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family investments

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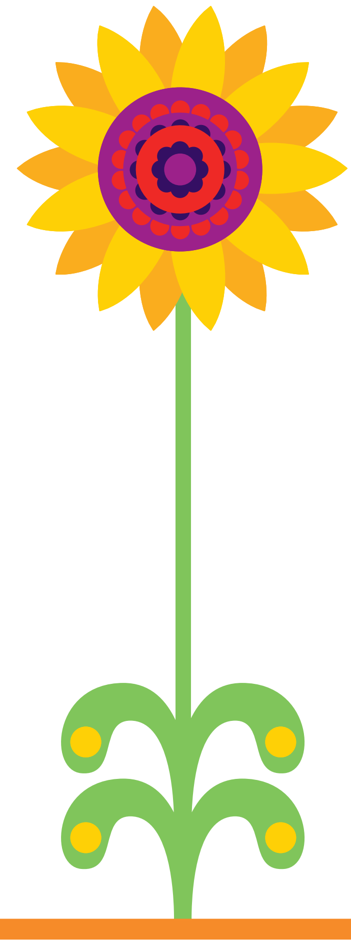
Annual Report and Accounts

For the year ended 31 December 2008.

ANNUAL REPORT AND ACCOUNTS 2008

Contents.



ACTUARIES
Watson Wyatt Limited
Watson House
London Road
Reigate
Surrey RH2 9PQ

AUDITORS
Mazars LLP
Tower Bridge House
St Katherine's Way
London E1W 1DD

BANKERS
National Westminster
Bank PLC
135 Bishopsgate
London EC2M 3UR

CUSTODIANS
State Street Bank
and Trust Company
20 Churchill Place
London E14 5HJ

SOLICITORS
Ashfords Solicitors
Princess Court
23 Princess Street
Plymouth PL1 2EX

Reed Smith Richards
Butler LLP
Beaufort House
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London EC3A 7EE

Wedlake Bell
52 Bedford Row
London WC1R 4LR

Chairman's Review.

Chairman
Robert Dolman

Overview

Looking back at 2008 and the unfolding nature of the global credit crisis, I struggle to recall such a set of dramatic events in my working life. These are truly difficult times for any business. It is of course impossible to ignore the effect the present economic environment has had on the value of members' savings and also the strains that it has put on the Society itself. Nonetheless the encouraging thing is that the business remains in good health and has continued to develop which will leave the Society and its members in an even stronger position when investment markets start to recover.

Results

Despite the harsh economic environment in 2008 our reserves remained well in excess of statutory requirements which in turn enabled us to make a significant investment in the future development of the business. Membership has grown to the highest level since the Society was formed in 1975, increasing by more than 127,000 in the year to 1,036,419. To put that in perspective, membership has now doubled since we made the strategic decision to enter the Child Trust Fund (CTF) market just four years ago.

Additionally, our premium income has been boosted significantly by the launch of a range of ISAs in partnership with Post Office®. (John Reeve, our Chief Executive, provides more detail of this major development in his report). At £374m, our income contribution from all product sources is double that of last year, which is a remarkable success story in the context of the economic downturn.

In uncertain times, there is a natural tendency to cut back on costs and wait for more benign conditions. However, I strongly believe that Family should stay true to its ambitious growth plans, so long as these are delivered in sensible and measured ways. It is vital that our business takes a long-term view and continues to grow because it is through scale that we can truly drive down our costs and best protect our members' long term interests. In the graphs on page 6, you will see that one of our key measures is Operating Efficiency and that this has improved in the year. We believe that Family is now operating as efficiently as any other time in our history.

Investment conditions

Whilst I am pleased to be able to report that the Society has only limited direct exposure to the write-downs and revaluations that have plagued the financial markets, the marked reversal in world stock markets has a continuing impact both on our investment income as well as investor returns. Many of the plans we manage, such as the CTF, have many years to go before the proceeds are realised and have a long time to recover and grow. In fact, today's regular savers will likely benefit from having money invested when share prices are so low, but timing is everything and I remain conscious that the current circumstances are detrimental to those members with maturing plans. Given the unprecedented nature of the economy and markets, I would encourage those affected to consider options such as extending their terms until things stabilise.

Customer and employee engagement

We have built the Society's reputation on the foundation of service quality and I am mindful that as we expand, we must continue to deliver on our promises to members as well as to engage with and enthuse our employees. We surveyed a number of members in 2008 and I am pleased to report that the overall service we provide scored 8.45 out of a possible 10. I am also heartened that 96% of those completing the survey would recommend us to a friend, a score that would make many of our competitors highly envious.

The rapid growth in our business has also placed our employees and managers under immense pressure this year. Each year we conduct a survey with employees and consistent with the previous year, more than 90% are happy working at Family. Our people are key to delivering against our objectives and we continue to invest in their development. As such, 19 of our managers have been through a leadership development programme in recent times.

Committee changes

During 2008 we welcomed Miles Bingham to our Committee of Management, serving in the capacity as Business Development Director. Miles has been in charge of the Society's marketing function since 2001 and has been responsible for our new business acquisition as well as developing our key distribution partners. Strengthening our Committee in a successful year underlines our intention to broaden both our product range and ways to market.

Thanks

It is a real tribute to our employees and the capability of our operations that we have been able to deliver such significant growth in our business whilst maintaining high service levels. I'd personally like to take the opportunity to thank all our employees for their tremendous efforts in the year and I look forward to working with them in 2009.

Robert Dolman, Chairman
March 2009

Chief Executive's Operational Report.

Chief Executive
John Reeve

Review of activities

From its launch in 2005 we have offered the Child Trust Fund (CTF), both directly and via distribution partnerships with well known organisations. In order to maintain our position as the leading CTF provider we have sought to not only enhance the services we offer but also increase the reach of our distribution. To that end in 2008 we concluded a further significant deal with Abbey and from early in 2009 we began supplying our stakeholder product through their branches. We also welcomed to Family former CTF customers of LV= following that Society's decision to cease being a CTF provider. These developments will help underpin our leadership of the CTF market and be of great benefit to the Society in the years to come.

The valuable reputation we have gained over several years of partner-based distribution has not only increased our share of the CTF market, but has also led to a broadening of our business. We were delighted that one of our existing partners, Post Office®, selected us to also be their ISA provider. This is an important arrangement for the Society because although Family has been an ISA provider since the government first launched the scheme, up until this point in time we have not had the distribution muscle to drive consistently high volumes.

The Post Office® ISA project has been a significant undertaking for us, involving a large deployment of employees and other resources, but one that is already providing us with a valuable new business stream. We launched both cash and stocks and shares ISAs in September in a period of general destabilisation when bank failures were making daily headlines and at a time, one might argue, that was not ideal for savings products. What transpired was that the security of people's savings played a big part in consumer decision-making and has resulted in Post Office® attracting far more business than was originally anticipated. Many organisations might have buckled under the weight of applications and phone calls we received, but our business reacted marvellously and within a few working days we were on top of the situation and have been writing very healthy levels of new business ever since. In four months of trading in 2008, we processed over £200m of ISA contributions, outstripping the full year's CTF contributions by a marked amount.

Supplementing our partner-driven business, we have been successfully building our direct business over several years. Indeed, for the first time since we entered into the CTF market, we were able to generate more than 25% of those sales direct to Family with our ethical product being a key driver. I am a firm believer in harnessing the power of e-commerce, something that allows smaller product providers to compete with larger firms and is an important component of our direct arm. As such, I am pleased to report that our on-line sales capability goes from strength to strength. At the start of 2008, we launched Online Wizard, a unique facility in the CTF world that allows parents to manage their child's account via the web. So far, nearly 40,000 parents are managing their accounts this way. By year-end, we had also launched our new information site, www.moneyformums.co.uk which is an excellent source of information for pregnant women and those with newborn children. These sorts of developments demonstrate our technical capability as well as reinforcing our credentials as a family friendly brand.

Indeed we have developed a new brand identity, which runs throughout these Report and Accounts. As our business grows at pace, it is vital that we continue to develop our brand in tandem and in these turbulent times, it has never been more important to re-state what we are about as a business – that is to be a trusted supplier of financial solutions for the family. Most families have limited resources but a strong desire to plan for their futures and we are committed to delivering the simple and affordable products that they require. We have a phrase that sums up our business ethos – "doing the right thing". It reflects how we deal with our members, suppliers and employees and we like to view all of them as part of our extended family.

Investment results

It has been a truly horrible year for most kinds of investments, be they shares, corporate bonds, sterling or property. Even simply leaving your money on deposit has become more uncertain initially because of concerns about some banks failing and now because of the low interest rate environment. Only Government bonds remained as one of the very few types of investment which produced positive returns in 2008.

The majority of the money that we hold for members is invested in UK stocks and shares. The bellwether of the UK equity market, the FTSE 100 index, dropped by 27% from the start of the year to the end, clearly making it difficult to generate positive returns for our members. We speak to or receive correspondence from thousands of members each year and we realise that many product statements make poor reading at present. I am sorry that we haven't produced a better result for you but I know many of you hold savings, investments and pensions elsewhere and understand that these investment conditions are widespread. Nonetheless I'd like to thank all our members for their understanding and patience.

Going forward, governments continue to seek to combat the current slowdown by implementing various stimulus measures including the cutting of interest rates and planned increases in central spending. Although the immediate economic outlook remains grim, there is some hope that much of the bad news is already factored into share prices and that a floor may be found some time soon. If so, then global equities now look very cheap based on historical valuation measures and we hope that stock markets can begin their recovery in advance of any wider economic improvement.

In 2008, in light of disappointing performance, we reviewed our investment strategy and whilst we still believe that shares represent the best long term store of value, we have decided to change the style of our investment management to one that more closely tracks the relevant indices. In doing so we have recently parted company with New Star Institutional Managers as our fund manager and moved our funds to Santander Asset Management who also offer the additional comfort of being part of one of the world's leading banks. Going forward we believe this new approach to investment management will serve our members' best interests.

The outlook

We have been the leading provider of CTFs since the scheme launched in 2005, which has led to the accelerated growth of the Society. As other banks and institutions review their own CTF arrangements, we are well positioned to continue to pick up further distribution deals in 2009. On top of this, we should also benefit from the first full year of trading with Post Office® on their ISA range. Of course, the economic environment is sour and the timing of any future recovery is uncertain, but we have presented strong results in 2008 and are well placed to deliver another year of record results in 2009.

Key performance measures

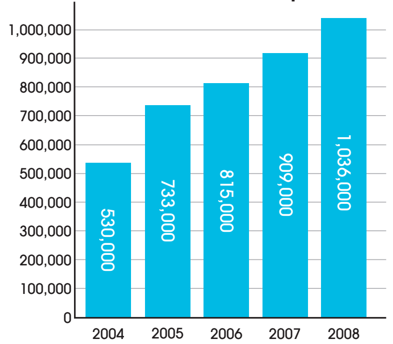
In addition to the statutory information set out in the Report and Accounts we have pulled out and highlighted some of the key performance measures that we believe are an essential yardstick to an appreciation of the welfare of the Society. Transparency is very important to us and we hope you find this report easier to read than in previous years and so gain a clearer sense of how we are doing as a business.

John Reeve

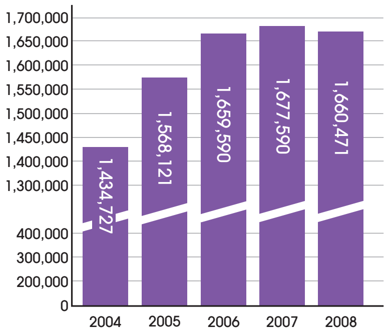
John Reeve, Chief Executive
March 2009

Group Performance Highlights.

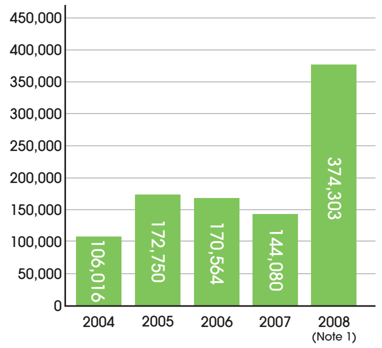
Membership



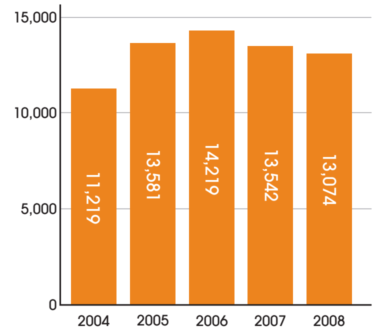
Members' Funds Under Management – £000



Customer Contributions £000

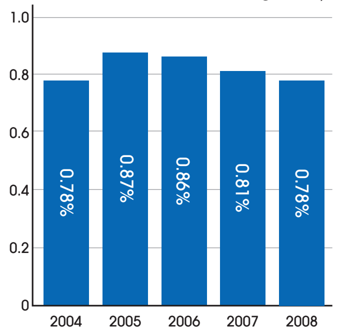


Operating Expenses £000

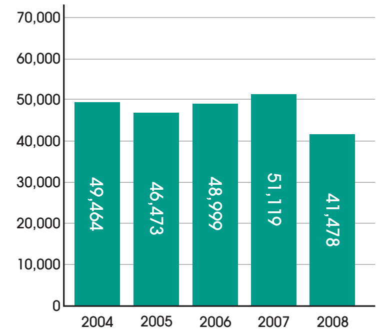


Operating Efficiency

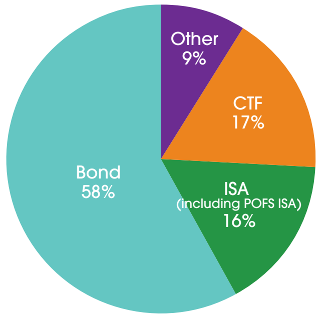
(Operating Expenses as a % of Members' Funds Under Management)



Reserves – £000



Source of Funds Under Management 2008



Notes:

1. The significant increase in customer contributions results from high levels of ISA sales through Post Office®.

Fund performance – for the year ended 31 December	Available to	2008	2007	2006
Family CTF Unit Trust	CTFs	-21.75%	0.3%	8.9%
Family Balanced Unit Trust	ISAs	-20.05%	-0.4%	10.9%
Family Charities Ethical Trust	Bonds, ISAs & CTFs	-40.59%	-4.8%	23.8%
Sovereign 3 Life fund (series 4)	Bonds	-13.36%	1.5%	7.5%
Safety First Life fund (series 4)	Bonds	4.91%	4.6%	3.7%
Managed Pension fund	Pensions	-23.25%	2.3%	11.0%
FTSE 100 Total Return		-27.35%	7.61%	14.51%

Summary Financial Statements.

Summary of Group Financial Results

Results for the year ended 31 December

	Notes	2008 Group £'000	2007 Group £'000
Members' funds under management			
Opening balance		1,677,590	1,659,590
Amounts paid in by customers	1	374,303	144,080
Amounts paid back to customers	2	(152,677)	(143,909)
Investment income, gains and losses	3	(206,188)	37,779
Transfer of policies to another company	4	(14,408)	–
Management charges paid to the Society	5	(18,149)	(19,950)
Closing balance		1,660,471	1,677,590
Results for the year			
Operating income			
Management charges from members funds	5	18,149	19,950
Other charges levied on policyholders	6	885	1,607
		19,034	21,557
Operating expenses	7	(13,074)	(13,542)
Operating profit		5,960	8,015
Investment in systems and new business	8	(12,865)	(9,663)
Change in non-linked fund reserves	9	(2,936)	802
Investment income, gains and losses net of taxation	10	200	2,966
Net result for the year		(9,641)	2,120
Reserves as at 1 January		51,119	48,999
Reserves as at 31 December		41,478	51,119

Notes:

1 The contributions paid by members into their policies.
2 The amounts paid out to members on maturity or surrender of their policies.
3 The change in value of, and income earned from, members' investments.
4 The value of policies that were transferred to Reliance Mutual in July 2008.
5 The management fees charged by the Group and paid out of members funds.
6 Other charges include charges for life cover and early surrender.
7 The cost of administering members' policies. This number differs from that in the Technical Account due to different classifications of certain expenses.
8 The cost of acquiring new business, mainly commission and marketing expenses, and the amount spent on developing the business, mainly on new product lines and improving systems capabilities.
9 The change in the value of the assets and liabilities of the Group's non-linked investment funds.
10 The change in value of, and income earned from, investments that form part of the Group's reserves.

Committee of Management.

Non-Executive Directors

Chairman
Robert Dolman
Mr. Dolman, aged 63, 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 60, 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 47, 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 61, was appointed to the Committee in 2006. He is an investment consultant, Chairman of Novitas Partners LLP and Chairman of Independent Risk Monitoring Ltd.

John Wybrew FIA
Mr. Wybrew, aged 66, 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 61, 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 54, 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 53, 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 51, 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.

Business Development Director
Miles Bingham
Mr. Bingham, aged 42, joined the Society in 2001 as Head of Marketing following 11 years in various marketing and product development roles at both HSBC and Abbey. In 2008, he was promoted to Business Development Director with responsibility for managing key relationships with our distribution partners as well as for expanding the range of products offered by the Society. Mr. Bingham has a two year old daughter and claims to no longer have any hobbies!

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. For most of the year, membership of the Committee comprised the Chairman, four other independent non-executive directors and four executive directors. As noted in the Chairman's Review, in September 2008 the Committee appointed a new executive director, Miles Bingham, as the Business Development Director.

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 the independence of their judgement in performing their duties. Directors' biographies and details of length of service can be found on pages 8 and 9.

Committee of Management

During 2008 the members of the Committee were as follows:

Non-executives

Robert Dolman (Chairman)
Robert Weir (Vice Chairman)
Veronica France
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)
Miles Bingham (Business Development Director appointed September 2008)

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 2009, 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 23 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 also believe that our members expect the Society to thrive and grow in order to achieve economies of scale whilst maintaining prudent control over costs, maintaining adequate financial resources and complying with all relevant legislation and regulation.

Number of members

As at 31st December 2008, the Society had approximately 1,036,000 members (2007: 909,000).

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, group performance highlights and future developments

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

As at 31st December 2008 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 equity price risk and interest rate risk. These risks arise from open positions in equity products and interest rate, all of which are exposed to general and specific market movements.

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

Equity price risk

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

The Group's most significant income stream is derived as a fixed percentage of the market value of the unit-linked funds and authorised collective investment schemes. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the UK and other recognised stock exchanges (primarily in Europe 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 and counterparty. This is monitored by the Investment Sub-Committee of the Committee (see page 15).

Interest rate risk

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

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

Committee of Management's Annual Report.

Reappointment of auditors

A resolution to reappoint Mazars LLP as auditors to the Society will be proposed at the forthcoming Annual General Meeting on 22nd May 2009.

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 2008 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.

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.

The 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 most of the relevant principles and provisions of the Annotated Combined Code for Mutual Insurers. From September 2008, the Society was no longer compliant with the requirement that at least half the board, excluding the Chairman, should be independent non-executive directors. From September the Committee comprised 5 executive directors and 5 non-executive directors, including the Chairman. To ensure that the executive directors are unable to dominate Committee decisions, the Society is proposing to amend its Rules to ensure that the Chairman of a Committee meeting (who holds a casting vote) must always be a non-executive director. This will ensure the balance of the Committee is maintained during Committee meetings.

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.

Financial crime

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

Committee of Management's Annual Report.

Attendance at meetings in 2008

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 2008. The number of meetings that each director could have attended is shown in brackets.

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

Details of the activities of each individual 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[1]	Nominations Committee	Audit Committee	Investment Sub-Committee[3]	Remuneration Sub-Committee
Robert Dolman	9 (9)	2 (2)	–	10 (10)	2 (2)
Robert Weir	9 (9)	2 (2)	4 (4)	–	2 (2)
Veronica France	9 (9)	2 (2)	4 (4)	–	–
Norman Riddell	9 (9)	2 (2)	–	10 (10)	–
John Wybrew	9 (9)	2 (2)	4 (4)	–	2 (2)
John Reeve	9 (9)	–	–	10 (10)	–
John Adams	9 (9)	–	–	–	–
Rob Edwards	9 (9)	–	–	–	–
Keith Meeres	9 (9)	–	–	–	–
Miles Bingham[2]	5 (5)	–	–	–	–

Notes:
1 The Committee of Management held an extra meeting during 2008, including two meetings in October.
2 Miles Bingham joined the Committee in September 2008.
3 The Investment Sub-Committee held three extra meetings during 2008.

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

Nominations Committee
Robert Dolman (Chairman)
Veronica France
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. In 2008 the Committee met more frequently to help determine changes to our investment strategy and selection of a new fund manager, as described in the Chief Executive's Operational Report on pages 4 and 5.

Remuneration Sub-Committee
John Wybrew (Chairman)
Robert Dolman
Robert Weir

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 19 to 21.

Audit Committee
Robert Weir (Chairman)
Veronica France
John Wybrew

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 the POIS with-profits fund.

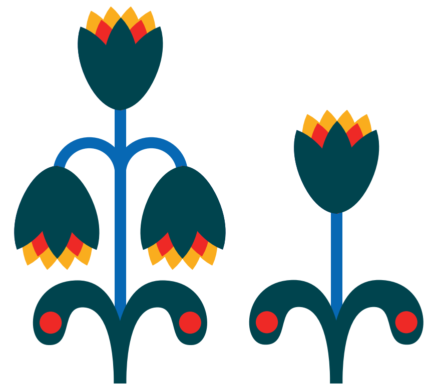
On behalf of the Committee of Management, the Audit Committee reviews the independence and objectivity of the external auditors before an appointment recommendation is made to members at the AGM. The nature and extent of non-audit work and related fees are regularly reviewed by the Audit Committee, and 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.



Committee of Management's Annual Report.

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 page 10. 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 2008 the evaluation was conducted by questionnaires and reviewed by an independent consultant who provided summary reports to the Chairman, Vice Chairman, the Committee and heads of Departments. No significant issues or material points of action arose from the 2008 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 315 employees during 2008 at a total cost of £10.3m. The Committee recognises that the Society's most valuable resource is its employees and that they are key to its success in achieving its vision.

The Society is eager for its employees to feel valued for their contribution; that their working life is sustainable, meeting their individual needs and the needs of the organisation; the demands of their life outside work and the demands of the world around them. The working culture is open, safe and inclusive, with an emphasis on self-development, supporting and encouraging colleagues and ultimately providing excellent customer service.

The Committee believes that the continued learning and development of employees is essential, in order to ensure effective management of the Society and provision of appropriate service to members. In 2008 the Society both updated and ran familiarisation sessions on certain aspects of employment law with the support of ACAS. The in-house Leadership Development Programme is now in its third year and through this the Society aims to continue to develop all its managers and leaders to a consistently high standard to be good advocates of its customer ethos and articulate what it means to treat customers fairly.

The Society aims to provide a safe, healthy and ultimately productive environment within which its employees can work. All employees are provided with equipment to enable them to provide an efficient service to its customers, both internally and externally.

It is the Society's belief that in communicating with its employees on a regular basis it will ensure that they are fully aware of the vision driving the business strategy and the part that they play in achieving a successful outcome. There are a variety of ways in which the Society communicates with its employees and these include 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. 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.

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.

The Society enables its employees to participate in the Government's Childcare Voucher Scheme and the Cycle to Work scheme.

Employee involvement

The Society continues to build upon the Values initiative launched in 2006, which encourages employees to focus on and maintain the high levels of service that we aim to provide to our members. The five core values, which we aim to demonstrate in all dealings with our members are: professionalism, respect, honesty, customer focus and commercial focus.

Corporate social responsibility

Our role as an institutional investor

The majority of the Society's funds were 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 recognises it has an impact on the environment and has made a corporate commitment to improving its environmental performance through its Environmental Policy. This provides the framework for all our work, in relation to energy saving, waste and recycling or procuring goods and services from sustainable sources.

The Facilities Management Team is responsible for implementing the environmental policy to:

- encourage employee involvement in environmental issues
- promote energy conservation by efficient use, careful planning and design with due regard to improved energy utilisation and appropriate investment in energy efficient measures
- minimise waste and ensure that there is effective control, which promotes recycling where possible and provides responsible disposal, particularly with regard to hazardous waste
- promote environmentally responsible policies in all its commercial activities, including purchasing and investment
- strive to eliminate the release of pollutants by initial assessment and continuing evaluation of the appropriateness of and need for any activity which could have an impact on the environment
- take into consideration the likely environmental effect of the Society's activities on the local community
- expect similar environmental standards from all parties with whom the Society deals.

In 2009 the Facilities Management Team will be working towards implementing an Environmental Management System in line with the BS 8555 (Environmental Management Systems). This will be introduced in a series of defined manageable phases, the final stage being to seek accredited certification for the environmental management within the Society.

Committee of Management's Annual Report.

Working in the community
Family's Community Programme has been running successfully for well over 15 years, encouraging employees and partners to put something back into the local community and get involved with local charities and organisations, through charitable donations, fundraising and staff time.

We actively encourage employees to get involved in supporting their local community, either through team challenge activities or fundraising activities. It is seen as an important addition in the learning and development programme that is also on offer to employees.

Although 2008 was a very busy year for the Society, we were still able to continue with many of our community activities. The Nursery workshops for this year were supported in 10 different nurseries around Brighton and focused on making learning fun. Music and songs help to develop early phonics, supported by Makaton which is a basic form of sign language.

Our involvement with our core projects at Blatchington Mill School and College, City College and Age Concern Brighton, Hove and Portslade has continued. We have continued to build on our relationship with the Education Business Partnership in Brighton and have been able to place a number of our employees with local schools assisting with "one to one" reading schemes and also supporting numeracy development through maths clubs.

Our annual interview skills day was a huge success with Blatchington Mill students and the Family employees taking part. It is a practical way to benefit both employees, by giving them an opportunity to develop and enhance their interviewing skills and feedback techniques, and the students by allowing them to try out a 'mock' job interview and receive feedback on how they performed. Activity days for both Blatchington Mill and City College were organised by the Society to help improve team working, communication, and leadership skills.

Family also organised an activity day with a partially sighted sports group for children to help them with their communication skills, help their confidence building and enable them to work with each other as a team.

The Blatchington Mill "School's Family Festival" was held at the Hove Town Hall this year and Family were pleased to help support the many schools and hundreds of performers who took part in the Festival, showcasing performing arts from around the City.

In 2008 60 employees (18.75%) were able to give their time to support activities. An increase in match funding (£1,936 in 2008 against £950 in 2007) contributed to the total donation and fundraising amount of £27,000 this year which went to help local charities and local branches of national charities. Over the last thirteen years the Society has raised over £160,000 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.

Family continues to work closely with the Tree Appeal and over the last year have been able to plant over 3,000 trees at Brighton, Sussex and Swindon, Wiltshire. As a result of the number of ethical CTF accounts being opened in 2008, we have an additional 1,500 trees to plant around the country in 2009.

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 embedded within the Society's ethos.

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 15.

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 their level of service that we provide to our members. It is also designed to achieve an effective link between pay and performance.

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. In the case of the defined benefits scheme any increase in base salary above RPI will be non-pensionable.

Long term incentive scheme
The five executive directors, together with seven 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. No bonuses were paid in 2008 and accrued bonuses from previous years reduced in line with the fall in embedded value.

Pension
The Society operates a defined benefit pension scheme (now closed to new members) in which four of 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[3]		*Bonuses*[4]		*Other benefits*[5]		*Total*	
	2008	*2007*	*2008*	*2007*	*2008*	*2007*	*2008*	*2007*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Executives								
John Reeve	243	229	-6	50	9	8	246	287
John Adams	165	149	-4	33	6	6	167	188
Rob Edwards	172	157	-1	32	6	7	177	196
Keith Meeres	143	127	-1	27	6	5	148	159
Miles Bingham[1]	37	–	-1	–	–	–	36	–
Non-executives								
Robert Dolman	67	65	–	–	–	–	67	65
Robert Weir	32	27	–	–	–	–	32	27
Veronica France	27	24	–	–	–	–	27	24
Rachael Heyhoe-Flint[2]	–	9	–	–	–	–	–	9
David Jude[2]	–	12	–	–	–	–	–	12
Norman Riddell	32	31	–	–	–	–	32	31
John Wybrew	27	24	–	–	–	–	27	24
	945	854	-13	142	27	26	959	1,022

Note[1] – Miles Bingham was appointed to the Committee of Management on 1st September 2008.

Note[2] – Rachael Heyhoe-Flint and David Jude retired from the Committee of Management on 24th May 2007.

Note[3] – Excluding the retirements and the new appointment noted above, year on year growth in the Salaries and Fees paid to the Committee of Management has increased by 9%. Total remuneration fell by 7.8%.

Note[4] – Bonuses include amounts added to, and movement in, the value of the long term incentive scheme (shown below).

Note[5] – Includes increase in accrued pension during the year (shown on adjacent page).

Long term incentive scheme

	Value at 1.1.2008 £'000	*Bonus withdrawn during 2008*[1] *£'000*	*Embedded value movement during 2008*[2] *£'000*	*Bonus added during 2008 £'000*	*Value at 31.12.2008 £'000*
Executives					
John Reeve	158	–	-6	–	152
John Adams	119	–	-4	–	115
Rob Edwards	32	–	-1	–	31
Keith Meeres	31	–	-1	–	30
Miles Bingham	22	–	-1	–	21
	362	–	-13	–	349

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 decreased by 3.6% during the year.

Pension entitlements

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

	Age	*Total accrued pension 31.12.2008*[1] *£'000*	*Increase in total accrued pension during the year £'000*	*Transfer value of accrued pension at 31.12.2008*[2] *£'000*	*Change in transfer value during the year net of directors' contributions*[3/4] *£'000*
Executives					
John Reeve	61	124	6	1,935	512
John Adams	54	53	4	678	220
Rob Edwards	53	48	4	604	201
Keith Meeres	51	52	4	543	177

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 2008.

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.

Note[4] – The Scheme's basis for calculating transfer values was updated in October 2008 in accordance with GN11 and this updating accounts for a significant part of the increase in transfer values as at 31st December 2008 as compared with those disclosed last year. A large part of the remaining increase results from the fact that the capital value of the retirement benefits is now being assessed as a year closer to payment than this time last year, simply by the passing of time.

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 2008 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 C3.6 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 2008 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
11th March 2009

Income and Expenditure Account.

TECHNICAL ACCOUNT – LONG TERM BUSINESS

for the year ended 31 December 2008

Notes		*Group 2008 £'000*	*Society 2008 £'000*	*Group 2007 £'000*	*Society 2007 £'000*
2	Earned premiums	62,888	62,888	67,715	67,715
	Outward reassurance premiums	(232)	(232)	(266)	(266)
	Earned premiums, net of reassurance	62,656	62,656	67,449	67,449
3	Investment income	50,625	50,625	48,656	48,656
3	Realised gains on investments	–	–	29,856	29,856
5	Other technical income	6,157	–	5,670	–
	Total Technical Income	119,438	113,281	151,631	145,961
	Claims incurred, net of reassurance				
	Claims paid				
	Gross amount	(110,178)	(110,178)	(119,818)	(119,818)
	Reassurers' share	64	64	64	64
		(110,114)	(110,114)	(119,754)	(119,754)
18	Change in provision for claims				
	Gross and net amount	1,169	1,169	(884)	(884)
	Net claims incurred	(108,945)	(108,945)	(120,638)	(120,638)
18	**Change in technical provisions, net of reassurance**				
	Long term business provision, net of reassurance				
	Gross amount	22,752	22,752	11,733	11,733
	Reassurers' share	48	48	(17)	(17)
		22,800	22,800	11,716	11,716
	Other technical provision, net of reassurance				
	Technical provision for linked liabilities	190,222	190,222	21,363	21,363
	Net change in technical provisions	213,022	213,022	33,079	33,079
	Other expenditure				
4	Net operating expenses	(6,274)	(6,274)	(7,656)	(7,656)
3	Investment expenses and charges	(2,106)	(2,106)	(2,484)	(2,484)
3	Unrealised losses on investments	(155,112)	(161,191)	(36,210)	(37,617)
3	Realised losses on investments	(30,540)	(30,540)	–	–
5	Other technical charges	(32,967)	(20,720)	(13,568)	(6,505)
		(226,999)	(220,831)	(59,918)	(54,262)
	Total Technical Charges	(122,922)	(116,754)	(147,477)	(141,821)
	(Deficit)/surplus of technical income over technical charges before taxation	(3,484)	(3,473)	4,154	4,140
6	Tax attributable to the long term business	(824)	(835)	(449)	(435)
	(Deficit)/surplus on technical account – long term business	(4,308)	(4,308)	3,705	3,705
22	Actuarial loss on pension scheme	(5,333)	(5,333)	(1,585)	(1,585)
18	Transfer from/(to) the fund for future appropriations	9,641	9,641	(2,120)	(2,120)
	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 2008

Notes		Group 2008 £'000	Society 2008 £'000	Group 2007 £'000	Society 2007 £'000
	Investments				
9	Land and buildings	1,770	1,770	2,363	2,363
10	Investments in group undertakings				
	Investments in subsidiaries	–	8,758	–	8,837
11	Other financial investments				
	Shares, variable yield securities and units in unit trusts	17,897	17,897	3,993	3,978
	Debt securities and other fixed income securities	92,290	92,290	114,471	114,471
	Deposits with credit institutions	7,746	880	29,811	22,598
		119,703	121,595	150,638	152,247
12	**Assets held to cover linked liabilities**	954,312	954,312	1,144,534	1,144,534
	Reassurers' share of technical provisions				
	Long term business provision	511	511	463	463
	Other assets				
13	Tangible assets				
	Fixtures, fittings and equipment	303	303	225	225
14	Other debtors	2,091	1,259	1,669	1,397
	Cash at bank and in hand	5,548	5,480	1,932	1,368
	Prepayments and accrued income				
	Accrued interest and rent	1,326	1,326	2,011	2,011
	Other prepayments and accrued income	747	747	789	789
22	**Pension asset**	–	–	1,922	1,922
		1,084,541	1,085,533	1,304,183	1,304,956

Balance Sheet.
LIABILITIES
as at 31 December 2008

Notes		Group 2008 £'000	Society 2008 £'000	Group 2007 £'000	Society 2007 £'000
18	**Reserves**				
	Fund for future appropriations	41,478	41,478	51,119	51,119
18	**Technical provisions**				
	Long term business provision	75,225	75,225	97,977	97,977
	Claims outstanding	4,118	4,118	5,287	5,287
18	**Technical provision for linked liabilities**	954,312	954,312	1,144,534	1,144,534
15	**Creditors**				
	Other creditors, including taxation and social security	3,723	4,830	3,217	4,307
	Accruals and deferred income	2,728	2,613	2,049	1,732
22	**Pension liability**	2,957	2,957	–	–
		1,084,541	1,085,533	1,304,183	1,304,956

Approved by the Committee of Management on 11th March 2009, 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 liability/asset recognised in the balance sheet is the sum 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.

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.

1 Principal accounting policies (continued).

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	
	2008	*2007*
a) **Gross premiums written:**	*£'000*	*£'000*
Life assurance business:		
Linked	55,431	58,999
Non-linked	5,414	6,521
Pension business:		
Linked	1,995	1,948
Annuity business	48	247
Total gross premiums written	62,888	67,715
Regular premiums	60,802	65,387
Single premiums	2,086	2,328
Total gross premiums written	62,888	67,715

	Society 2008		*Society 2007*	
	Single	*Regular*	*Single*	*Regular*
b) **Gross new business premiums:**	*£'000*	*£'000*	*£'000*	*£'000*
New business premiums	91	3,781	380	2,805

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*
	2008	*2008*	*2007*	*2007*
c) **Contributions received for Child Trust Funds, ISAs and direct unit trust investments:**	*£'000*	*£'000*	*£'000*	*£'000*
Regular contributions	44,873	–	37,847	–
Single contributions	266,774	–	38,784	–
	311,647	–	76,631	–

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).

2 Premium analysis (continued).

	Number of policies		*Number of policies*	
	Group	*Society*	*Group*	*Society*
d) Policies on file:	*2008*	*2008*	*2007*	*2007*
Average during the year	1,083,400	482,978	994,163	522,952
As at 31 December	1,142,537	462,044	1,024,263	503,912

3 Investment return summary.

	Group	*Society*	*Group*	*Society*
	2008	*2008*	*2007*	*2007*
	£'000	*£'000*	*£'000*	*£'000*
Investment income:				
Income from listed investments	39,087	39,087	36,063	36,063
Income from other investments	11,026	11,026	11,936	11,936
Net return on pension scheme (see note 22)	512	512	657	657
	50,625	50,625	48,656	48,656
Investment expenses and charges:				
Investment management expenses, including interest	(2,106)	(2,106)	(2,484)	(2,484)
Unrealised losses on investments	(155,112)	(161,191)	(36,210)	(37,617)
Realised (losses)/gains on investments	(30,540)	(30,540)	29,856	29,856
Net investment return included in the Technical Account – Long Term Business	(137,133)	(143,212)	39,818	38,411

4 Net operating expenses.

	Group	*Society*	*Group*	*Society*
	2008	*2008*	*2007*	*2007*
	£'000	*£'000*	*£'000*	*£'000*
Acquisition costs incurred in the year:				
Commission	74	74	48	48
Other acquisition expenses	808	808	1,288	1,288
	882	882	1,336	1,336
Research and development costs	316	316	517	517
Administration expenses	5,076	5,076	5,803	5,803
	6,274	6,274	7,656	7,656
Included in net operating expenses and other technical charges are:				
Depreciation charge for the year (see note 13)	218	218	298	298
Interest paid and similar charges:	273	259	54	53
In respect of bank overdrafts	14	–	1	–
To customers	259	259	53	53
Remuneration of the Auditors in respect of audit and related services:	163	101	134	98
Statutory audit – Society	92	92	88	88
Statutory audit – Subsidiaries	49	–	24	–
Auditing of staff pension scheme	9	9	9	9
Auditing of certain unit trusts	13	–	12	–
Tax services	–	–	1	1

5 Other technical income and charges.

	Group 2008 £'000	Society 2008 £'000	Group 2007 £'000	Society 2007 £'000
Other technical income:				
Income generated in subsidiary companies	6,157	–	5,670	–
Other technical charges:				
Costs relating to subsidiary company products:				
Acquisition expenses	5,875	4,852	5,777	5,758
Research and development costs	5,976	1,460	1,222	747
Administration expenses	6,708	–	6,569	–
	18,559	6,312	13,568	6,505
Assets transferred under Transfer of Engagements agreement (see note 17)	14,408	14,408	–	–
	32,967	20,720	13,568	6,505

6 Taxation.

	Group 2008 £'000	Society 2008 £'000	Group 2007 £'000	Society 2007 £'000
UK Corporation tax:				
Current year	865	865	544	544
Tax payable on unrealised gains on unit-linked assets	(30)	(30)	(85)	(85)
Adjustments in respect of prior periods	(11)	–	(10)	(24)
	824	835	449	435

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 £835k (2007: £459k) relating to taxable business has been provided for. Taxes have been charged at various rates ranging from 20% to 30% (2007: 20% to 30%).

	Group 2008 £'000	Society 2008 £'000	Group 2007 £'000	Society 2007 £'000
Deferred tax liability:				
Unit trust deemed disposals	–	–	(113)	(113)
Unrealised capital gains on property assets	–	–	(62)	(62)
Actuarial reserves	(40)	(40)	(17)	(17)
Deferred tax liability	(40)	(40)	(192)	(192)
Deferred acquisition expenses	40	40	192	192
Deferred tax balance	–	–	–	–

There is an unrecognised deferred tax asset of £933k (2007: £487k), of which £40k (2007: £192k) has been set aside to offset unrecognised deferred tax liabilities. The balance of £893k (2007: £295k) represents the net unrecognised deferred tax asset. This balance comprises, inter-alia, two principal components: unit trust deemed disposal losses and deferred acquisition expenditure which will both 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.

The average numbers of employees (including Committee of Management) during the year were:	Group 2008 Number	Society 2008 Number	Group 2007 Number	Society 2007 Number
Marketing	15	15	16	16
Investments	11	11	11	11
Administration	289	289	255	255
	315	315	282	282

	Group 2008 £'000	Society 2008 £'000	Group 2007 £'000	Society 2007 £'000
Staff costs for the above employees were:				
Wages and salaries	8,685	8,685	8,474	8,474
Pension costs	777	777	703	703
Social security costs	810	810	807	807
	10,272	10,272	9,984	9,984

All employees are employed and remunerated directly by the Society.

8 Committee of Management emoluments.

	Group 2008 £'000	Society 2008 £'000	Group 2007 £'000	Society 2007 £'000
Fees and benefits to the Chairman and non-executive directors	185	185	192	192
Salaries and benefits to executive directors	769	769	672	672
Performance related bonuses	(13)	(13)	142	142
Increase in total accrued pensions	18	18	16	16
	959	959	1,022	1,022

Chairman
The aggregate remuneration paid, comprising salary and benefits, to Mr. Robert Dolman for the year ended 31st December 2008 amounted to £67k (2007: £65k).

Highest paid Committee member
The aggregate remuneration paid to Mr. John Reeve for the year ended 31st December 2008, comprising salary, benefits and the change in his accrued pension during the year, amounted to £246k (2007: £287k). Had Mr. Reeve left service and pensionable service in the Staff Pension Scheme at 31st December 2008, his deferred pension at leaving would have been £124k per annum (2007: £118k per annum).

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

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

Long term incentive scheme
The executive directors had benefits under a long term incentive scheme during the year. The scheme is targeted at increasing the embedded value of the Society and amounts accrued, for the benefit of the executive directors, as at 31st December 2008 are £349k (2007: £340k [£362k including Mr Bingham]). 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 2008 £'000	*Society 2008 £'000*	*Group 2007 £'000*	*Society 2007 £'000*
Movements during the year:				
As at 1 January	2,363	2,363	2,129	2,129
Revaluation during the year	(593)	(593)	234	234
As at 31 December	1,770	1,770	2,363	2,363
Types of land and buildings held at 31 December:				
Owner-occupied – Short leasehold	1,770	1,770	2,363	2,363
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 2008 and 2007 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 9th December 2008.

10 Investment in Group undertakings.

Subsidiaries	*Society 2008 £'000*	*Society 2007 £'000*
Ordinary shares at directors' valuation:		
As at 1 January	8,837	10,244
Purchase of Share Capital	6,000	–
Revaluation during the year	(6,079)	(1,407)
As at 31 December	8,758	8,837

On both 4th September 2008 and 6th November 2008 Family Equity Plan Limited issued 3 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 and ISA manager
Family PEP Managers Limited	ISA 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 2008 £'000	*Society 2008 £'000*	*Group 2007 £'000*	*Society 2007 £'000*
At cost:				
Shares, variable yield securities and units in unit trusts	19,758	19,758	3,172	3,157
Debt securities and other fixed income securities	88,637	88,637	115,281	115,281
Deposits with credit institutions	7,746	880	29,811	22,598
	116,141	109,275	148,264	141,036
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	17,897	17,897	3,993	3,978
Debt securities and other fixed income securities	91,998	91,998	114,169	114,169
	109,895	109,895	118,162	118,147

12 Assets held to cover linked liabilities.

	Group and Society 2008 £'000	*2007 £'000*
Market value as at 31 December	954,312	1,144,534
Cost as at 31 December	971,757	1,004,896

13 Tangible assets.

	Equipment £'000	*Group and Society Computer hardware £'000*	*Computer software £'000*	*Total £'000*
At cost:				
As at 1 January 2008	2,110	2,222	3,908	8,240
Additions	124	172	–	296
Disposals	–	(280)	–	(280)
As at 31 December 2008	2,234	2,114	3,908	8,256
Accumulated depreciation:				
As at 1 January 2008	2,102	2,005	3,908	8,015
Charge for the year	73	145	–	218
Eliminated on disposals	–	(280)	–	(280)
As at 31 December 2008	2,175	1,870	3,908	7,953
Net book value as at 31 December 2008	59	244	–	303
Net book value as at 31 December 2007	8	217	–	225

14 Other debtors.

	Group 2008 £'000	*Society 2008 £'000*	*Group 2007 £'000*	*Society 2007 £'000*
Amounts owed by linked funds	347	347	212	212
Loans to members	688	688	844	844
Taxation recoverable	18	18	25	25
Sundry debtors	1,038	206	588	316
	2,091	1,259	1,669	1,397

15 Other creditors.

	Group 2008 £'000	*Society 2008 £'000*	*Group 2007 £'000*	*Society 2007 £'000*
Due to subsidiary undertakings	–	1,223	–	1,216
Taxes payable	1,325	1,323	866	864
Sundry creditors	2,398	2,284	2,351	2,227
	3,723	4,830	3,217	4,307

16 Assets of the long term business.

	Group and Society 2008 £'000	*2007 £'000*
The total assets relating to the long term business are:		
Assets held to cover linked liabilities	954,312	1,144,534
Investments	83,735	89,877
Deposits and cash at bank	1,777	15,210
Debtors, prepayments and accrued income	2,112	2,875
Reassurers' share of technical provisions	511	463
	1,042,447	1,252,959

17 Transfer of engagements.

On 31st July 2008, certain long term Life business was transferred to Reliance Mutual Insurance Society Limited. The long term business transferred included all the assets and liabilities of three remaining closed funds of the former Family Life Assurance Limited. The value of the long term assets and liabilities at the date of the transfer are set out below:

	Group and Society 2008 £'000
Assets:	
Investments	14,393
Other Assets	21
Liabilities:	
Other liabilities	(6)
	14,408
Represented by:	
Long term business technical provision	12,945
Technical provision for linked liabilities	1,157
Fund for future appropriations	306
	14,408

18 Policyholder liabilities and reserves in respect of the Society and the Group.

	Long term business technical provision £'000	*Technical provision for linked liabilities £'000*	*Claims outstanding £'000*	*Fund for future appropriations £'000*
As at 1 January 2008	97,977	1,144,534	5,287	51,119
Changes in technical provisions:				
Gross change in technical provisions, net of reassurance	(22,800)	(190,222)	(1,169)	(9,641)
Change in technical provisions not transferred	(9,855)	(189,065)	(1,169)	(9,335)
Transfer of engagements (see note 17)	(12,945)	(1,157)	–	(306)
Reassurers' share of the change in technical provisions	48	–	–	–
As at 31 December 2008	75,225	954,312	4,118	41,478

18 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*	
	2008	*2007*	*2008*	*2007*
Taxable with-profits POIS fund	1.25	2.25	100% of AM80/AF80	100% of AM80/AF80
Non taxable with-profits POIS fund	1.75	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 significant decrease in the expense assumptions, as part of the implementation of the FSA's policy statement PS06/14.
- a decrease in the valuation rate of interest reflecting the recent fall in fixed interest yields.

The overall effect of changes to assumptions has been to decrease the long term business provision, net of reassurers' share, by £0.4m.

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 £1.4m. This does not include the corresponding effect on the valuation of assets.

19 Bonuses and rebates.

	Group and Society	
	2008	*2007*
	£'000	*£'000*
Cost of bonuses declared, as at 31 December:		
Other bonuses	–	666
Reversionary bonuses	381	624
	381	1,290

20 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 2008				
Fund for future appropriations	30,799	10,679	–	41,478
Allocation of Group capital	(1,721)	–	–	(1,721)
Other adjustments	(2,684)	–	–	(2,684)
Total available capital resources	26,394	10,679	–	37,073
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

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 2007	33,279	11,604	306	45,189
Effect of investment variations	(2,679)	5,236	–	2,557
Effect of experience variations	(5,664)	160	–	(5,504)
Effect of change in valuation basis	2,108	(3,520)	–	(1,412)
New business strain	(650)	–	–	(650)
Cost of bonuses	–	(2,801)	–	(2,801)
Transfer of engagements	–	–	(306)	(306)
Available capital resources as at 31 December 2008	26,394	10,679	–	37,073

20 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 2008				
Unit-linked	954,312	–	–	954,312
With-profits liabilities	–	67,242	–	67,242
Non-profits liabilities	7,007	976	–	7,983
	961,319	68,218	–	1,029,537
Claims outstanding	3,278	840	–	4,118
Reassurance	–	(511)	–	(511)
Technical provisions in the balance sheet	964,597	68,547	–	1,033,144
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-profits 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

There were no material options or guarantees included within the Technical provisions at either 31st December 2008 or 31st December 2007.

Management of insurance risk

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

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

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

Capital management policies and objectives
The Society's objectives in managing its capital are:

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

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

The Society's total available capital resources are £37.1m (2007: £45.2m) of which £10.7m (2007: £11.9m) is held in with-profits funds and £26.4m (2007: £33.3m) 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 31st December the Society's available capital was 640% of the capital requirement of £5.8m (2007: 572% of £7.9m)

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 £7.2m.

- 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 £1.9m.

- Persistency risk in relation to unit-linked business, which would arise if there was a significant increase in surrender rates which would deprive the Society of the future income that business provides. An increase in surrender rates of 80% would reduce available capital resources by approximately £0.8m.

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.

21 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 2008 amounted to £429k (2007: £445k), of which £nil (2007: £nil) related to work in respect of transfers of engagements.

22 Staff Pension provision.

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

The defined benefit scheme 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.

Formal actuarial valuations were carried out as at 31st December 2007 and updated to 31st December 2008 by an independent qualified actuary in accordance with FRS17. As required by FRS17, the defined benefit liabilities have have been measured using the projected unit credit method.

The expected rate of return on assets for the financial year ending 31st December 2008 was 7.2% pa (2007: 7.1% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the Scheme was invested in at 31st December 2007.

The following table sets out the key FRS17 assumptions used for the Scheme. The table also sets out, as at 31st December 2008, 2007 and 2006, 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:	*2008*	*2007*	*2006*
Inflation	3.1 %	3.5 %	3.1 %
Pension increases:			
pre April 1997 pension	0.0 %	0.0 %	0.0 %
post April 1997 pension	2.9 %	3.4 %	3.1 %
post April 2005 pension	2.2 %	2.3 %	2.2 %
Salary growth	3.1 %	3.5 %	3.1 %
Discount rate	6.0 %	5.6 %	5.1 %
Investment returns:			
Equities	7.6 %	7.9 %	7.8 %
Bonds and cash	3.8 %	4.4 %	4.5 %
Other assets	6.0 %	5.6 %	5.1 %
Life expectancy:			
male aged 65 at the balance sheet date	22.2 years	21.9 years	20.9 years
male aged 65 in 2033 (25 years from balance sheet date)	24.6 years	23.2 years	22.2 years

Fair value of assets	*2008 £'000*	*2007 £'000*	*2006 £'000*
Equities	13,931	20,414	19,989
Bonds and cash	5,503	5,290	5,330
Other net assets	82	76	63
Total fair value of assets	19,516	25,780	25,382
Present value of liabilities	(22,473)	(23,858)	(22,422)
Gross pension (liability) / asset	(2,957)	1,922	2,960

Over the year to 31st December 2008, the Society made regular contributions amounting to £624k to the Scheme. Future contributions from the Society will be at a rate of 21% of members' pensionable salaries plus £65k per month and amounts equal to the Scheme's Pension Protection Fund levies. The estimated amount of total Society contributions expected to be paid to the Scheme during 2009 is £1,480k plus the Pension Protection Fund levies due. The contribution rate will be reviewed following the next valuation, due no later than 31st December 2010.

In addition, over the year to 31st December 2008, employee AVCs totalling £26k 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 (deficit) or surplus under FRS17 moved as follows:

	2008 £'000	*2007 £'000*
Post retirement surplus as at 1 January	1,922	2,960
Contributions (employee and employer)	650	589
Operating charge:		
Current service cost (employer's part only)	(708)	(699)
Other net finance income:		
Expected return on pension scheme assets	1,852	1,809
Interest on post retirement liabilities	(1,340)	(1,152)
Net return credited to finance income	512	657
Actuarial (loss) or gain:		
Actual return less expected return on pension scheme assets	(8,202)	(1,625)
Experience losses arising on pension scheme liabilities	(541)	(629)
Gain due to changes in assumptions underlying the present value of scheme liabilities	3,410	669
Actuarial losses recognised in the fund for future appropriations	(5,333)	(1,585)
Post retirement (deficit)/surplus as at 31 December	(2,957)	1,922

History of experience gains and losses	*2008 £'000*	*2007 £'000*	*2006 £'000*	*2005 £'000*
Actual return less expected return on pension scheme assets	(8,202)	(1,625)	1,749	1,756
As a percentage of pension scheme liabilities at end of year	42%	6%	8%	8%
Experience (losses)/gains arising on pension scheme liabilities	(541)	(629)	82	(270)
As a percentage of pension scheme liabilities at end of year	2%	3%	0%	1%
Actuarial (losses)/gains recognised in the fund for future appropriations	(5,333)	(1,585)	1,673	(1,888)
As a percentage of pension scheme liabilities at end of year	24%	7%	7%	9%

23 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 or 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 £114k as at 31st December 2008 (2007: £150k).

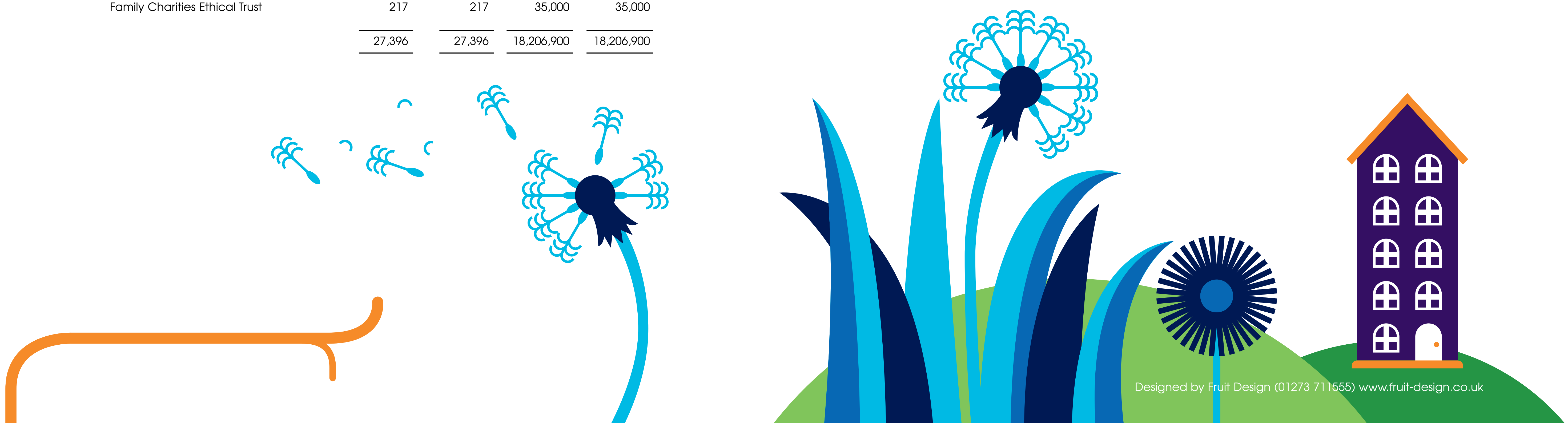
Mr Robert Dolman (Chairman) is a partner in a London firm of solicitors which did not provide legal advice to the Society during the year. (2007: £4k).

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

	Group 2008 £'000	*Society 2008 £'000*	*Group 2007 £'000*	*Society 2007 £'000*
Family Asset Trust	304,196	304,196	430,787	430,787
Family Charities Ethical Trust	5,392	5,392	8,847	8,847
Family Regency Unit Trust	–	–	1,371	1,358
Family Safety Net Stockmarket Unit Trust	–	–	6	–
	309,588	309,588	441,011	440,992

During 2008, 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 2008 £'000	*Society 2008 £'000*	*Group 2008 units*	*Society 2008 units*
Family Asset Trust	27,179	27,179	18,171,900	18,171,900
Family Charities Ethical Trust	217	217	35,000	35,000
	27,396	27,396	18,206,900	18,206,900



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