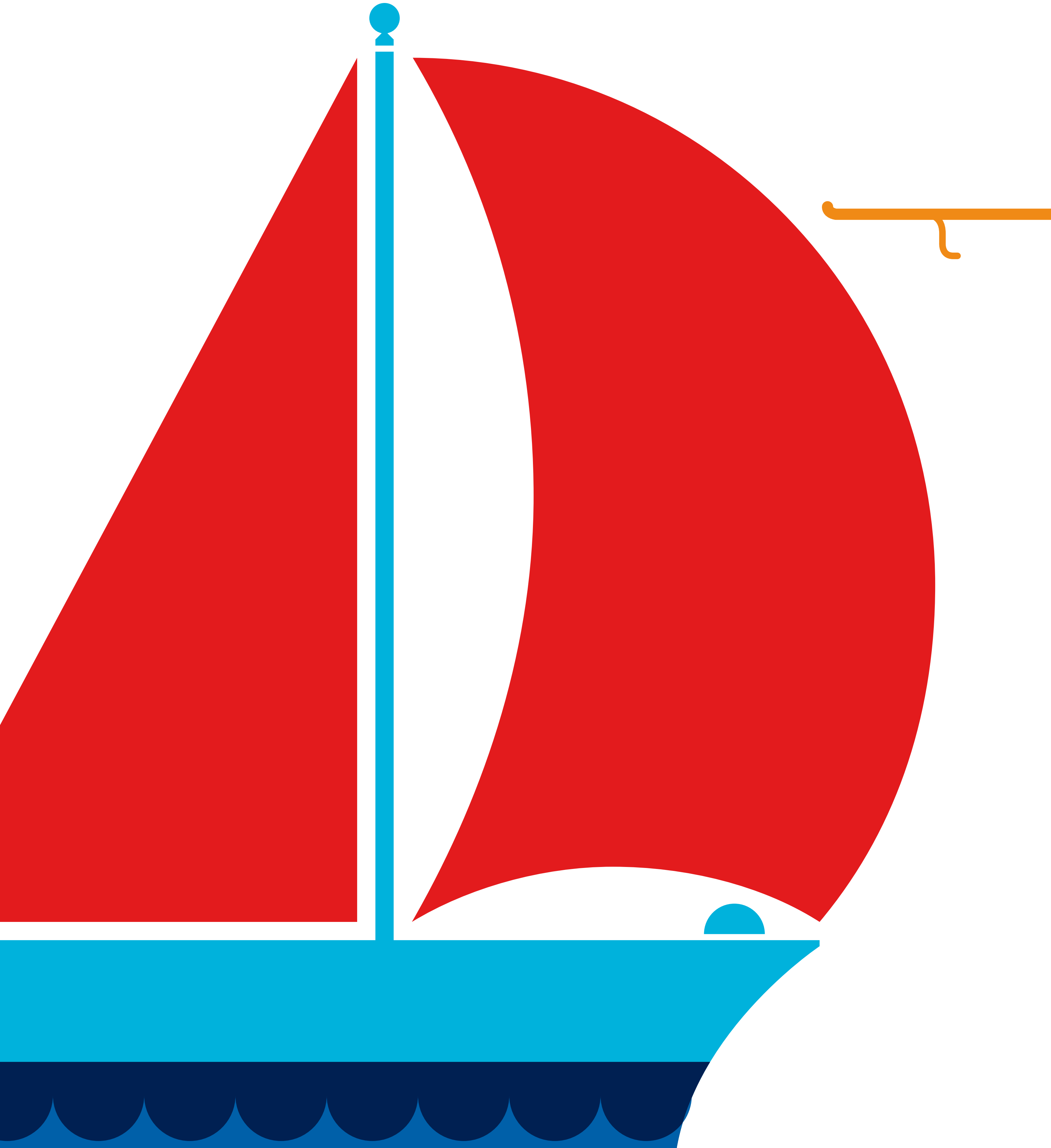
family investments

Annual Report and Accounts

For the year ended 31 December 2009.



ANNUAL REPORT AND ACCOUNTS 2009

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SOLICITORS
Ashfords Solicitors
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FSC

Chairman's Review.

Chairman
Robert Dolman

Overview

It has been my privilege to have led your Society as Chairman since 1993, but as announced at the last AGM, I intend to step down from that position and the Committee in May this year. My association with Family goes back to 1981 when I first joined the Committee and during that time I have witnessed the Society grow in stature and reputation. To put some perspective on the scale of change, funds under management have grown from a mere £10m in 1981 to more than £2bn today. We also now manage over one million Child Trust Fund accounts and are the largest provider of that product, a significant achievement that puts Family firmly on the map.

Size alone is a fairly crude measure of success. The business has only grown because we constantly strive to put our members' interests at the centre of everything we do, which is why we remain firmly committed to being a member-owned mutual organisation. Whatever the next chapter holds, the greatest sense of achievement I take with me is the knowledge that Family has prospered and is here for its members when so many financial services organisations, both in the proprietary and mutual sectors, have ceased to exist.

Committee Changes

When I step down I will be handing over my role as Chairman to Robert Weir, our very capable and experienced Vice Chairman. Like myself, Robert is a long-serving Board member at Family and his considerable experience of the Society will ensure consistency. At the same time, John Wybrew will also be retiring following our May 2010 Annual General Meeting. John has served the Society since 1999 and has made a tremendous contribution for which he deserves our grateful thanks.

The two of us stepping aside has provided the opportunity to introduce new blood and fresh ideas and in December 2009 two new non-executive directors joined the Committee of Management in readiness to replace John Wybrew and myself. Peter Box and Ian Buckley are both experienced industry professionals (as you will see from their biographies on pages 10-11) and I am sure the Society will benefit greatly from their involvement.

Investment Management and Market Conditions

Our purpose as a business has been to provide savings vehicles so that members can build an asset and make a good return on their money. In response to a period of under-performance from our previous fund manager, the Committee decided in early 2009 to switch our funds to Santander Asset Management to take over our fund management services. At the same time we moved a large proportion of assets into funds that closely follow a number of stock market indices. We believe this new investment stance and a change of fund manager were the right decisions to take in the circumstances and in our members' long-term best interests.

Because we closely follow stock markets, it seems sensible to comment on the broader investment environment. Despite the UK being in recession all last year, 2009 was very much a year that can be split into two periods – pre and post March. The global crisis triggered by the collapse of Lehman Brothers reached a low point in March with the FTSE 100 Index dropping to 3,460 and talk of possible 'depression' rather than just

18.8%

One of the strongest stockmarket rallies on record so that by the end of 2009 our main fund had increased by18.8% for the year.

'recession'. Fortunately, actions taken by various world Governments to recapitalise their banks and to pump money into the markets ended the vicious cycle of falling asset prices. These measures stabilised the situation and produced one of the strongest stockmarket rallies on record so that by the end of 2009 our main fund had increased by18.8% for the year, with similar or better results for most of our other funds. Nevertheless, the future growth prospects for the UK economy remain weak and stockmarkets are likely to remain volatile.

Customer, Employee and Community Engagement

With the adverse effects of the credit crunch and stock market turmoil of 2008 running into 2009, many of our members will have seen poor returns on their statements. Your understanding during this time has been rewarded by satisfactory results by the year end and we remain pleased that in our 2009 annual member survey 9 out of 10 customers said that they would still recommend Family.

It has been a very busy year involving not only a substantial increase in our CTF business through the acquisition of the back books of Abbey (now Santander) and LV=, but also the expansion of our Post Office® ISA business. At the same time we have managed to reduce our overheads. This has put an added strain on our loyal employees who have been the mainstay behind the Society's continued success. One of our cost control measures has been to close our final salary pension scheme to further accrual; a decision which affects around 90 of our longest serving employees. Notwithstanding this, I believe that employees are generally happy working at Family and enjoy being part of a growing business.

We believe the right thing for any business to do is to try and work in their local community to make it a better place and over many years we have been recognised as significant contributors through our Community Programme. So we were very pleased to be voted winners of the 2009 Business in the Community category at the Sussex Business Awards.

Thanks

As I sign off as Chairman, it has been a privilege to serve you, the members. I have much appreciated the chance to meet and get to know a number of you. In addition it has been a pleasure to work with so many talented individuals within the Society over the years and I would just like to take one final opportunity to thank all of them, both past and present, for what they have achieved and wish the Society every good fortune in the future.

R A Dolman

Robert Dolman, Chairman
10th March 2010

Chief Executive's Operational Report.

Chief Executive
John Reeve

Review of Results

2009 has seen Family achieve a number of significant milestones and reflects the efforts we have made to seek business opportunities, despite the adverse environment and general negativity within the financial services industry. We now serve more than 1.5m members and for the first time in the Society's history our funds under management exceed £2bn. This growth has produced further economies of scale which has increased the efficiency of our operations.

It should be acknowledged that a proportion of the Society's free capital has been invested in growing the business over the last two years, at the same time that our income has been hit by falling markets. Therefore, despite prudent cost control, in the near future it is likely that our pace of growth will ease in order to ensure that our reserves continue to be comfortably in excess of those required by the Regulations.

Review of Activities

Our core product in recent years has been the Child Trust Fund (CTF) and 2009 saw Family take over the CTF back-books of two significant brands – Abbey (now Santander) and LV=. The Abbey project was sizeable, not only due to the volume of accounts involved, but also because the transfer included taking on their Cash CTFs, a product that we had to build on our system. These deals cemented our position as the single largest provider in the market. Both transfers ran very smoothly and we feel we are well placed to acquire other books of CTF business in the future.

Our partnership with the Post Office® is little more than a year old, yet in 2009 our ISA funds increased to more than £370m, another significant achievement. We also expanded our ISA product range last year and are now able to tactically offer Fixed Rate Cash and Guaranteed Capital ISAs to supplement the core Cash and Investment ISAs launched in late 2008.

In fact, the combination of Cash CTFs and our Cash ISA through the Post Office® has materially altered our underlying funds. Two years ago, the Society held less than £100 million in cash funds whereas now they exceed £500 million. This is a useful diversification in that it provides a certain buffer for the Society against any sharp stock market downturns as experienced during the worst of the 'credit crunch'.

In terms of our direct-to-consumer offering we recently launched an Over 50s Life Cover plan, something that I hope will appeal to our older members. This is our first foray into insurance for a number of years and the product can be purchased in a simple transaction from our website, which was also re-launched last year under www.familyinvestments.co.uk

The internet continues to influence the daily lives of many consumers in the way that they research and shop for products and these trends will only continue. Our oldest CTF customers turn eight this year and I'm sure many of them are more computer literate than their parents! Family remains keen to embrace new technology and we realise that the internet is our shop window for new business as well as a tool to provide faster and efficient servicing for existing customers. For example, we now have over 70,000 CTF accounts registered to manage on-line and we were the first CTF provider to introduce a web-based purchase facility, available within Santander branches.

Investment Results

It is fair to say that the difficult market conditions of 2008 continued into the early part of 2009. In the first quarter economic data around the world continued to be weak. It soon became evident that some large banks, particularly in the UK and the US, would need further assistance against the real possibility of failure and nationalisation. Governments and Central Banks continued to take action to ease the situation by cutting interest rates further and, in the UK, introduced new monetary measures to increase money supply directly into the UK economy in order to reduce the threat of deflation.

During the second quarter, however, early signs of economic recovery started to come through as some better than expected economic results were published and concerns around deflation subsided. Crucially, banks started to lend again and there was support from institutions for a significant number of capital raising exercises.

Despite the poor start to 2009, markets saw a large uplift in the third quarter with the FTSE 100 Index exceeding the 5,000 mark in September. This was an increase of over 40% from the year's earlier lows†. Moreover, signs around the globe began to show that the economic situation was starting to stabilise and both equity and bond markets were slowly returning to levels seen in the past.

In the final quarter of the year, markets and the world economy continued their strong recovery. In fact the FTSE 100 Index turned in its best performance for 12 years in 2009, rising an impressive 22.1%, with performance led by a stabilisation in the banking sector. Most major global economies returned to growth in the latter part of 2009 and although the UK, to some degree, lagged this recovery, Gross Domestic Product is forecast to return to low positive growth throughout 2010. We saw stabilisation in the UK housing market, with both prices and mortgage approvals moving higher in the second half of the year. Unemployment, although still a concern, showed signs of improvement, with the rate of jobless claims beginning to slow down.

Looking forward, we hope to see the UK equity market make further progress during 2010 particularly in light of the low returns available from cash on deposit. Whilst the UK economy will continue to face headwinds to growth in the short term, such as higher taxes and higher unemployment, we expect the global economic recovery to continue at a gradual pace.

To help maintain the economic recovery, the Bank of England is expected to maintain its current monetary policy. While the Quantitative Easing programme ended in early 2010, the UK bank rate is expected to be kept low for an extended period with only minor increases in the later part of the year.

Santander Asset Management UK continues to adopt a prudent investment approach, underpinned by robust investment processes that ensure the funds are aligned to their risk profiles at all times. We are constantly monitoring our funds to take full advantage of market conditions.

The Outlook

Despite the huge growth in sales, funds and members last year, we have no time to rest on our laurels. Some politicians seeking to reduce the UK's budget deficit are directly threatening the one product that has underpinned much of our recent success, the Child Trust Fund. We believe that the CTF scheme has been a great success with millions of children owning an asset for their futures and many parents being encouraged to save who wouldn't normally do so. Something all politicians appear to be able to agree on is that people need encouragement to save rather than borrow and that children need to be more financially literate. What better product is there than the CTF to deliver against both of these?

Certainly, the threat to the CTF creates a degree of uncertainty for us. But the good news is that even in a scenario where the CTF were dismantled and no further business were to come our way, we still have a portfolio of over 1 million accounts to manage, generating emerging profits for us over a further 18 years. We are also well placed to provide alternative children's investments. In addition, a significant change to the CTF presents consolidation opportunities as certain other providers may wish to dispose of their existing CTF books if the product is not core to them.

Of course, our preference would be for the CTF scheme to remain intact, yet we are comforted by the fact that we embarked some time ago on a journey to expand and diversify our business. Our ISA business goes from strength to strength and we will seek to build or introduce additional products and services to our growing membership.

Hopefully, we have seen the worst of the recession and come through largely unscathed, but what shape will the recovery take and how might the General Election alter the landscape? These are questions we need to consider in what will be a challenging year ahead.

Tribute

Finally I'd like to pay my own tribute to our Chairman, Robert Dolman. In today's hire and fire world of financial services, his service of 29 years is a great achievement. It has been a privilege to work alongside him over the years as the business has steadily built. Fittingly, Robert bows out following another highly successful year for the Society, as illustrated in the Group Performance Highlights on page 6.

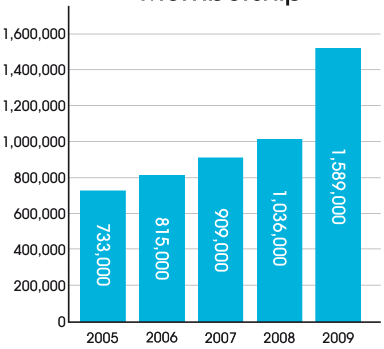
John Reeve

John Reeve, Chief Executive
10th March 2010

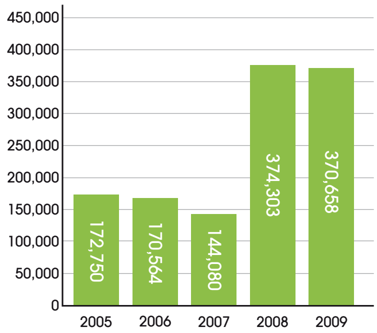
† FTSE as at 30 September 2009 compared to level of 3 March 2009

Group Performance Highlights.

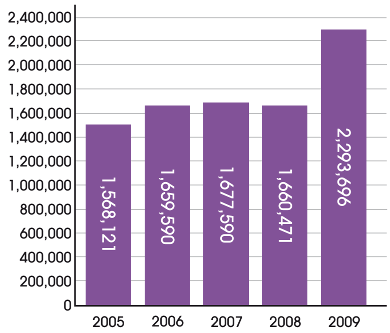
Membership



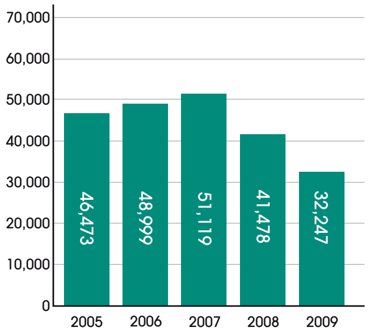
Customer Contributions £000



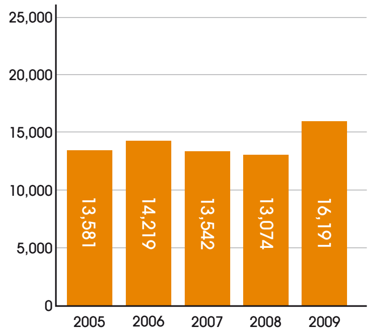
Members' Funds Under Management – £000



Reserves – £000

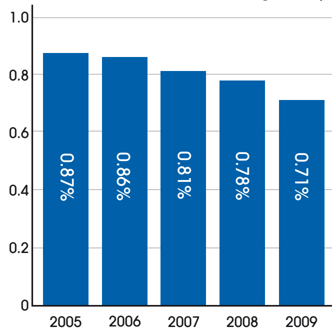


Operating Expenses £000

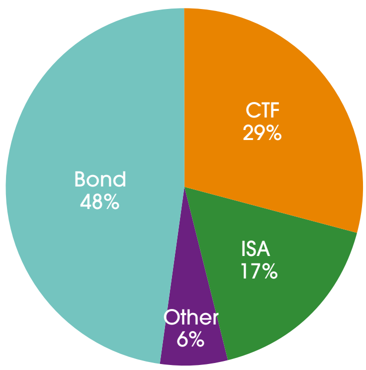


Operating Efficiency

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



Source of Funds Under Management 2009



Fund performance – for the year ended 31 December	Available to	2009	2008	2007
Family CTF Unit Trust	CTFs	19.1%	-21.8%	0.3%
Family Balanced International Fund Share Class B (previously Family Balanced Unit Trust)	ISAs	15.7%	-20.1%	-0.4%
Family Charities Ethical Trust	Bonds, ISAs & CTFs	29.0%	-40.6%	-4.8%
Sovereign 3 Life fund (series 4)	Bonds	18.8%	-13.4%	1.5%
Safety First Life fund (series 4)	Bonds	1.2%	4.9%	4.6%
Managed Pension fund	Pensions	16.7%	-23.3%	2.3%
FTSE 100 Total Return		26.8%	-27.4%	7.6%

Group Summary Financial Statement.

Summary of Group Financial Results

Results for the year ended 31 December	Notes	2009 Group £'000	2008 Group £'000
Members' funds under management			
Opening balance		1,660,471	1,677,590
Amounts paid in by members	1	370,658	374,303
Policies acquired from, or transferred to, other providers	2	239,448	(14,408)
Amounts drawn out by members	3	(114,091)	(152,677)
Investment income, gains and losses	4	155,203	(206,690)
Management charges paid to the Society (below)	5	(17,993)	(17,647)
Closing balance		2,293,696	1,660,471
Results for the year			
Operating income			
Management charges from members' funds (above)	5	17,993	17,647
Other charges levied on members	6	683	885
Other income	7	1,674	502
		20,350	19,034
Operating expenses	8	(16,191)	(13,074)
Operating profit		4,159	5,960
Investment in systems and new business	9	(12,019)	(12,865)
Change in non-linked fund reserves	10	(2,464)	(2,936)
Investment income, gains and losses net of taxation	11	1,093	200
Net result for the year		(9,231)	(9,641)
Reserves as at 1 January		41,478	51,119
Reserves as at 31 December		32,247	41,478

Notes:

1 The contributions paid by members into their policies.

2 The value of policies transferred in from two other providers in 2009 and the value of policies that were transferred to Reliance Mutual in 2008.

3 The amounts paid out to members on maturity or surrender of all or part of their policies.

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

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 Income from activities not paid for by the members.

8 The cost of administering members policies. This number differs from those in the Technical Account due to different classifications of certain expenses. The group summary financial statement attempts to provide more clarity whilst the Technical Account is driven by regulatory requirements.

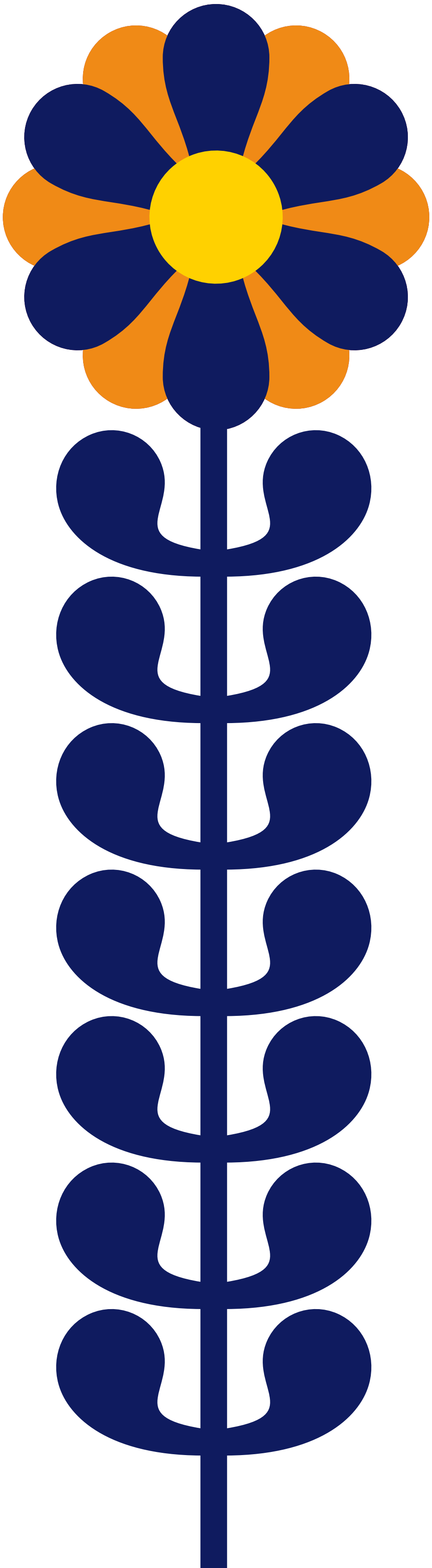
9 The cost of acquiring new business, mainly commission and marketing expenses, and the amount spent on developing the business, mainly on new product lines and improving systems capabilities.

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

11 The change in value of, and income earned from, investments that form part of the Group's reserves.

£2bn

For the first time in the Society's history our funds under management exceed £2 billion.



Committee of Management.

Non-Executive Directors

Chairman
Robert Dolman

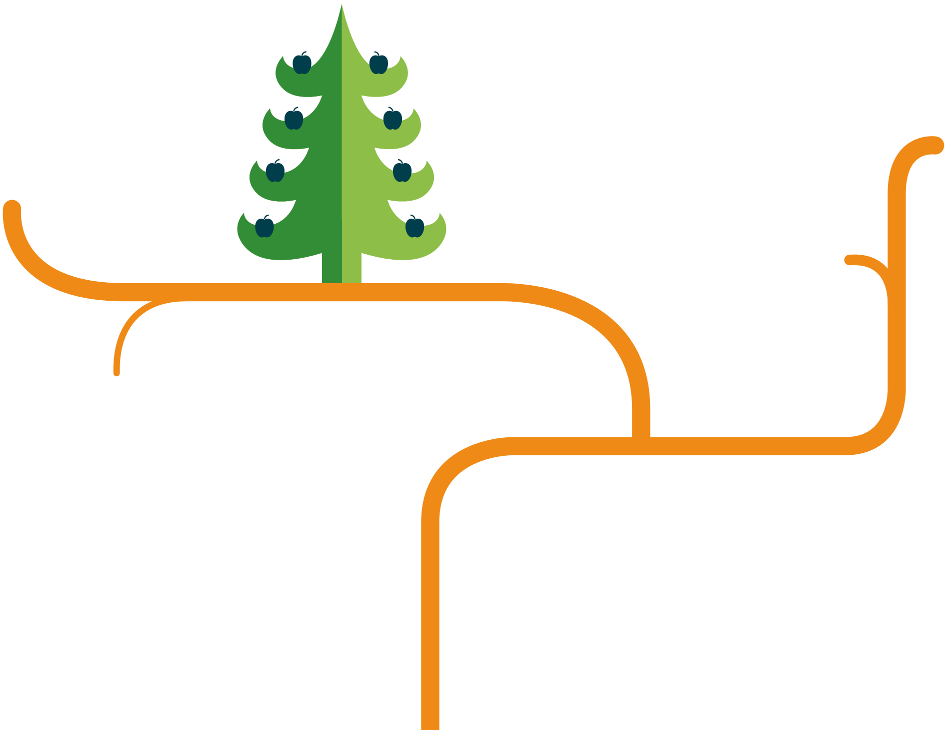
Mr. Dolman, aged 64, has been a member of the Committee since 1981, Vice Chairman from 1988 to 1993, and Chairman from 1993. He is a partner in a London firm of solicitors and specialises in trust and tax law. He is a trustee of over 40 private and charitable trusts and has wide governance and investment experience.

Vice Chairman
Robert Weir FCA

Mr. Weir, aged 61, 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.

Peter Box

Mr. Box, aged 57, was until recently an audit and business advisory partner, at PricewaterhouseCoopers, to a broad range of companies from large international businesses to specialist national firms in his 39-year career. In particular, through his focus on the insurance industry, he has developed a deep understanding of the major issues affecting the sector, both in the UK and around the world, and has significant experience of regulatory and governance matters. He also serves as Vice President and as a non-executive director of Marsh Limited.



Committee of Management.

Non-Executive Directors (continued)

Ian Buckley
Mr. Buckley, aged 59, is a director of Rathbone Brothers Plc and is a member of its Group Executive Committee. Prior to this, he was Chief Executive of Smith & Williamson from 1985 to 1995. He was subsequently Chief Executive of EFG Private Bank Limited and in February 2000 set up Tenon Group Plc. He is also Chairman of NXT Plc.

Veronica France
Ms. France, aged 48, was appointed to the Committee in 2006. She has held positions as Marketing Director for a life assurance and unit trust group and a reassurance company. Since 1992 she has been an independent business development consultant working with a wide range of UK financial services organisations. She is a past chairman of the Investment and Life Assurance Group and chairs that trade body's Non-Executive Directors' Forum.

Norman Riddell
Mr. Riddell, aged 62, joined the Society in 2006. Having trained and qualified as a commercial banker in Scotland, he moved into investment management and held the position of Chief Investment Officer in three different investment management companies, including the INVESCO Group, over a period of some 20 years. He has served in the capacity of non-executive director in a number of financial companies, including Life Assurance Holding Corporation and is currently Chairman of Independent Risk Monitoring Limited.

John Wybrew FIA
Mr. Wybrew, aged 67, 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. John is also the Chairman of the TES Group Limited.

Committee of Management.

Executive Directors

Chief Executive
John Reeve FCA

Mr Reeve, aged 62, joined the Society in 1982 as its Internal Auditor, having previously worked for Deloitte Haskins & Sells. He was promoted to Treasurer in 1984 and has led the Society since 1987 firstly as General Manager and from 1992 as Chief Executive. He is a Chartered Accountant and has been Chairman of the Investment and Life Assurance Group, President of the Association of Friendly Societies and is currently Vice Chairman of the Association of Financial Mutuals and a Trustee of the Share Foundation.

Chief Operating Officer
Rob Edwards

Mr. Edwards, aged 54, has been a full-time executive of the Society since 1988, with prior 10 years experience with a medium sized life and pensions company and another Friendly Society. 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. He also chairs the COO Network for the Association of Financial Mutuals.

Finance Director
John Adams FCCA

Mr. Adams, aged 55, 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. He previously worked for American Express for 7 years in a variety of finance roles, and is a director of Brighton and Hove Albion in the Community, a charity which supports and assists the disadvantaged youth of Brighton and Hove through football.

Secretary and Corporate Services Director
Keith Meeres FCoI

Mr. Meeres, aged 52, joined the Society in 1993 as Compliance Officer having previously worked for a large insurer and a building society. He became Secretary in 1996. He was appointed to the Committee in 1997. He is responsible for overseeing the Society's Regulatory Compliance, Risk, Internal Audit, Human Resources and Facilities functions. He is a member of the Regulations Committees of the Investment and Life Assurance Group and the Association of Financial Mutuals and a Fellow of the Compliance Institute.

Business Development Director
Miles Bingham

Mr. Bingham, aged 43, joined the Society in 2001 as Head of Marketing following 11 years in various marketing and product development roles at both HSBC and Abbey (now Santander). In 2008, he was promoted to Business Development Director with key responsibility for finding new distribution partners alongside managing a number of existing relationships, as well as for expanding the overall range of products offered by the Society.

1,588,506

As at 31st December 2009, the Society had 1,588,506 members.

Committee of Management's Annual Report.

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

The Society is governed by a Committee of Management. For most of the year, membership of the Committee comprised the Chairman, five other independent non-executive directors and five executive directors. As noted in the Chairman's Review, in December 2009 the Committee appointed two new non-executive directors, Peter Box and Ian Buckley.

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 9 to 11.

Committee of Management

During 2009 the members of the Committee were as follows:

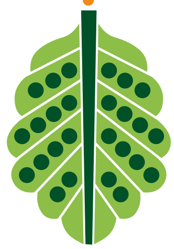
Non-executives

Robert Dolman (Chairman)
Robert Weir (Vice Chairman)
Peter Box (appointed December 2009)
Ian Buckley (appointed December 2009)
Veronica France
Norman Riddell
John Wybrew

Executives

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

The Committee has reviewed the length of service of the non-executive directors and considers that they all meet the criteria of independence. In keeping with the Annotated Combined Code for Mutual Insurers, any non-executive director who has exceeded nine years service will, if still considered independent by the Committee, seek re-election on an annual basis rather than every three years. One non-executive director, Robert Weir, has served in excess of nine years on the Committee. After careful consideration of his character, judgement, competence and experience the Committee continues to view him as suitably independent and he will therefore stand for re-election in 2010, however his service will continue to be subject to annual review.



Any term of service beyond six years for a non-executive director is also subject to rigorous review. None of the directors had any interests in the Society or its subsidiary companies other than those interests in respect of fees or salaries paid to them as directors, those interests in respect of the policies which they hold with the Society and those interests specifically disclosed in note 22 of these Annual Report and Accounts.

Business objectives and activities of the Society and its subsidiary companies

The Group's objective is generally to promote the financial well being of its members through the provision of life assurance and savings schemes. Your Committee believes that the expectations of its members, on which the performance of the Committee should be judged, are that the Society meets or exceeds its investment benchmarks and maintains high standards of customer service. We 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 2009, the Society had 1,588,506 members (2008: 1,036,419).

Committee of Management's Annual Report.

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.familyinvestments.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 for his review of activities, group performance highlights and comments on future developments. As at 31st December 2009 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, North America and the Far East).

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

Interest rate risk

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

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

Reappointment of auditors

A resolution to reappoint Mazars LLP as auditors to the Society will be proposed at the forthcoming Annual General Meeting on 21st May 2010.

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.familyinvestments.co.uk. In 2009 we resolved 98% of complaints within four weeks.

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.

The Society aims to create a work environment free from injury and illness and constantly improve its 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 2009 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. Any non-executive director who has served on the Committee in excess of nine years will 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 and Risk Committee, an ongoing review of the effectiveness of the Group's systems of internal controls and risk management and is satisfied that there are no material shortcomings. The review is undertaken by means of receiving audit and management reports, attending risk management meetings, holding discussions with executive and operational management and reviewing the risk management process.

Where significant control shortcomings or risks are identified progress is monitored until the issue is satisfactorily resolved.

In accordance with the Act, the Committee confirms that all activities carried out during the year by the Society and its subsidiary undertakings are believed to have been carried out within their respective powers. The Committee considers that the skills and experience of the non-executive directors provide an appropriate balance to ensure that the Society is effectively managed and controlled.

Committee of Management's Annual Report.

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 Annotated Combined Code will most likely be amended in 2010 to reflect reviews by Sir David Walker and the Financial Reporting Council in 2009.

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. It is the intention of the Committee of Management that the board should comprise 5 executive directors and 5 non-executive directors, including the Chairman. The Combined Codes requires a majority of non-executive directors, however the Society amended its Rules to preserve the voting majority of the non-executives.

In December 2009 the Committee elected two new non-executive directors to the Board, to replace two existing non-executive directors who are retiring in May 2010.

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.

Attendance at meetings in 2009

The following table sets out the attendance of directors at regular Committee meetings and meetings of the Audit and Risk, Nominations, Remuneration and Investment committees held in 2009. 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.familyinvestments.co.uk

	Committee of Management	Nominations Committee	Audit and Risk Committee	Investment Sub-Committee	Remuneration Sub-Committee
Robert Dolman	8 (8)	1 (1)	-	7 (7)	2 (2)
Robert Weir	8 (8)	1 (1)	4 (4)	-	2 (2)
Peter Box[1]	1 (1)	0 (0)	0 (0)	-	-
Ian Buckley[1]	1 (1)	0 (0)	0 (0)	-	-
Veronica France	8 (8)	1 (1)	4 (4)	-	-
Norman Riddell	8 (8)	1 (1)	-	7 (7)	-
John Wybrew	8 (8)	1 (1)	4 (4)	-	2 (2)
John Reeve	8 (8)	-	-	7 (7)	-
Rob Edwards	8 (8)	-	-	-	-
John Adams[2]	7 (8)	-	-	-	-
Keith Meeres	8 (8)	-	-	-	-
Miles Bingham	8 (8)	-	-	-	-

Notes:
1 Peter Box and Ian Buckley joined the Committee in December 2009.
2 John Adams missed the July 2010 meeting due to illness.

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

Nominations Committee
Robert Dolman (Chairman)
Peter Box (appointed December 2009)
Ian Buckley (appointed December 2009)
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 and Risk Committee and the Remuneration and Investment Sub-Committees.

Committee of Management's Annual Report.

Investment Sub-Committee
Robert Dolman (Chairman)
Norman Riddell
John Reeve
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.

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 23 to 25.

Audit and Risk Committee
Robert Weir (Chairman)
Peter Box (appointed December 2009)
Ian Buckley (appointed December 2009)
Veronica France
John Wybrew

The Audit and Risk Committee generally meets four 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 and Risk 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 and Risk 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 and Risk 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 and Risk 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 and Risk Committee.

Performance monitoring and evaluation

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

In compliance with the Annotated Combined Code for Mutual Insurers, the Committee conducts a formal evaluation annually of the performance of the Chairman and each director and of the performance of the sub-committees and Committee as a whole. In 2009 the evaluation was conducted by questionnaires and reviewed by an independent consultant who provided summary reports to the Chairman, Vice Chairman and the Committee. No significant issues or material points of action arose from the 2009 review. 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 372 employees during 2009 at a total cost of £12.4m. 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 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 2009 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 fourth 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.

Committee of Management's Annual Report.

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

In 2009 the Society changed its investment strategy from active management to a passive strategy whereby most of the Society's funds track a relevant market index. As a consequence of this change the Society currently does not actively engage with the companies in which it invests. The Society will continue to monitor developments in this area, in particular the proposed introduction of a new Stewardship Code.

Environmental matters

The Society continues to recognise its impact on the environment and takes steps to minimise it. This provides a 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 efficiency and appropriate investment
- Minimise waste and ensure there is effective control, promoting recycling, responsible disposal and compliance with hazardous waste management
- Promote environmentally responsible policies in all its commercial activities including purchasing and investment from sustainable sources whenever possible
- Strive to eliminate the release of pollutants by assessment and continuing evaluation of any activity that could have an impact on the environment
- Take into consideration the likely environmental effect of the Society's activities on the local community

As part of our environmental commitment we independently assess our workplace and welfare conditions and energy performance on a regular basis. These performance indicators ensure that we continue to operate a healthy building with a good energy performance that is better than recommended levels set by the Chartered Institute of Building Service Engineers (CIBSE) for standard practice.

Working in the Community

Family Investments has been successfully running a Community Programme for over 17 years and actively encourages employees to take part and put something back into their local community.

Despite a very busy year in 2009, over 33% of employees donated more than 1,320 hours to the local community.

We were the proud winners of the Business in the Community Category of the 21st Sussex Business awards for 2009 and this is a great testament and reflection of the hard work that our employees put in to support our local community.

Support through Education included running maths clubs and one-to-one reading in a local primary school, supporting enterprise events at a variety of local secondary schools, holding activity based days to improve leadership, team working and communication skills in college students and running our annual interview skills day which allows our employees to practice their training whilst giving students an invaluable insight into the interview process.

We also supported Blatchington Mill with the 'School's Family Festival' again this year, which was showcased at the Dome and included many different schools and hundreds of children from around the city.

The nursery workshops this year focussed on improving literacy in boys through play and problem solving, and the play sessions were then turned into books. In Brighton and Hove, nine nurseries took part in the programme.

We have eleven employees who are trained as mentors through a programme being run by our local Business Community Partnership, supporting lone parents, long term unemployed, and people on long-term benefits back into work.

Community Challenges in 2009 included Corporate Challenges which encouraged employees from different departments to get involved together, encouraging networking around the business as people from different departments came together to complete the challenge.

Members of our local Age Concern branch were once again invited into the office on the first Saturday, in December, to sample mince pies and our coffee making abilities, and to post Christmas cards and contact loved ones, locally and abroad.

Family also continues to support the Share Foundation topping up the Child Trust Funds of children in care across Brighton, Hove and Sussex.

An increase in match funding (£3,224 in 2009 against £1,936 in 2008) contributed to the total donation and fundraising amount of over £13,000 this year which went to help more than 20 local charities and local branches of national charities. No political donations were made.

The Community Programme continues to demonstrate the values and commitment of the Society. The support for the programme is outstanding and firmly embedded within the Society's ethos.

£370m

In 2009 our ISA funds increased to more than £370m, and the product range expanded to include Fixed Rate Cash and Guaranteed Capital Cash ISAs.

Remuneration Report.

This report sets out the Society's policy in relation to the remuneration of directors.

The report, which will be submitted to the forthcoming AGM for approval, explains how the Society has applied the Annotated Combined Code for Mutual Insurers as regards directors' remuneration.

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

Remuneration Sub-Committee

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

Remuneration Policy
The Society's remuneration policy is designed to attract, motivate and retain key executives, and indeed all employees, with the relevant skills to help achieve the Group's objectives and to ensure that employees are rewarded for enhancing the level of service that we provide to our members. It is also designed to achieve an effective link between pay and performance whilst not encouraging undue risk.

Service contracts

The notice period of executive directors' service contracts does 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.

Bonuses and long term incentive schemes
The executive directors, together with a number of senior managers, are included within a bonus scheme targeted at increasing the embedded value of the Society. Payments are capped as a percentage of salary.

The long term incentive is achieved by withholding a proportion of the total bonus due for a period of three years during which period the accrued amount may rise or fall as determined by the increase or reduction in the Society's embedded value. Amounts accrued for executive directors at the year-end are disclosed on the following page.

Pension
The Society operates a defined benefit pension scheme in which four of the executive directors participate. The scheme closed to future accrual of benefits on 31st December 2009. From 1st January 2010 the Executive Directors became eligible to join the Society's Stakeholder Pension Scheme on the same terms as other employees of the Society.

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*	
	2009	*2008*	*2009*	*2008*	*2009*	*2008*	*2009*	*2008*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Executives								
John Reeve	250	243	38	-6	14	9	302	246
Rob Edwards	178	172	8	-1	7	6	193	177
John Adams	169	165	28	-4	8	6	205	167
Keith Meeres	148	143	7	-1	7	6	162	148
Miles Bingham [1]	115	37	5	-1	2	-	122	36
Non-executives								
Robert Dolman	69	67	-	-	-	-	69	67
Robert Weir	33	32	-	-	-	-	33	32
Peter Box [2]	1	-	-	-	-	-	1	-
Ian Buckley [2]	1	-	-	-	-	-	1	-
Veronica France	27	27	-	-	-	-	27	27
Norman Riddell	33	32	-	-	-	-	33	32
John Wybrew	27	27	-	-	-	-	27	27
	1051	945	86	-13	38	27	1175	959

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

Note 2 - Peter Box and Ian Buckley were appointed to the Committee of Management on 14th December 2009.

Note 3 - Excluding the new appointments noted above, year on year growth of the Base Salaries and Fees paid to the Committee of Management was approximately 2.7% in 2009. Base salaries and fees were not increased on 1st January 2010 and will remain at their current level throughout the year.

Note 4 - A bonus of £500 was paid to each of the Executive Directors in respect of 2009. The majority of bonus awarded in 2009 relates to the increase in the value of bonuses earned in previous years under 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 1.1.2009	*Bonus withdrawn during 2009* [1]	*Embedded value movement during 2009* [2]	*Bonus added during 2009*	*Value at 31.12.2009*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*
Executives					
John Reeve	152	-	38	-	190
Rob Edwards	31	35	8	-	4
John Adams	115	135	28	-	8
Keith Meeres	30	-	7	-	37
Miles Bingham	21	-	5	-	26
	349	170	86	-	265

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. Following changes to the Directors' pension benefits (see below) the Remuneration Committee has permitted the Executive Directors to withdraw accrued bonus prior to the end of the three year deferral period for the purpose of retirement planning.

Note 2 - Embedded value increased by 24% 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 31.12.09[1]	Increase in total accrued pension during the year	Transfer value of accrued pension at 31.12.09[2]	Change in transfer value during the year net of directors' contributions[3]
		£'000	£'000	£'000	£'000
Executives					
John Reeve	62	134	10	2,091	156
Rob Edwards	54	53	4	667	63
John Adams	55	58	5	744	66
Keith Meeres	52	56	4	590	47

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 2009.

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

Note 3 - No contributions were payable by the executive directors during the year.

Independent Auditor's 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 2009 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Balance Sheets and the related notes. These financial statements have been prepared under the accounting policies set out therein. We are also required to report on the Committee of Management's Annual Report for the year ended 31 December 2009.

This report is made solely to the Society's members, as a body, in accordance with Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an 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 Responsibilities of the Committee of Management, 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). The Society has chosen to comply with the Annotated Combined Code issued by the Association of Mutual Insurers and Association of Friendly Societies in February 2008. This code is intended to assist mutual insurers in having regard to the FRC June 2006 Combined Code.

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 and the Regulations made under it. In addition, we 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 also report to you our opinion as to whether the Committee of Management's Annual Report has been prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it, and as to whether the information given therein is consistent with the Financial Statements.

We review whether the statements on corporate governance included in the Committee of Management's Annual Report reflects the Society's compliance with the eight provisions of the Annotated Combined Code that we have been instructed to review by the Society and we report if it does not. We are not required to consider whether the Committee of Management's Annual Report statements on internal control covers all risks and controls, or form an opinion on the effectiveness of the Society's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Review, the Chief Executive's Operational Report, the Group Performance Highlights, the Summary Financial Statements, the Committee of Management's Annual 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

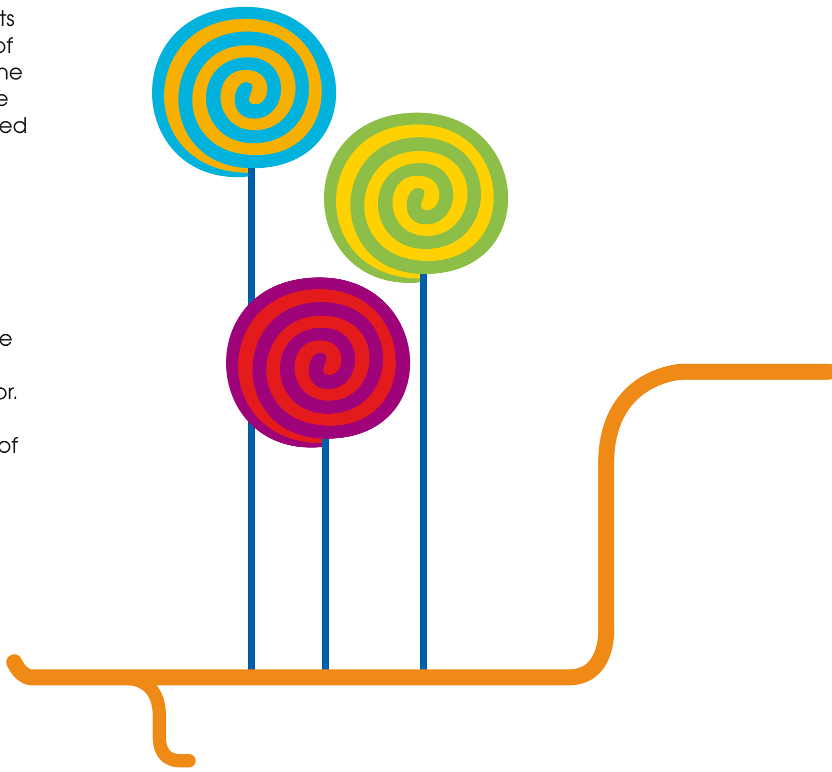
In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Society's and the Group's affairs as at 31st December 2009 and of the income and expenditure of the Society and the Group for the year then ended, and the financial statements have been properly prepared in accordance with the Friendly Societies Act 1992 and the Regulations made under it.

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

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

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

10th March 2010



Income and Expenditure Account.

Technical Account – Long Term Business

for the year ended 31 December 2009

Notes		Group 2009 £'000	Society 2009 £'000	Group 2008 £'000	Society 2008 £'000
2	Earned premiums	57,202	57,202	62,888	62,888
	Outward reassurance premiums	(205)	(205)	(232)	(232)
	Earned premiums, net of reassurance	56,997	56,997	62,656	62,656
3	Investment income	18,565	18,565	50,625	50,625
3	Realised gains on investments	174,932	174,932	-	-
5	Other technical income	7,822	-	6,157	-
	Total Technical Income	**258,316**	**250,494**	**119,438**	**113,281**
	Claims incurred, net of reassurance				
	Claims paid				
	Gross amount	(90,850)	(90,850)	(110,178)	(110,178)
	Reassurers' share	36	36	64	64
		(90,814)	(90,814)	(110,114)	(110,114)
17	Change in provision for claims				
	Gross and net amount	2,302	2,302	1,169	1,169
	Net claims incurred	(88,512)	(88,512)	(108,945)	(108,945)
17	**Change in technical provisions, net of reassurance**				
	Long term business provision, net of reassurance				
	Gross amount	12,775	12,775	22,752	22,752
	Reassurers' share	(14)	(14)	48	48
		12,761	12,761	22,800	22,800
	Other technical provision, net of reassurance				
	Technical provision for linked liabilities	(140,430)	(140,430)	190,222	190,222
	Net change in technical provisions	(127,669)	(127,669)	213,022	213,022
	Other expenditure				
4	Net operating expenses	(6,955)	(6,955)	(6,274)	(6,274)
3	Investment expenses and charges	(2,011)	(2,011)	(2,106)	(2,106)
3	Unrealised losses on investments	(19,325)	(23,300)	(155,112)	(161,191)
3	Realised losses on investments	-	-	(30,540)	(30,540)
5	Other technical charges	(19,655)	(7,858)	(32,967)	(20,720)
		(47,946)	(40,124)	(226,999)	(220,831)
	Total Technical Charges	**(264,127)**	**(256,305)**	**(122,922)**	**(116,754)**
	Deficit of technical income over technical charges before taxation	**(5,811)**	**(5,811)**	**(3,484)**	**(3,473)**
6	Tax attributable to the long term business	(12)	(12)	(824)	(835)
	Deficit on technical account - long term business	**(5,823)**	**(5,823)**	**(4,308)**	**(4,308)**
21	Actuarial loss on pension scheme	(3,408)	(3,408)	(5,333)	(5,333)
17	Transfer from the fund for future appropriations	9,231	9,231	9,641	9,641
	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

for the year ended 31 December 2009

Notes		Group 2009 £'000	Society 2009 £'000	Group 2008 £'000	Society 2008 £'000
	Investments				
9	Land and buildings	2,004	2,004	1,770	1,770
10	Investments in group undertakings				
	Investments in subsidiaries	-	7,783	-	8,758
11	Other financial investments				
	Shares, variable yield securities and units in unit trusts	7,914	7,914	17,897	17,897
	Debt securities and other fixed income securities	83,754	83,754	92,290	92,290
	Deposits with credit institutions	7,050	1,657	7,746	880
		100,722	103,112	119,703	121,595
12	**Assets held to cover linked liabilities**	1,094,742	1,094,742	954,312	954,312
	Reassurers' share of technical provisions				
	Long term business provision	497	497	511	511
	Other assets				
13	Tangible assets	125	125	303	303
14	Other debtors	2,199	1,213	2,091	1,259
	Cash at bank and in hand	2,289	2,410	5,548	5,480
	Prepayments and accrued income				
	Accrued interest and rent	1,437	1,011	1,326	1,326
	Other prepayments and accrued income	637	637	747	747
		1,202,648	1,203,747	1,084,541	1,085,533

Balance Sheet.

LIABILITIES

for the year ended 31 December 2009

Notes		*Group 2009 £'000*	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
17	Reserves				
	Fund for future appropriations	32,247	32,247	41,478	41,478
17	Technical provisions				
	Long term business provision	62,450	62,450	75,225	75,225
	Claims outstanding	1,816	1,816	4,118	4,118
17	Technical provision for linked liabilities	1,094,742	1,094,742	954,312	954,312
15	Creditors				
	Other creditors, including taxation and social security	2,717	3,931	3,723	4,830
	Accruals and deferred income	3,103	2,988	2,728	2,613
21	Pension liability	5,573	5,573	2,957	2,957
		1,202,648	1,203,747	1,084,541	1,085,533

Approved by the Committee of Management on 10 March 2010, and signed on its behalf by:

Robert Dolman. Chairman R A Dolman

John Reeve, Chief Executive John Reeve

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

Premiums

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

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

Investment return

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

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

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

Claims

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

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

Pensions costs

The Group operates a defined benefit pension scheme, the Family Assurance 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 recognised in the balance sheet is the value of the Scheme's assets less the present value of the Scheme's liabilities.

1 Principal accounting policies (continued).

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

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

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

Investments

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

Investments in subsidiary undertakings are stated at net asset value, 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.

1 Principal accounting policies (continued).

Tangible assets

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

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

Research and development expenditure

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

Foreign currencies

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

Fund for future appropriations

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

This fund includes surpluses arising on the former POIS Assurance Limited closed fund which is 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	
	2009	*2008*
a) Gross premiums written:	*£'000*	*£'000*
Life assurance business:		
Linked	51,072	55,431
Non-linked	4,211	5,414
Pension business:		
Linked	1,919	1,995
Annuity business	-	48
Total gross premiums written	57,202	62,888
Regular premiums	55,246	60,802
Single premiums	1,956	2,086
Total gross premiums written	57,202	62,888

	Society 2009		*Society 2008*	
	Single	*Regular*	*Single*	*Regular*
b) Gross new business premiums:	*£'000*	*£'000*	*£'000*	*£'000*
New business premiums	38	2,480	91	3,781

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*
	2009	*2009*	*2008*	*2008*
c) Contributions received for Child Trust Funds, ISAs and direct unit trust investments:	*£'000*	*£'000*	*£'000*	*£'000*
Regular contributions	57,261	-	44,873	-
Single contributions	256,400	-	266,774	-
	313,661	-	311,647	-

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).

d) Policies on file:	Number of policies Group 2009	Number of policies Society 2009	Number of policies Group 2008	Number of policies Society 2008
Average during the year	1,415,600	445,803	1,083,400	482,978
As at 31st December	1,688,662	429,561	1,142,537	462,044

3 Investment return summary.

	Group 2009 £'000	Society 2009 £'000	Group 2008 £'000	Society 2008 £'000
Investment income:				
Income from listed investments	16,043	16,043	39,087	39,087
Income from other investments	2,571	2,571	11,026	11,026
Net return on pension scheme (see note 21)	(49)	(49)	512	512
Realised gains on investments	174,932	174,932	-	-
	193,497	193,497	50,625	50,625
Investment expenses and charges:				
Investment management expenses, including interest	(2,011)	(2,011)	(2,106)	(2,106)
Unrealised losses on investments	(19,325)	(23,300)	(155,112)	(161,191)
Realised losses on investments	-	-	(30,540)	(30,540)
Net investment return included in the Technical Account - Long Term Business	172,161	168,186	(137,133)	(143,212)

In April 2009 the Society changed its fund managers from New Star Asset Management Limited to Santander Asset Management Limited and at the same time changed the investment strategy for the majority of its funds from an active to a passive basis. As part of this strategy the Society transferred a significant amount of the investments of its linked funds into Collective Investment Schemes administered by its subsidiary Family Investment Management Limited (see note 22).

This transfer of assets generated a significant realised gain on the investments transferred. Investment Income has fallen because the Collective Investment Schemes did not distribute any income for the period in which the transferred funds were invested in 2009.

4 Net operating expenses.

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Acquisition costs incurred in the year:				
Commission	65	65	74	74
Other acquisition expenses	428	428	808	808
	493	493	882	882
Research and development costs	962	962	316	316
Administration expenses	5,500	5,500	5,076	5,076
	6,955	6,955	6,274	6,274

Included in net operating expenses and other technical charges are:

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Depreciation charge for the year (see note 13)	178	178	218	218
Interest paid and similar charges:	149	149	273	259
In respect of bank overdrafts	-	-	14	-
To customers	149	149	259	259
Remuneration of the Auditors in respect of audit and related services:	166	115	163	101
Statutory audit - Society	115	105	92	92
Statutory audit - Subsidiaries	25	-	49	-
Auditing of staff pension scheme	10	10	9	9
Auditing of certain unit trusts	16	-	13	-

5 Other technical income and charges.

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Other technical income:				
Income generated in subsidiary companies	7,822	-	6,157	-
Other technical charges:				
Costs relating to subsidiary company products:				
Acquisition expenses	6,268	4,663	5,875	4,852
Research and development costs	4,504	3,195	5,976	1,460
Administration expenses	8,883	-	6,708	-
	19,655	7,858	18,559	6,312
Assets transferred under Transfer of Engagements agreement	-	-	14,408	14,408
	19,655	7,858	32,967	20,720

6 Taxation.

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
UK Corporation tax:				
Current year	51	51	865	865
Tax payable on unrealised gains on unit-linked assets	(1)	(1)	(30)	(30)
Adjustments in respect of prior periods	(38)	(38)	(11)	-
	12	12	824	835

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 £50k (2008: £835k) relating to taxable business has been provided for. Taxes have been charged at 20% (2008: 20%).

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Deferred tax liability:				
Actuarial reserves	16	16	40	40
Deferred tax liability	16	16	40	40
Deferred acquisition expenses	(16)	(16)	(40)	(40)
Deferred tax balance	-	-	-	-

There is an unrecognised deferred tax asset of £854k (2008: £933k), in respect of the mutual business carried on by the Society, of which £16k (2008: £40k) has been set aside to offset recognised deferred tax liabilities of the mutual business. The balance of £838k (2008: £893k) 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 and gains (as appropriate) arising from life business.

The Society has taken the view that there is insufficient evidence that the net deferred tax asset will be recoverable, and has therefore decided not to recognise any benefit.

7 Employee information.

The average numbers of employees (including Committee of Management) during the year were:	*Group 2009 Number*	*Society 2009 Number*	*Group 2008 Number*	*Society 2008 Number*
Marketing	16	16	15	15
Investments	11	11	11	11
Administration	345	345	289	289
	372	372	315	315

Staff costs for the above employees were:	*Group 2009 £'000*	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Wages and salaries	10,557	10,557	8,685	8,685
Pension costs	926	926	777	777
Social security costs	887	887	810	810
	12,370	12,370	10,272	10,272

All employees are employed and remunerated directly by the Society.

8 Committee of management emoluments.

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Fees and benefits to the Chairman and non-executive directors	191	191	185	185
Salaries and benefits to executive directors	875	875	769	769
Performance related bonuses	86	86	(13)	(13)
Increase in total accrued pensions	23	23	18	18
	1,175	1,175	959	959

Chairman

The aggregate remuneration paid, comprising salary and benefits, to Mr Robert Dolman for the year ended 31 December 2009 amounted to £69k (2008: £67k).

Highest paid Committee member

The aggregate remuneration paid to Mr John Reeve for the year ended 31 December 2009, comprising salary, benefits and the change in his accrued pension during the year, amounted to £302k (2008: £246k). Had Mr. Reeve left service and pensionable service in the Staff Pension Scheme at 31 December 2009, his deferred pension at leaving would have been £134k per annum (2008: £124k per annum).

Pension contributions

Four 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 23 to 25.

Long term incentive scheme

The executive directors had benefits under a long term incentive scheme during the year. The scheme is targeted at increasing the embedded value of the Society and amounts accrued, for the benefit of the executive directors, as at 31 December 2009 are £265k (2008: £349k). 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 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Movements during the year:				
As at 1 January	1,770	1,770	2,363	2,363
Revaluation during the year	234	234	(593)	(593)
As at 31 December	2,004	2,004	1,770	1,770
Types of land and buildings held at 31 December:				
Owner-occupied - Short leasehold	2,004	2,004	1,770	1,770
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 2009 and 2008 Annual Report and Accounts at open market value on vacant possession basis. The valuation of the owner-occupied property was made by Nelson Bakewell, a firm of independent Chartered Surveyors, on 4 December 2009

10 Investment in group undertakings.

Subsidiaries	*Society 2009 £'000*	*Society 2008 £'000*
Ordinary shares at directors' valuation:		
As at 1 January	8,758	8,837
Purchase of Share Capital	3,000	6,000
Revaluation during the year	(3,975)	(6,079)
As at 31 December	7,783	8,758

On 27th April 2009 Family Equity Plan Limited issued 3 million £1 shares at par to the Society for cash.

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

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

Names of subsidiaries	**Nature of business**
Family Investment Management Limited	Unit trust manager
Family Equity Plan Limited	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 2009 £'000	Society 2009 £'000	Group 2008 £'000	Society 2008 £'000
At cost:				
Shares, variable yield securities and units in unit trusts	7,107	7,107	19,758	19,758
Debt securities and other fixed income securities	84,462	84,462	88,637	88,637
Deposits with credit institutions	7,050	1,657	7,746	880
	98,619	93,226	116,141	109,275

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

	Group 2009 £'000	Society 2009 £'000	Group 2008 £'000	Society 2008 £'000
Shares, variable yield securities and units in unit trusts	7,914	7,914	17,897	17,897
Debt securities and other fixed income securities	83,504	83,504	91,998	91,998
	91,418	91,418	109,895	109,895

12 Assets held to cover linked liabilities.

	Group and Society 2009 £'000	2008 £'000
Market value as at 31 December	1,094,742	954,312
Cost as at 31 December	1,053,139	971,757

13 Tangible assets.

	Group and Society			
At cost:	Equipment £'000	Computer hardware £'000	Computer software £'000	Total £'000
As at 1 January 2009 & 31 December 2009	2,234	2,114	3,908	8,256
Accumulated depreciation:				
As at 1 January 2009	2,175	1,870	3,908	7,953
Charge for the year	59	119	-	178
As at 31 December 2009	2,234	1,989	3,908	8,131
Net book value as at 31 December 2009	-	125	-	125
Net book value as at 31 December 2008	59	244	-	303

14 Other debtors.

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Amounts falling due within one year:				
Amounts owed by linked funds	407	407	347	347
Loans to members	528	528	688	688
Taxation recoverable	59	59	18	18
Sundry debtors	1,205	219	1,038	206
	2,199	1,213	2,091	1,259

15 Other creditors.

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Due to subsidiary undertakings	-	1,305	-	1,223
Taxes payable	436	436	1,325	1,323
Sundry creditors	2,281	2,190	2,398	2,284
	2,717	3,931	3,723	4,830

16 Assets of the long term business.

	Group and Society	
	2009	*2008*
The total assets relating to the long term business are:	*£'000*	*£'000*
Assets held to cover linked liabilities	1,094,742	954,312
Investments	70,588	83,735
Deposits and cash at bank	2,357	1,777
Debtors, prepayments and accrued income	1,539	2,112
Reassurers' share of technical provisions	497	511
	1,169,723	1,042,447

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

	Long term business technical provision £'000	*Technical provision for linked liabilities £'000*	*Claims outstanding £'000*	*Fund for future appropriations £'000*
As at 1 January 2009	75,225	954,312	4,118	41,478
Changes in technical provisions:				
Gross change in technical provisions, net of reassurance	(12,761)	140,430	(2,302)	(9,231)
Reassurers' share of the change in technical provisions	(14)	-	-	-
As at 31 December 2009	62,450	1,094,742	1,816	32,247

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	
	2009	2008	2009	2008
Taxable with-profits POIS fund	1.75	1.25	100% of AM80/AF80	100% of AM80/AF80
Non taxable with-profits POIS fund	2.25	1.75	100% of AM80/AF80	100% of AM80/AF80

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

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

- a decrease in the assumed level of volatility of assets backing policies with guarantees, reflecting current economic experience.
- A decrease in the assumed level of future bonuses on with-profits business, reflecting last year's decision to reduce reversionary bonus rates by 0.25%.

The overall impact of the changes described above has been to decrease the long term business provision, net of reassurance, by £0.9 million.

A reduction in interest rates would reduce the impact of discounting on the long term business provision, resulting in an increased provision. If, for example, the valuation interest rate were to be reduced by 0.5%, the long term business provision would increase by approximately £1.4m. This does not include the corresponding effect on the valuation of assets.

18 Bonuses and rebates.

	Group and Society	
	2009 £'000	*2008 £'000*
Cost of bonuses declared, as at 31 December:		
Reversionary bonuses	305	381

19 Capital position statement.

Available capital resources	UK non-profit £'000	former POIS Assurance Limited UK with-profits £'000	Total £'000
As at 31 December 2009			
Fund for future appropriations	21,331	10,916	32,247
Allocation of Group capital	(2,214)	-	(2,214)
Other adjustments	(1,389)	-	(1,389)
Total available capital resources	17,728	10,916	28,644
As at 31 December 2008			
Fund for future appropriations	30,799	10,679	41,478
Adjustment to assets	(1,721)	-	(1,721)
Allocation of Group capital	(2,684)	-	(2,684)
Total available capital resources	26,394	10,679	37,073

Movement in available capital resources	UK non-profit £'000	former POIS Assurance Limited UK with-profits £'000	Total £'000
Available capital resources as at 31 December 2008	26,394	10,679	37,073
Effect of investment variations	766	1,330	2,096
Effect of experience variations	6,182	680	6,862
Effect of change in valuation basis	(1,933)	1,298	(635)
New business strain	(6,761)	-	(6,761)
Research and development	(5,466)	-	(5,466)
Cost of bonuses	-	(3,071)	(3,071)
Operating loss in the subsidiaries	(1,454)	-	(1,454)
Available capital resources as at 31 December 2009	17,728	10,916	28,644

19 Capital position statement (continued).

Technical provisions	*UK non-profit*	*former POIS Assurance Limited UK with-profits*	*Total*
	£'000	*£'000*	*£'000*
As at 31 December 2009			
Unit-linked	1,094,742	-	1,094,742
With-profits liabilities	-	55,646	55,646
Non-profit liabilities	5,882	922	6,804
	1,100,624	56,568	1,157,192
Claims outstanding	1,370	446	1,816
Reassurance	-	(497)	(497)
Technical provisions in the balance sheet	1,101,994	56,517	1,158,511
As at 31 December 2008			
Unit-linked	954,312	-	954,312
With-profits liabilities	-	67,242	67,242
Non-profit 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

The were no material options or guarantees included within the Technical provisions at either 31 December 2009 or 31 December 2008.

Management of insurance risk

Capital management

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

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

In reporting financial strength, capital and solvency is measured using the regulations prescribed by the 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.

19 Capital position statement (continued).

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 £28.6m (2008: £37.1m) of which £10.9m (2008: £10.7m) is held in with-profits funds and £17.7m (2008: £26.4m) is held in the general fund.

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

The available surplus held outside of the with-profit funds is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the Society's regulatory requirements. At 31 December the Society's available capital was 531% of the capital requirement of £5.4m (2008: 640% of £5.8m).

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 36% decrease in the value of the unit-linked investments held by the Group would reduce available capital resources by approximately £4.7m.

- Expense risk in relation to the costs of running the business and administering the policies held by the Society, which would arise if there was an increase in expense inflation and / or the cost structure of the Society. A 1.75% increase in the rate of administration expense inflation would reduce available capital resources by approximately £0.4m.

- 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 £1.1m.

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

20 Actuarial function holder.

The Actuarial Function Holder of the Society is Mr D Addison of Towers Watson. The Society has requested him to furnish it with the particulars required in Section 77 of the Friendly Societies Act 1992. Mr. Addison has confirmed that neither he nor his family have any financial or pecuniary interests in the Society, with the exception of the fees paid to Towers Watson for professional services, which in 2009 amounted to £447k (2008: £429k).

21 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.

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

Formal actuarial valuations were carried out as at 31st December 2008 and updated to 31st December 2009 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 2009 was 6.5% pa (2008: 7.8% 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 2008.

The following table sets out the key FRS17 assumptions used for the Scheme. The table also sets out, as at 31st December 2009, 2008 and 2007, 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:	*2009*	*2008*	*2007*
Inflation	3.8 %	3.1 %	3.5 %
Pension increases:			
pre April 1997 pension	0.0 %	0.0 %	0.0 %
post April 1997 pension	3.7 %	2.9 %	3.4 %
post April 2005 pension	2.4 %	2.2 %	2.3 %
Salary growth	n/a	3.1 %	3.5 %
Discount rate	5.6 %	6.0 %	5.6 %
Investment returns:			
Equities	8.2 %	7.6 %	7.9 %
Bonds	4.4 %	3.8 %	4.4 %
Cash	2.2 %	3.8 %	4.4 %
Other assets	5.6 %	6.0 %	5.6 %
Life expectancy:			
male aged 65 at the balance sheet date	22.3 years	22.2 years	21.9 years
male aged 65 in 2034 (25 years from balance sheet date)	24.7 years	24.6 years	23.2 years

Fair value of assets	*2009* *£'000*	*2008* *£'000*	*2007* *£'000*
Equities	16,177	13,931	20,414
Bonds	4,060	5,334	4,990
Cash	3,069	169	300
Other net assets	278	82	76
Total fair value of assets	23,584	19,516	25,780
Present value of liabilities	(29,157)	(22,473)	(23,858)
Gross pension (liability) / asset	(5,573)	(2,957)	1,922

21 Staff pension provision (continued).

Over the year to 31st December 2009, the Society made regular contributions amounting to £1,409k to the Scheme. Future contributions from the Society will be £41.7k per month and amounts equal to the Scheme's Pension Protection Fund levies. As part of a staged programme of additional contributions designed to repay the deficit within five years, the Society will pay £500k into the fund in 2010 and 2011, it will then pay in £2m until the deficit is recovered plus the Pension Protection Fund levies due.

In addition, over the year to 31 December 2009, employee AVCs totalling £201k were paid into the Scheme.

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

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

	2009 *£'000*	*2008* *£'000*
Post retirement (deficit) / surplus as at 1 January	**(2,957)**	**1,922**
Contributions (employee and employer)	1,610	650
Operating charge:		
Current service cost (employer's part only)	(769)	(708)
Other net finance income:		
Expected return on pension scheme assets	1,303	1,852
Interest on post retirement liabilities	(1,352)	(1,340)
Net return credited to finance income	(49)	512
Actuarial loss		
Actual return less expected return on pension scheme assets	1,804	(8,202)
Experience gains / (losses) arising on pension scheme liabilities	82	(541)
(Loss) / Gain due to changes in assumptions underlying the present value of scheme liabilities	(5,294)	3,410
Actuarial losses recognised in the fund for future appropriations	(3,408)	(5,333)
Post retirement deficit as at 31 December	**(5,573)**	**(2,957)**

History of experience gains and losses	*2009* *£'000*	*2008* *£'000*	*2007* *£'000*	*2006* *£'000*
Actual return less expected return on pension scheme assets	1,804	(8,202)	(1,625)	1,749
As a percentage of pension scheme liabilities at end of year	-8%	42%	6%	8%
Experience (losses) / gains arising on pension scheme liabilities	82	(541)	(629)	82
As a percentage of pension scheme liabilities at end of year	0%	2%	3%	0%
Actuarial (losses) / gains recognised in the fund for future appropriations	(3,408)	(5,333)	(1,585)	1,673
As a percentage of pension scheme liabilities at end of year	12%	24%	7%	7%

22 Related party transactions.

Family Assurance Friendly Society Limited and its subsidiaries (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 £152k as at 31 December 2009 (2008: £114k).

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

	Group 2009 £'000	*Society 2009 £'000*	*Group 2008 £'000*	*Society 2008 £'000*
Family Asset Trust	53,805	53,805	304,196	304,196
Family Charities Ethical Trust Accumulation Units	8,003	8,003	5,392	5,392
Family Balanced International fund Share Class A	910,476	910,476	-	-
	972,284	972,284	309,588	309,588

During 2009, the Society and Group made the following new investments of policyholders' funds into the above unit trusts and OEIC's. All purchases of units were made at arms length based on the buying price:

	Group 2009 £'000	*Society 2009 £'000*	*Group 2009 units*	*Society 2009 units*
Family Asset Trust	8,536	8,536	6,403,004	6,403,004
Family Charities Ethical Trust Accumulation Units	556	556	210,000	210,000
Family Balanced International fund Share Class A	871,246	871,246	355,100,000	355,100,000
	880,338	880,338	361,713,004	361,713,004

In 2009 the Society transferred £221m from Family Asset Trust and £650m from its linked funds into Family Balanced International Fund (See Note 3).

Notes.

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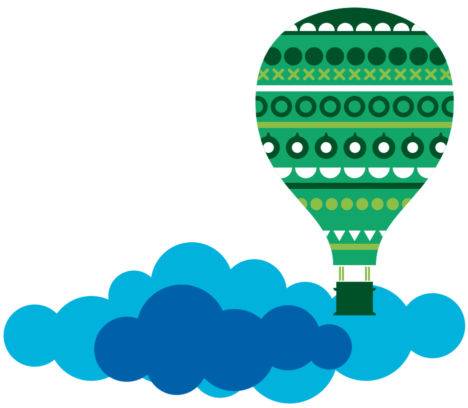

family investments