1,626	1,626	1,626	1,626

Land and buildings were valued for the purpose of the 2007 and 2006 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 4 December 2007.

10 INVESTMENT IN GROUP UNDERTAKINGS

Subsidiaries	*Society 2007 £'000*	*Society 2006 £'000*
Ordinary shares at directors' valuation:		
As at 1 January	10,244	5,648
Purchase of Share Capital	–	5,000
Revaluation during the year	(1,407)	(404)
As at 31 December	8,837	10,244

On 8 May 2006 Family Equity Plan Limited issued 5 million £1 shares at par to the Society for cash.

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 2007 £'000	*Society 2007 £'000*	*Group 2006 £'000*	*Society 2006 £'000*
At cost:				
Shares, variable yield securities and units in unit trusts	3,172	3,157	8,576	8,225
Debt securities and other fixed income securities	115,281	115,281	124,428	124,428
Deposits with credit institutions	29,811	22,598	22,290	13,919
	148,264	141,036	155,294	146,572
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	3,993	3,978	10,814	10,402
Debt securities and other fixed income securities	114,169	114,169	118,117	118,117
	118,162	118,147	128,931	128,519

12 ASSETS HELD TO COVER LINKED LIABILITIES

	Group and Society 2007 £'000	*2006 £'000*
Market value as at 31 December	1,144,534	1,165,897
Cost as at 31 December	1,004,896	986,701

13 TANGIBLE ASSETS

Group and Society

	Equipment £'000	*Computer hardware £'000*	*Computer software £'000*	*Total £'000*
At cost:				
As at 1 January 2007	2,094	2,163	3,823	8,080
Additions	16	153	85	254
Disposals	–	(94)	–	(94)
As at 31 December 2007	2,110	2,222	3,908	8,240
Accumulated depreciation:				
As at 1 January 2007	2,086	1,902	3,823	7,811
Charge for the year	16	197	85	298
Eliminated on disposals	–	(94)	–	(94)
As at 31 December 2007	2,102	2,005	3,908	8,015
Net book value as at 31 December 2007	8	217	–	225
Net book value as at 31 December 2006	8	261	–	269

14 OTHER DEBTORS

	Group 2007 £'000	*Society 2007 £'000*	*Group 2006 £'000*	*Society 2006 £'000*
Amounts falling due within one year:				
Amounts owed by linked funds	212	212	653	653
Loans to members	844	844	1,118	1,118
Taxation recoverable	25	25	410	410
Sundry debtors	588	316	956	459
	1,669	1,397	3,137	2,640

15 OTHER CREDITORS

	Group 2007 £'000	*Society 2007 £'000*	*Group 2006 £'000*	*Society 2006 £'000*
Due to subsidiary undertakings	–	1,216	–	1,281
Taxes payable	866	864	548	545
Sundry creditors	2,351	2,227	3,090	2,850
	3,217	4,307	3,638	4,676

16 ASSETS OF THE LONG TERM BUSINESS

	Group and Society 2007 £'000	*2006 £'000*
The total assets relating to the long term business are:		
Assets held to cover linked liabilities	1,144,534	1,165,897
Investments	89,877	99,560
Deposits and cash at bank	15,210	14,876
Debtors, prepayments and accrued income	2,875	3,364
Reassurers' share of technical provisions	463	480
	1,252,959	1,284,177

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 2007	109,710	1,165,897	4,403	48,999
Changes in technical provisions:				
Gross change in technical provisions, net of reassurance	(11,716)	(21,363)	884	–
Reassurers' share of the change in technical provisions	(17)	–	–	–
Transfer to the Technical Account – Long Term Business	–	–	–	2,120
Technical provisions as at 31 December 2007	97,977	1,144,534	5,287	51,119

17 POLICYHOLDER LIABILITIES AND RESERVES IN RESPECT OF THE SOCIETY AND THE GROUP (continued)

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 %		*Mortality rate*	
	2007	*2006*	*2007*	*2006*
Taxable with-profits POIS fund	2.25	2.25	100% of AM80/AF80	100% of AM80/AF80
Non taxable with-profits POIS fund	3.00	3.00	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 level of renewal expenses assumed for unit-linked policies, reflecting a change in the ongoing administration expense levels the Society operates at.
- a decrease in the rate of mortality assumed for unit-linked policies reflecting current experience.

The overall effect of changes to assumptions has been to decrease the long term business provision, net of reassurers' share, by £1.0m.

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 £1.8m. This does not include the corresponding effect on the valuation of assets.

18 BONUSES AND REBATES

	Group and Society	
	2007	*2006*
	£'000	*£'000*
Cost of bonuses declared, as at 31 December:		
Other bonuses	666	526
Reversionary bonuses	624	726
	1,290	1,252

19 CAPITAL POSITION STATEMENT

Available capital resources	*UK non-profit £'000*	*former POIS Assurance Limited UK with-profits £'000*	*former Family Life Assurance Limited UK with-profits £'000*	*Total £'000*
As at 31 December 2007:				
Fund for future appropriations	39,209	11,604	306	51,119
Adjustment to assets	(1,922)	–	–	(1,922)
Allocation of Group capital	(1,790)	–	–	(1,790)
Other adjustments	(2,218)	–	–	(2,218)
Total available capital resources	33,279	11,604	306	45,189
As at 31 December 2006:				
Fund for future appropriations	37,055	11,627	317	48,999
Adjustment to assets	(2,960)	–	–	(2,960)
Allocation of Group capital	(1,110)	–	–	(1,110)
Other adjustments	(2,241)	–	–	(2,241)
Total available capital resources	30,744	11,627	317	42,688

Movement in available capital resources	*UK non-profit £'000*	*former POIS Assurance Limited UK with-profits £'000*	*former Family Life Assurance Limited UK with-profits £'000*	*Total £'000*
Available capital resources as at 31 December 2006	30,744	11,627	317	42,688
Effect of investment variations	2,674	2,769	655	6,098
Effect of experience variations	125	671	–	796
Effect of change in valuation basis	972	(340)	–	632
New business strain	(1,236)	–	–	(1,236)
Cost of bonuses	–	(3,123)	(666)	(3,789)
Available capital resources as at 31 December 2007	33,279	11,604	306	45,189

19 CAPITAL POSITION STATEMENT (continued)

Technical provisions	UK non-profit £'000	former POIS Assurance Limited UK with-profits £'000	former Family Life Assurance Limited UK with-profits £'000	Total £'000
As at 31 December 2007:				
Unit-linked	1,143,166	–	1,368	1,144,534
With-profits liabilities	–	73,170	12,994	86,164
Non-profit liabilities	10,878	935	–	11,813
	1,154,044	74,105	14,362	1,242,511
Claims outstanding	4,277	1,010	–	5,287
Reassurance	–	(463)	–	(463)
Technical provisions in the balance sheet	1,158,321	74,652	14,362	1,247,335
As at 31 December 2006:				
Unit-linked	1,164,447	–	1,450	1,165,897
With-profits liabilities	–	82,107	13,051	95,158
Non-profit liabilities	13,582	970	–	14,552
	1,178,029	83,077	14,501	1,275,607
Claims outstanding	3,130	1,273	–	4,403
Reassurance	–	(480)	_	(480)
Technical provisions in the balance sheet	1,181,159	83,870	14,501	1,279,530

There were no material options or guarantees included within the Technical provisions at either 31 December 2007 or 31 December 2006.

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 satisfy the requirements of its policyholders, regulators and rating agencies;
- To maintain financial strength to support new business growth;
- To retain financial flexibility by maintaining strong liquidity and access to a range of financial markets;
- To allocate capital efficiently to support growth; and
- To manage exposures to movements in interest and exchange rates.

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 £45.2m (2006: £42.7m) of which £11.9m (2006: £11.9m) is held in with-profits funds and £33.3m (2006: £30.8m) is held in the general fund.

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

The available surplus held outside of 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 572% of the capital requirement of £7.9m (2006: 463% of £9.2m).

Capital resource sensitivities

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

The most significant sensitivities arise from the following three risks:

- Market risk in relation to the unit-linked business, which would arise if there were adverse changes in the value of unit-linked assets. The Society's most significant income stream is derived as a fixed percentage of the market value of unit-linked assets. A 30% decrease in the value of the unit-linked investments held by the Group would reduce available capital resources by approximately £6.7m.

- 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 1.5% increase in the rate of administration expense inflation would reduce available capital resources by approximately £1.7m.

- Persistency risk in relation to unit-linked business, which would arise if there was a significant increase in surrender rates and which would deprive the Society of the future income that business provides. An increase in surrender rates of 80% would reduce available capital resources by approximately £0.7m.

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed to reflect it. In 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 2007 amounted to £445k (2006: £490k), of which £nil (2006: £nil) related to work in respect of transfers of engagements.

21 STAFF PENSION PROVISION

The Society operated a defined benefit pension scheme, the Family Assurance Friendly Society Limited 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.

Actuarial valuations were carried out as at 31 December 2004 and were updated to 31 December 2007 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 2007, 2006 and 2005, 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	*2007*	*2006*	*2005*
Inflation	3.5%	3.1%	2.9%
Pension increases:			
pre April 1997 pension	0.0%	0.0%	0.0%
post April 1997 pension	3.4%	3.1%	2.9%
post April 2005 pension	2.3%	2.2%	2.2%
Salary growth	3.5%	3.1%	2.9%
Discount rate	5.6%	5.1%	4.9%
Investment returns:			
Equities	7.9%	7.8%	7.5%
Bonds and cash	4.4%	4.5%	4.1%
Other assets	5.6%	5.1%	4.9%

On the basis of the assumptions used for life expectancy, a male pensioner currently aged 60 would be expected to live for a further 26.69 years (2006: 25.63 years). Allowance is made for future improvements in life expectancy.

Fair value of assets	*2007 £'000*	*2006 £'000*	*2005 £'000*
Equities	20,414	19,989	17,183
Bonds and cash	5,290	5,330	4,423
Other net assets	76	63	45
Total fair value of assets	25,780	25,382	21,651
Present value of liabilities	(23,858)	(22,422)	(21,083)
Gross pension asset	1,922	2,960	568

Over the year to 31 December 2007, regular contributions of £571k were made to the Scheme. Future contributions from the Society will be at the rate of 16.6% of members' pensionable salaries, plus amounts equal to the Scheme's Pension Protection Fund levies. The contribution rate will be reviewed following completion of a new full actuarial valuation which is to be undertaken with an effective date of 31 December 2007.

In addition, over the year to 31 December 2007, employee AVC's totalling £18k were paid into the Scheme.

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.

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

	2007 £'000	*2006 £'000*
Post retirement surplus as at 1 January	**2,960**	**568**
Contributions (employee and employer)	589	1,082
Operating charge:		
Current service cost (employer's part only)	(699)	(813)
Other net finance income:		
Expected return on pension scheme assets	1,809	1,488
Interest on post retirement liabilities	(1,152)	(1,038)
Net return credited to finance income	657	450
Actuarial (loss) or gain:		
Actual return less expected return on pension scheme assets	(1,625)	1,749
Experience (losses)/gains arising on pension scheme liabilities	(629)	82
Gain/(loss) due to changes in assumptions underlying the present value of scheme liabilities	669	(158)
Actuarial (losses)/gains recognised in the fund for future appropriations	(1,585)	1,673
Post retirement surplus as at 31 December	**1,922**	**2,960**

History of experience gains and losses

	2007 £'000	*2006 £'000*	*2005 £'000*	*2004 £'000*
Actual return less expected return on pension scheme assets	(1,625)	1,749	1,756	300
As a percentage of pension scheme liabilities at end of year	6%	8%	8%	2%
Experience (losses)/gains arising on pension scheme liabilities	(629)	82	(270)	(386)
As a percentage of pension scheme liabilities at end of year	3%	0%	1%	2%
Actuarial (losses)/gains recognised in the fund for future appropriations	(1,585)	1,673	(1,888)	880
As a percentage of pension scheme liabilities at end of year	7%	7%	9%	5%

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 £150k as at 31 December 2007 (2006: £121k).

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 £4k (2006: £9k).

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

	Group 2007 £'000	*Society 2007 £'000*	*Group 2006 £'000*	*Society 2006 £'000*
Family Asset Trust	430,787	430,787	476,318	476,318
Family Charities Ethical Trust	8,847	8,847	8,559	8,559
Family Regency Unit Trust	1,371	1,358	1,735	1,442
Family Safety Net Stockmarket Unit Trust	6	–	90	–
	441,011	440,992	486,702	486,319

During 2007, 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 2007 £'000	*Society 2007 £'000*	*Group 2007 units*	*Society 2007 units*
Family Asset Trust	2,401	2,401	987,500	987,500
Family Charities Ethical Trust	1,610	1,610	235,000	235,000
Family Regency Unit Trust	17	–	14,686	–
Family Safety Net Stockmarket Unit Trust	5	–	2,350	–
	4,033	4,011	1,239,536	1,222,500