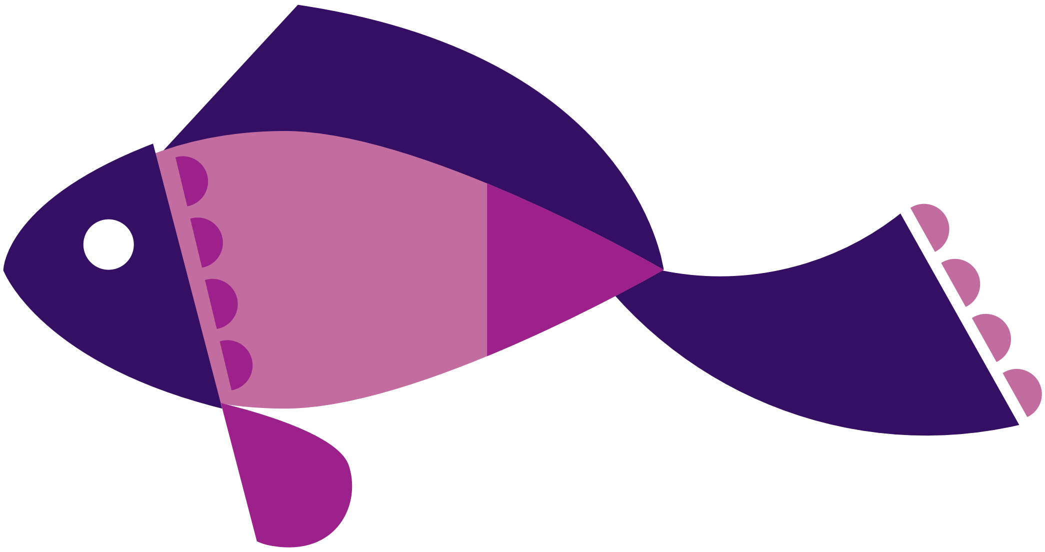
family investments

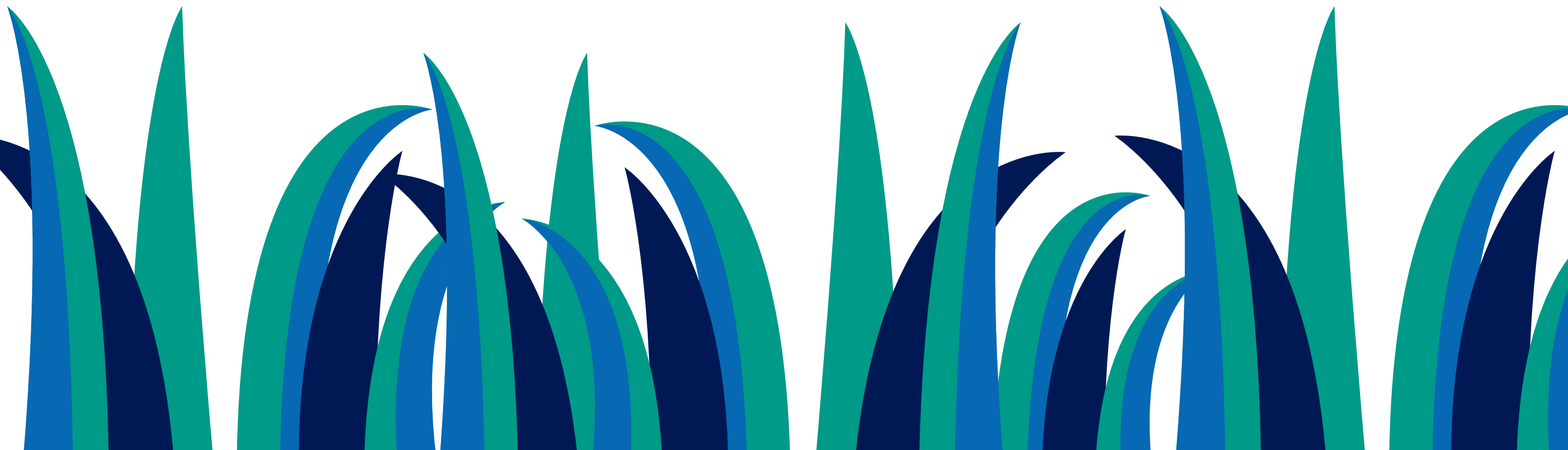
# Annual Report and Accounts

For the year ended 31 December 2010.

# £3bn

For the first time in the Society's history our funds under management exceed £3 billion.





ANNUAL REPORT AND ACCOUNTS 2010

# Contents.




**ACTUARIES**
Towers Watson
Watson House
London Road
Reigate
Surrey RH2 9PQ

**AUDITOR**
Mazars LLP
Tower Bridge House
St Katharine's Way
London E1W 1DD

**BANKERS**
National Westminster
Bank PLC
135 Bishopsgate
London EC2M 3UR

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

**SOLICITORS**
Ashfords Solicitors
Princess Court
23 Princess Street
Plymouth PL1 2EX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# Chairman's Review.

Chairman
Robert Weir

Although I have been a member of Family Investments' Committee of Management for a number of years, this is the first time I have had the pleasure to report to the members of the Society as its Chairman, having replaced Robert Dolman, the previous Chairman, following his retirement last May.

I am pleased to report that Family Investments continued to perform strongly in 2010 with total funds advancing by a record £1 billion to over £3.25 billion and membership exceeding 1.75 million people.

Perhaps the most pleasing aspect of this performance is that it has been achieved by the Society developing its business base and broadening the products and services it offers. In doing so we have not only strengthened our leadership of the market for long term children's savings but through our partnership with the Post Office® we have also become a significant provider of Individual Savings Accounts (ISAs).

This diversification of our business has made us more resilient to the disruption caused by the Coalition Government's decision to first of all reduce the State's contributions to the Child Trust Fund (CTF) and then end entitlement altogether for children born after 2nd January 2011. Whilst there was a clear need for any incoming government to save costs, the complete abolition of an established scheme which was clearly encouraging more people to begin the savings habit is a matter of considerable regret and was, in my view, effectively "throwing the baby out with the bath water".

More happily the Government has decided to launch a new savings plan for children and has announced that it intends to introduce Junior ISAs in the autumn of 2011. Family Investments will look to maintain its leadership of the long term children's savings market by being the first to offer the new product but in our view the CTF could have been easily adapted which would have avoided the hiatus caused by having a 9 month gap between the closure of one product and the introduction of its successor. It would also have saved the significant expenditure necessary to develop systems and procedures for the Junior ISA.

The closure of the CTF scheme to new customers is obviously regrettable but our history bears witness to the fact the Society has been able not only to adjust to significant changes in legislation and regulation but also thrive in the new environment created. I have every confidence that we will be able to do so again in the future.

We have already ensured that our traditional tax exempt savings plan, the Junior Bond, is available to new parents not only directly but also through partners such as Bounty. We also plan to build on our established reputation of being a consolidator in the CTF market and also on our administration capability especially with regard to ISAs.

I wish to emphasise that although the CTF scheme is now closed to children born after the 2nd January 2011 it remains fully operable for those born before that date and we will continue to encourage the parents, relatives and friends of the 1.25 million children who have a CTF with Family Investments to add to their savings. Whatever a child chooses to do at age 18, be that going to university or entering the world of work, having some savings behind them will help them through their early years of adulthood.

Generally this was a good year for investment, and those of our managed funds which primarily invest into equities produced returns of between 9% and 11%. However our funds which are invested in cash, whilst still affording capital protection, produced far lower returns which is a reflection of the fact that the bank base rate remained at 0.5% throughout the year. Further details of the Society's investment performance are set out in the Chief Executive's Operational Report.

I am pleased to say that we have been able to maintain a good level of service to our members and have been able to respond to significant changes in business activity largely resulting from strong inflows of ISA business. Our customer surveys indicate that most of our members are pleased with the service we offer and I would like to pay tribute to our staff whose hard work and dedication have made this so. It is a matter of some pride that the Society continues to grow and can offer jobs and careers to people during a period of significant unemployment.

Finally I would like to thank all our members for their continued support of the Society and our staff for their marvellous contribution during a record year. I believe we can look forward to the future with the confidence that a well run mutual is more than a match for those businesses who need to also satisfy the needs of shareholders and the providers of external capital.

**Robert Weir**
Chairman
16th March 2011

# Chief Executive's Operational Report.

Chief Executive
John Reeve

## Review of Results

The considerable resources we have put into the business over recent years resulted in our funds under management growing by £1 billion to over £3.25 billion during 2010. This success came from our continued strength in the Child Trust Fund (CTF) market and record levels of ISA business in conjunction with the Post Office®. In 2010 we also made a record level of payments to our members amounting to £295 million.

The increased scale of our operation has put further downward pressure on our unit costs and the resulting enhanced level of efficiency of our operations has enabled the Society to absorb the strain of its rapid growth and at the same time grow its free reserves.

## Review of Activities

The CTF continued to bring in large numbers of new members to the Society despite the reduction of the voucher value from £250 to just £50 and the complete cancellation of age 7 payments from August 2010. Removing entitlement to age 7 payments not only from new accounts but also for all children born after 1st August 2003 was in effect a retrospective decision which on its own resulted in a significant reduction to the embedded value of CTF business on the books. The fact that the overall embedded value of the Society grew over the year is testament to the strength of the business and its ability to absorb major change.

Our partnership with the Post Office® went from strength to strength in 2010 and our ISA funds grew substantially, fuelled by competitive offerings of fixed rate business.

Our traditional tax exempt friendly society business grew less strongly but still represents around a third of our total funds and remains a strong underpin of our overall business.

## Investment

After a healthy rise in the first quarter of 2010, most global equity markets saw a sharp reversal in the second quarter, as fears mounted that the improving outlook for global economic growth was not sustainable. As the year progressed, concerns increased about the potential impact of a southern European sovereign debt crisis. This started out as a localised concern over the poor state of the Greek government's public finances but quickly moved across Europe, and affected all peripheral economies including Ireland, Portugal and Spain. In turn this led to a reduced appetite for risk assets fuelling a sell off in equity markets.

To restore market confidence, the European Union and International Monetary Fund announced a EUR720bn rescue package. The aid package was deemed large enough to cover the peripheral economies' financial needs for three years at least and diminish the risk of sovereign default, reducing contagion across core European economies.

There were also two notable events that dominated the performance of the UK market: the dramatic fall in BP shares following the oil spill in April 2010 and the formation of the first peace time Coalition Government since the 1930s, which subsequently unveiled austerity measures in its emergency budget.

The UK and US equity markets saw an impressive rise in the third quarter and although economic data continued to be weak, earnings results were generally better than expected and continued to defy bearish expectations.

In response to poor economic data, markets were spurred on by hopes of further injections of liquidity into the banking system via quantitative easing in the US and UK.

During the third quarter in the Eurozone, Spain was downgraded by Moody's rating agency and Ireland was downgraded by both Moody's and Standard and Poor's on fears that the growing cost of bailing out the country's banks will further weaken the Government's finances.

Notable events around the world in the fourth quarter included Greece announcing even stricter austerity measures, the Japanese Central Bank reducing its benchmark interest rate to almost zero in an attempt to stimulate the country's faltering economy and the UK Government unveiling the details of their spending cuts. The US Federal Reserve also announced its second round of quantitative easing to help the economic recovery.

Elsewhere, Sterling bonds performed well during 2010 with good quality investment grade corporate bonds and government securities benefiting from the low interest rate environment and a positive, if slow, return to UK economic growth.

Looking ahead, we anticipate that global economies will continue to return to modest positive growth, although we believe economic growth will remain sluggish in 2011.

For the bond markets, we believe that market confidence could be strong in 2011 if we see a stabilisation of the sovereign debt issue, and economic growth continues to improve. Overall, credit spreads look attractive against their historic levels given where we are in the economic recovery cycle.

The net result of these market conditions was that our managed funds generally performed well with those funds such as the CTF Unit Trust and Charities Ethical Trust which hold over 95% of their funds in equities both in the UK and overseas producing the strongest returns in 2010. Details of the performance of our principal funds are set out on page 6.

## The Outlook

Whilst the termination of the CTF scheme is of obvious regret we have no intention of forfeiting our leadership of the children's long term savings market following its demise. In the first instance we have increased the distribution of our tax exempt savings plan, the Junior Bond, which provides the discipline of regular saving at affordable rates.

In March 2011 the Government is expected to issue detailed specifications for the new Junior ISA which are likely to share a number of the characteristics of the CTF which it is designed to replace, including a lock-in to the money saved until the child reaches 18. It will not however attract any contribution from the state and the absence of the "nudge to action" occasioned by the CTF voucher will undoubtedly reduce its take up by the less well off.

Nonetheless the CTF has certainly played its part in whetting the appetite for children's savings and Family Investments will look to offer the Junior ISA both directly via the internet and through partnerships with leading high street brands.

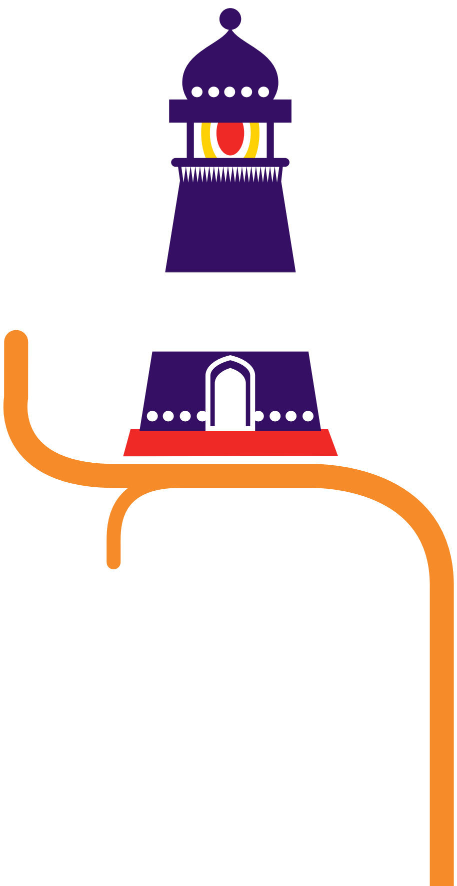
Of course the CTF will still exist for all those children lucky enough to have one and we will continue to encourage further saving into those accounts.

We have again expanded the range of ISAs that we offer in conjunction with the Post Office® and we look to further developments throughout the year. There is no doubt that ISAs are the dominant tax exempt savings vehicle available in the UK and their flexibility makes them an attractive alternative to more traditional savings plans such as pensions. The fact that the Society has gained an increasing presence in the ISA market I believe shows that, given a level playing field, Family Investments is very capable of competing with any organisation.

## Conclusion

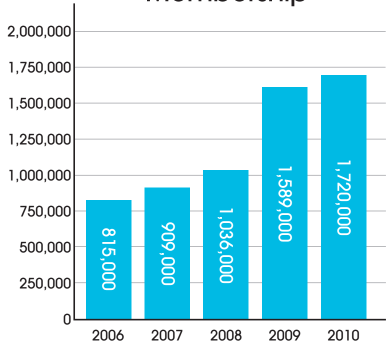
The Society is in good heart and ready for the challenges of competing in an increasingly complex and regulated market. As the accompanying graphs illustrate, the Society has continued its strong upward growth trend and we can be proud of these achievements at a time when so many financial firms have struggled. We recognise however that continued success will depend on further hard work and meeting the needs of our customers.

**John Reeve**
Chief Executive
16th March 2011

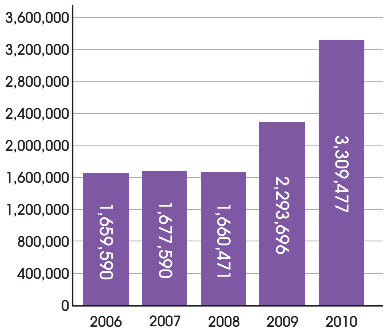


# Group Performance Highlights.

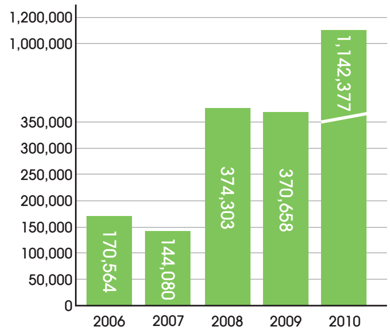
### Membership



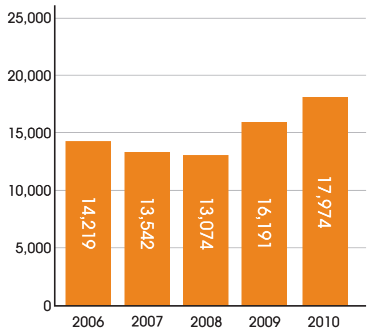

### Members' Funds Under Management – £000




### Customer Contributions £000

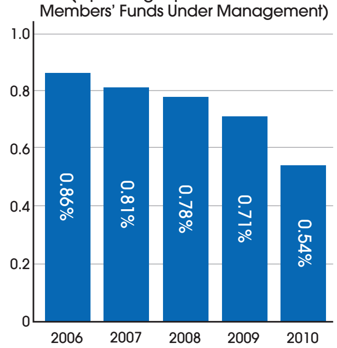



### Operating Expenses £000

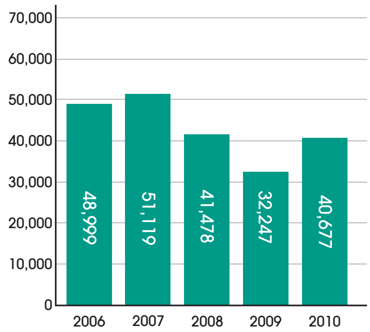



### Operating Efficiency

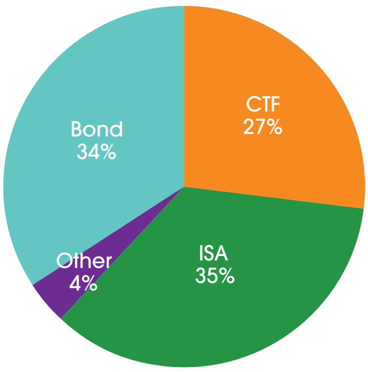
(Operating Expenses as a % of Members' Funds Under Management)




### Reserves – £000




### Source of Funds Under Management 2010




| **Fund performance –** for the year ended 31 December | Available to | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Family CTF Unit Trust | CTFs | 11.4% | 19.1% | -21.8% |
| Family Balanced International Fund Share Class B (previously Family Balanced Unit Trust) | ISAs | 10.2% | 15.7% | -20.1% |
| Family Charities Ethical Trust | Bonds, ISAs & CTFs | 9.0% | 29.0% | -40.6% |
| Sovereign 3 Life fund (series 4) | Bonds | 9.9% | 18.8% | -13.4% |
| Safety First Life fund (series 4) | Bonds | 0.3% | 1.2% | 4.9% |
| Managed Pension fund | Pensions | 10.1% | 16.7% | -23.3% |
| FTSE 100 Total Return | | 13.0% | 26.8% | -27.4% |

# Group Summary Financial Statement.

## Summary of Group Financial Results

Results for the year ended 31 December 2010

| | Notes | 2010 Group £'000 | 2009 Group £'000 |
|---|---|---|---|
| **Members' funds under management** | | | |
| **Opening balance** | | **2,293,696** | **1,660,471** |
| Amounts paid in by members | 1 | 1,142,377 | 370,658 |
| Policies acquired from other providers | 2 | – | 239,448 |
| Amounts withdrawn by members | 3 | (294,980) | (114,091) |
| Investment income, gains and losses | 4 | 191,132 | 155,203 |
| Management charges paid to the Society (below) | 5 | (22,748) | (17,993) |
| **Closing balance** | | **3,309,477** | **2,293,696** |
| **Results for the year** | | | |
| **Operating income** | | | |
| Management charges from members' funds (above) | 5 | 22,748 | 17,993 |
| Other charges levied on members | 6 | 858 | 683 |
| Other income | 7 | 5,084 | 1,674 |
| | | **28,690** | **20,350** |
| Operating expenses | 8 | (17,974) | (16,191) |
| **Operating profit** | | **10,716** | **4,159** |
| Investment in systems and new business | 9 | (9,206) | (12,019) |
| Change in non-linked fund reserves | 10 | 5,847 | (2,464) |
| Investment income, gains and losses net of taxation | 11 | 1,073 | 1,093 |
| **Net result for the year** | | **8,430** | **(9,231)** |
| **Reserves at 1 January** | | 32,247 | 41,478 |
| **Reserves at 31 December** | | **40,677** | **32,247** |

Notes:

1 The contributions paid by members into their policies.

2 The value of policies transferred in from two other providers.

3 The amounts paid out to members on maturity or surrender 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 figure differs from those in the Technical Account due to different classification of certain expenses. The Summary financial statements attempt 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 Society's non-linked investment funds.

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

# Committee of Management.

## Non-Executive Directors

### Chairman
### Robert Weir FCA

Mr. Weir, aged 62, has been a member of the Committee since 1997, Vice Chairman and Senior Independent Director from 2007 and appointed Chairman in 2010. He was a director of the Household Mortgage Corporation and has wide experience in financial and general management.

### Vice Chairman
### Norman Riddell

Mr. Riddell, aged 63, joined the Committee in 2006 and was appointed Vice Chairman in 2010. 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.

### Peter Box

Mr. Box, aged 58, was appointed to the Committee in 2009 and 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 a Vice Chairman and non-executive director of Marsh Limited and a non-executive director of Pool Reinsurance Company Limited.

### Ian Buckley

Mr. Buckley, aged 60, joined the Committee in 2009. He 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.

### Veronica France

Ms. France, aged 49,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 Ms France has been an independent business development consultant working with a wide range of UK financial services organisations. Ms France is a past chairman of the Investment and Life Assurance Group and chairs this trade body's Non-Executive Directors' Forum.

# Committee of Management.

## Executive Directors

### Chief Executive
### John Reeve FCA

Mr. Reeve, aged 63, 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 Chairman of the Association of Financial Mutuals and a Trustee of the Share Foundation.

### Chief Operating Officer
### Rob Edwards

Mr. Edwards, aged 55, 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.

### Finance Director
### John Adams FCCA

Mr. Adams, aged 56, 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. Mr. Adams 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 MCSI

Mr. Meeres, aged 53, 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 Chairman of the Investment and Life Assurance Group (ILAG) Regulations Practitioner Group and a member of the Association of Financial Mutuals Regulations Committee.

### Business Development Director
### Miles Bingham

Mr. Bingham, aged 44, 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.

# 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').

A Committee of Management comprising the Chairman, four other independent non-executive directors and five executive directors governs the Society.

The Committee is led by the Chairman whose role, along with that of the Chief Executive, has been set out and approved by the Committee. The Committee delegates management of the business to the executive directors, who meet at least monthly.

The Committee is satisfied that having considered the background and current circumstances of each non-executive director there are no relationships or issues which could affect the independence of their judgement in performing their duties. Directors' biographies and details of length of service can be found on pages 8 to 9.

## Committee of Management

During 2010 the members of the Committee were as follows:

### Non-executives

Robert Weir (appointed as Chairman on 21 May 2010)
Norman Riddell (appointed as Vice Chairman on 21 May 2010)
Peter Box
Ian Buckley
Veronica France
Robert Dolman (retired on 21 May 2010)
John Wybrew (retired on 21 May 2010)

### 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. The Annotated UK Corporate Governance Code for Mutual Insurers recommends from 2011 that all directors should stand for re-election annually. The Committee has not followed this recommendation in 2011 as it believes that retirement of one third of the Committee each year is appropriate, given that the Society's rules provide other means for members to make directors accountable for their actions. The Committee will keep this practice under review. Additionally, the Committee will continue to require any non-executive director who has exceeded nine years service to, 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 2011, 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 21 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's products perform as members would expect including 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.

# Committee of Management's Annual Report.

## Number of members

As at 31st December 2010, the Society had 1,719,847 members (2009: 1,588,506).

## Member relations

The Committee is committed to maintaining good communications with members and is keen to develop its understanding of members' views and provide members with sufficient relevant information to enable them to understand the performance of the Society and its products.

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

## Review of activities, group performance highlights and future developments

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

As at 31st December 2010 the Society's margins of solvency exceeded the minimum requirements, as prescribed by the Financial Services Authority.

## 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 16).

### *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 27th May 2011.

## Complaints

It is the Society's policy to investigate and resolve all complaints promptly and fairly but in the event that members are not satisfied with the Society's response, the Financial Ombudsman Service provides a complaints resolution service. Full details can be obtained from the Secretary or from the Society's website at www.family.co.uk. In 2010 we resolved 97% 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 2010 there were no serious accidents or injuries.

The Society has a health and safety committee that 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 Risk and Audit Sub-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, risk and management reports, 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 mutual insurers (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 Combined Code was updated in June 2010 and is now called the UK Corporate Governance Code. The UK Corporate Governance Code as Annotated for Mutual Insurers was issued in October 2010. The Annotated Combined Code applies to these Report and Accounts.

The Society considers the Annotated 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 Annotated 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, other than as stated elsewhere in this report. The board comprises 5 executive directors and 5 non-executive directors, including the Chairman. The Annotated Combined Code requires a majority of non-executive directors, however the Society amended its Rules, in 2009, to preserve the voting majority of the non-executives.

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 Weir, Chairman and John Reeve, Chief Executive has been agreed by the Committee and documented. Norman Riddell, 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, anti-bribery 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 2010

The following table sets out the attendance of directors at regular Committee meetings and meetings of the Risk and Audit, Nominations, Remuneration and Investment sub committees held in 2010. 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 sub-committee are summarised below and the terms of reference for each sub-committee can be found in the "member information" section of our website www.family.co.uke

| | Committee of Management | Nominations Sub-Committee | Risk and Audit Sub-Committee | Investment Sub-Committee | Remuneration Sub-Committee |
|---|---|---|---|---|---|
| Robert Weir | (6) 6 | (1) 1 | (2) 2[3] | (6) 6[2] | (3) 3 |
| Norman Riddell | (6) 6 | (1) 1 | - | (8) 8 | (3) 3 |
| Robert Dolman[1] | (3) 3 | (1) 1 | - | (2) 2 | - |
| Peter Box | (6) 6 | (1) 1 | (4) 4 | - | - |
| Ian Buckley | (6) 6 | (1) 1 | (4) 4 | (6) 6[2] | - |
| Veronica France | (6) 6 | (1) 1 | (4) 4 | - | (3) 3 |
| John Wybrew[1] | (3) 3 | (1) 1 | (2) 2 | - | - |
| John Reeve | (6) 6 | - | - | (8) 8 | - |
| Rob Edwards | (6) 6 | - | - | - | - |
| John Adams | (6) 6 | - | - | - | - |
| Keith Meeres | (6) 6 | - | - | - | - |
| Miles Bingham | (6) 6 | - | - | - | - |

Notes:
1 - Robert Dolman and John Wybrew retired from the Society on 21 May 2010.
2 - Robert Weir and Ian Buckley joined the Investment Sub-Committee on 21 May 2010.
3 - Robert Weir retired from the Risk and Audit Sub-Committee on 21 May 2010.

## In support of best practice, the Committee operates the following Sub-Committees:

*Nominations Sub-Committee*
Robert Weir (appointed Chairman in May 2010)
Peter Box
Ian Buckley
Veronica France
Norman Riddell
Robert Dolman (retired in May 2010)
John Wybrew (retired in May 2010)

The Nominations Sub-Committee comprises all non-executive directors and the Committee of Management appoints its chairman. It may obtain such outside legal or other independent professional advice, as it deems necessary.

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

# Committee of Management's Annual Report.

*Investment Sub-Committee*
Norman Riddell (appointed Chairman in May 2010)
Ian Buckley (appointed in May 2010)
Robert Weir (appointed in May 2010)
John Reeve
Roger Nightingale (external adviser)
Robert Dolman (retired in May 2010)

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*
Veronica France (appointed Chairman in May 2010)
Robert Weir
Norman Riddell (appointed in May 2010)
John Wybrew (retired in May 2010)
Robert Dolman (retired in May 2010)

The Remuneration Sub-Committee meets at least twice each 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 21 to 23.

*Risk and Audit Sub-Committee*
Peter Box (appointed Chairman in May 2010)
Ian Buckley
Veronica France
Robert Weir (retired as Chairman in May 2010)
John Wybrew (retired in May 2010)

The Risk and Audit Sub-Committee meets at least three times a year and assists the Committee of Management in meeting its responsibilities in respect of the systems of internal control, management of risk 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 Risk and Audit Sub-Committee and the Committee of Management. It also takes an independent view of the appropriateness of the Group's accounting policies and practices.

The Risk and Audit Sub-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 Risk and Audit Sub-Committee reviews the independence and objectivity of the external auditors before an appointment recommendation is made to members at the AGM. The Risk and Audit Sub-Committee regularly review the nature and extent of non-audit work and related fees, 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 Risk Management Forum is maintained comprising directors and senior managers.

This Forum 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 Forum 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 Risk and Audit Sub-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 11. The Committee monitors performance against these objectives 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 2010 the evaluation was conducted by questionnaires and interviews, 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 2010 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 353 employees during 2010 at a total cost of £11.5m. The Committee recognises that the Society's most valuable resource is its employees and that they are key to its success in implementing its strategy. 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 2010 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 (LDP) is now in its fifth 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. We were pleased that the success of our LDP was recognised independently in 2010 by an award from the National Skills Academy for financial services.

The Society communicates with its employees on a regular basis to ensure that they are fully aware of the business strategy and the part which 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.

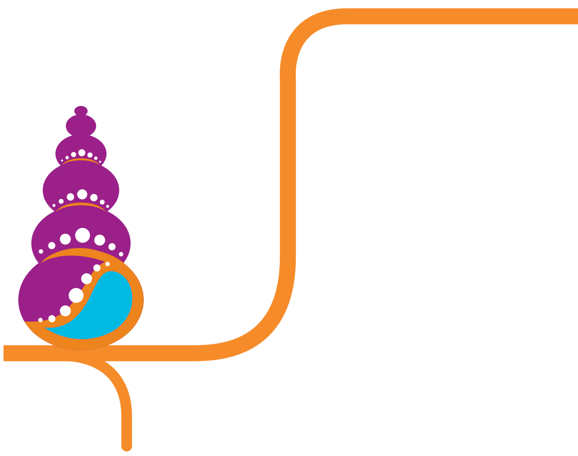
## Equal opportunities

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.

## Employee involvement

The Society continues to build upon its 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.



# Committee of Management's Annual Report.

## Corporate social responsibility

*Our role as an institutional investor*

The UK Stewardship Code was published in July 2010. It aims to enhance the quality of engagement between institutional investors and the companies in which they invest. The purpose of this is to help improve long-term returns to shareholders and effective governance by setting out good practice on engagement with investee companies.

The Society provides a range of passive and actively managed funds investing on behalf of its members in companies on a medium-to-longer-term basis. Investment management of our funds has been outsourced to an external Investment Manager, Santander Asset Management.

Family Investments and Santander Asset Management take seriously and support the responsibilities of institutional shareholders outlined within the Stewardship Code, and you can find out more about this in the Members section of our website: www.family.co.uk.

## Environmental matters

The Society continues to recognise its impact on the environment and takes steps to minimise it. This provides a framework for 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 policies
- 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

At Family our desire to do the right thing for our customers, employees and local community has always been central to our ethos, and there is no better evidence of this than our award-winning Community Programme, which has been running for nearly 20 years.  We are pleased to report that after all these years the programme continues to go from strength to strength.

Family has always taken a different approach to working with the local community, our belief has been that the key to sustainability is the creation of mutually beneficial relationships and activities, where there is not only benefit for the local community, but also a benefit to Family – mainly in the development and motivation of our employees.

In 2010 we made more progress in this direction by re-engineering some of our activities to allow employees to get more value from them, and this will continue to be our focus in 2011. We also continue to direct the bulk of our activity towards local support as this is where we can make the most impact.

2010 has been an excellent year with over 110 employees giving more than 920 hours in support of the programme. Included in these figures are our core activities, which can be broadly broken down into 2 categories.

*Education*

This is a major part of our programme and our support covers all age groups, from nurseries right through to sixth form students. The strategy is based on adding lots of value to a small number of schools and nurseries so we can make a genuine difference. Activities range from Family employees running regular maths clubs at a local primary school, through to running work orientation and interview skills days for a local sixth form college.

Again, the emphasis is on getting employees actively involved and developing their personal and business skills in the process. In 2010 our employees gave over 250 hours in support of this aspect of the programme, and over 800 local children directly benefited as a result.

*Challenges*

Our community challenges are an opportunity to get employees out into the community to get their hands dirty, providing hands-on assistance to local charities and other non-profit organisations. This is a great way of providing team and relationship building opportunities for employees whilst helping local causes benefit where they may not otherwise have been able to. We held 8 challenges during 2010 allowing over 60 employees to contribute more than 430 hours to the local community.

Not included in the number of hours employees have given to the programme is the discretionary effort put in by them, this aspect of our programme has been a particular success in 2010.

Following the pattern of encouraging employee involvement, in 2010 we made a conscious move away from giving monetary donations to charities who request them, in order to focus more on increasing the opportunities for employees to receive top-up funding for money they have raised themselves.

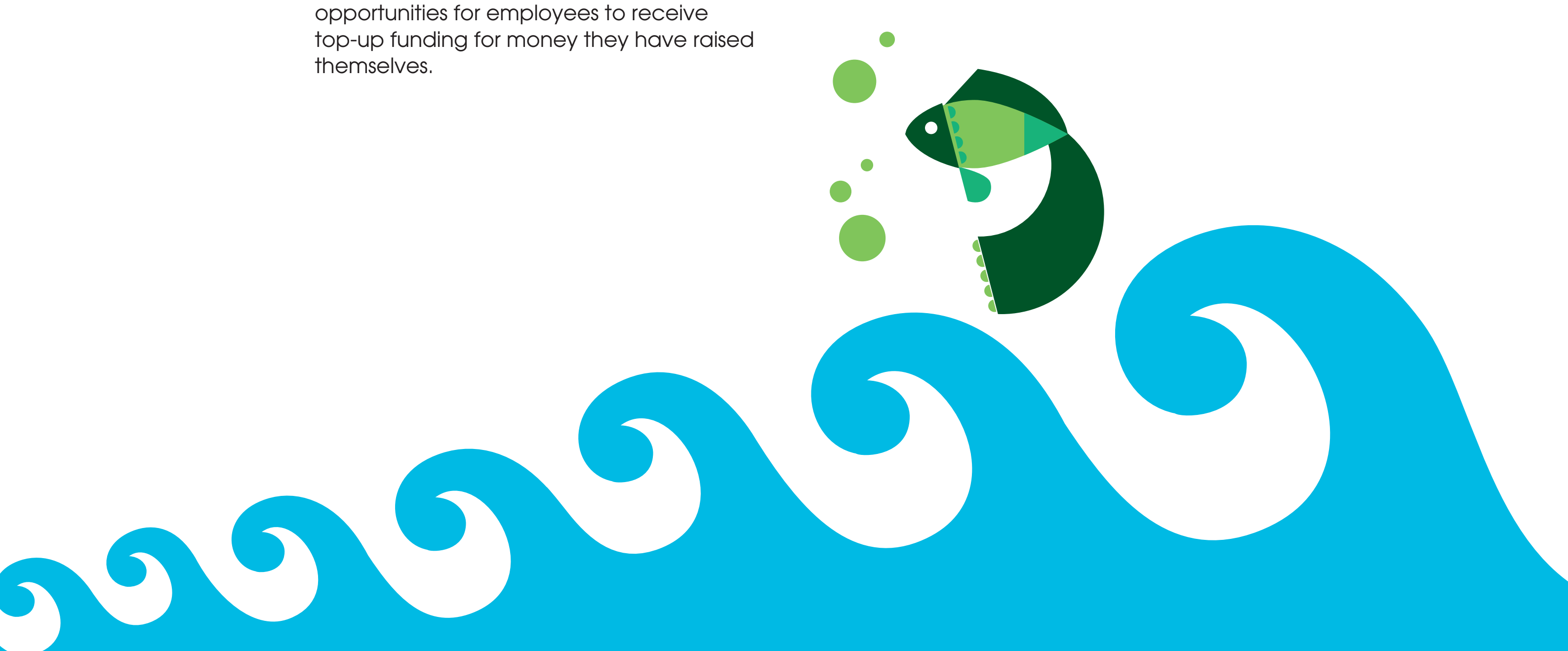
This year we have increased the total amount of top-up funding provided to employees by 50%, and almost doubled the number of employees requesting top-up funding. In fact throughout the year we were able to support fundraising ventures by raising a total of £35,600 for 25 different charities, a fantastic result.

Our Corporate Social Responsibility (CSR) forum bore fruit this year with an exciting new activity at Blatchington Mill Sixth Form College in Hove, one of our core education partners. The CSR forum was championed in the city by Family and enables businesses engaged in corporate social responsible activities to share expertise, ideas, best practice and resources for the benefit of the community.

The forum allowed Family to team up with EDF Energy and the Brighton Hilton Metropole hotel to provide an activity for Blatchington Mill students, aimed at preparing them for life after school by giving them an insight into the working world. The day provided students with information on our respective industries and the kind of jobs that tend to be available, along with some practical activities to help them get into work, like CV writing. Over 100 students benefited from the World of Work Day and feedback suggests that the day was very well received by students and teachers alike.

2011 looks like it is going to be another busy and exciting year, so the challenge will be to balance the needs of the business with the ongoing development of our community programme.

No political donations were made.



# 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.

## Remuneration Sub-Committee

The role of the Remuneration Sub-Committee is outlined on page 16.

*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.

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

## Service contracts

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

Fees for non-executive directors are reviewed each year.

## Remuneration components comprise:

*Base salary*
Base salaries are determined by individual performance and by reference to market salary levels obtained from independent sources. This is the only element of remuneration which is pensionable.

*Long term incentive scheme*
The five executive directors, together with six senior managers, are included within a bonus scheme targeted at increasing the embedded value of the Society. Payments are capped at 25% 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 participates in a Stakeholder pension scheme managed by Legal & General. Both the employer and the employee can make payments into this scheme. Four of the directors participate in the scheme. The Society did operate a defined benefits pension scheme which was closed to future accrual of benefit from 31st December 2009.

*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* [5] | | *Bonuses* [6] | | *Other benefits* [7] | | *Total* | |
|---|---|---|---|---|---|---|---|---|
| | *2010* | *2009* | *2010* | *2009* | *2010* | *2009* | *2010* | *2009* |
| | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* |
| **Executives** | | | | | | | | |
| John Reeve[9] | 250 | 250 | 12 | 38 | 40 | 14 | 302 | 302 |
| Rob Edwards | 178 | 178 | 9 | 8 | 27 | 7 | 214 | 193 |
| John Adams | 169 | 169 | 9 | 28 | 26 | 8 | 204 | 205 |
| Keith Meeres | 148 | 148 | 7 | 7 | 24 | 7 | 179 | 162 |
| Miles Bingham[8] | 115 | 115 | 6 | 5 | 14 | 11 | 135 | 131 |
| **Non-executives** | | | | | | | | |
| Robert Weir[2] | 54 | 33 | - | - | - | - | 54 | 33 |
| Robert Dolman[2] | 29 | 69 | - | - | - | - | 29 | 69 |
| Peter Box[1] | 27 | 1 | - | - | - | - | 27 | 1 |
| Ian Buckley[1] | 27 | 1 | - | - | - | - | 27 | 1 |
| Veronica France | 27 | 27 | - | - | - | - | 27 | 27 |
| Norman Riddell[3] | 33 | 33 | - | - | - | - | 33 | 33 |
| John Wybrew[4] | 11 | 27 | - | - | - | - | 11 | 27 |
| | **1068** | **1051** | **43** | **86** | **131** | **47** | **1242** | **1184** |

Note 1 - Peter Box and Ian Buckley were appointed to the Committee of Management on 14th December 2009.

Note 2 - Robert Dolman retired as Chairman and Robert Weir was appointed as Chairman on 21st May 2010.

Note 3 - Robert Weir, on becoming Chairman was replaced as Vice Chairman by Norman Riddell on 21st May 2010.

Note 4 - John Wybrew retired from the Committee of Management on 21st May 2010.

Note 5 - Excluding the new appointments, promotions and retirements noted above, there was no year on year increase in the Salaries and Fees paid to the Committee of Management.

Note 6 - Bonuses include amounts added to, and movement in, the value of the long term incentive scheme (shown below).

Note 7 - The 2009 figures include the increase in accrued pension during the year. The 2010 figures include the contributions paid by the Society into the Stakeholder Pension Scheme, which replaced the defined benefits pension scheme that is now closed to future accrual of benefit.

Note 8 - Miles Bingham received a cash alternative to a pension contribution of £9k. The comparative figure of £9k was omitted from the 2009 remuneration report. The 2009 figure has been restated in these accounts.

Note 9 - In 2010 John Reeve received a cash alternative to a pension contribution of £37k (2009: £nil).

## Long term incentive scheme

| | *Value at 1.1.2010* | *Bonus withdrawn during 2010* [1] | *Embedded value movement during 2010* [2] | *Bonus added during 2010* | *Value at 31.12.2010* |
|---|---|---|---|---|---|
| | *£'000* | *£'000* | *£'000* | *£'000* | *£'000* |
| **Executives** | | | | | |
| John Reeve | 190 | 190 | - | - | - |
| Rob Edwards | 4 | 4 | - | - | - |
| John Adams | 8 | 8 | - | - | - |
| Keith Meeres | 37 | 37 | - | - | - |
| Miles Bingham | 26 | 25 | - | - | 1 |
| | 265 | 264 | - | - | 1 |

Note 1 - Withdrawals are allowable three years after the bonus was declared, adjusted by the movement in the embedded value over the period the bonus was left invested in the scheme. Following the closure of the defined benefit pension scheme (see over) the Remuneration Sub-Committee 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 4.4% during the year.

## Pension entitlements

Four executive directors have retirement benefits accruing under the Society's defined benefit pension scheme. This scheme closed to future accrual of benefits from 31st December 2009. The table below sets out these benefits:

| | Age | Total deferred pension at date of leaving pensionable service[1] | Transfer value of accrued pension at 31.12.09[2] | Transfer value of accrued pension at 31.12.10[2] | Change in transfer value during the year |
|---|---|---|---|---|---|
| | | £'000 | £'000 | £'000 | £'000 |
| **Executives** | | | | | |
| John Reeve | 63 | 134 | 2,091 | 2,187 | 96 |
| Rob Edwards | 55 | 53 | 667 | 655 | -12 |
| John Adams | 56 | 58 | 744 | 739 | -5 |
| Keith Meeres | 53 | 56 | 590 | 577 | -13 |

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 deferred pension is the annual pension amount accrued by the executive director as at 31st December 2009, the date the scheme closed to all future accrual. The deferred pension would be payable from age 65 and prior to age 65 would increase broadly in line with CPI Inflation.

Note 2 - The transfer values have been calculated in accordance with the Actuarial Guidance Note GN11 but then adjusted to reflect the change from RPI to CPI linked pension increases.

Four executive directors participate in the Stakeholder Pension Scheme. Contributions to the Scheme, made by the Society, for the year were:

| | Stakeholder Pension Contributions | |
|---|---|---|
| | 2010 | 2009 |
| **Executives** | | |
| Rob Edwards | 26 | - |
| John Adams | 25 | - |
| Keith Meeres | 22 | - |
| Miles Bingham | 3 | - |
| | 76 | - |

# 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 31 December 2010 which comprise the Group and Society Income and Expenditure Accounts, the Group and Society Balance Sheets and the related notes. We are also required to report on the Committee of Management's Annual Report for the year ended 31 December 2010.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

## Respective responsibilities of the Committee Management and the Auditor

As explained more fully in the Committee of Management's Responsibilities Statement set out on page 13, the Committee of Management is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

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 auditor's 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 Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

## Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with UK Generally Accepted Accounting Practice of the state of the Group's and the Society's affairs as at 31 December 2010 and of the income and expenditure of the Society and the Group for the year then ended;
- have been properly prepared in accordance with the Friendly Societies Act 1992.

## Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Committee of Management 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 financial statements for the financial year.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations and access to documents that we require for our audit.

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the 8 provisions of the Annotated Combined Code specified by the Association of Financial Mutuals.

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

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

16th March 2011

# Income and Expenditure Account.

## Technical Account – Long Term Business

for the year ended 31 December 2010

| Notes | | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|---|
| 2 | Earned premiums | 50,858 | 50,858 | 57,202 | 57,202 |
| | Outward reassurance premiums | (178) | (178) | (205) | (205) |
| | Earned premiums, net of reassurance | 50,680 | 50,680 | 56,997 | 56,997 |
| 3 | Investment income | 38,696 | 38,696 | 18,565 | 18,565 |
| 3 | Unrealised gains on investments | 63,149 | 62,817 | - | - |
| 3 | Realised gains on investments | 11,945 | 11,945 | 174,932 | 174,932 |
| 5 | Other technical income | 13,746 | - | 7,822 | - |
| | **Total Technical Income** | **178,216** | **164,138** | **258,316** | **250,494** |
| | **Claims incurred, net of reassurance** | | | | |
| | Claims paid | | | | |
| | Gross amount | (148,092) | (148,092) | (90,850) | (90,850) |
| | Reassurers' share | 144 | 144 | 36 | 36 |
| | | (147,948) | (147,948) | (90,814) | (90,814) |
| 16 | Change in provision for claims | | | | |
| | Gross and net amount | 163 | 163 | 2,302 | 2,302 |
| | Net claims incurred | (147,785) | (147,785) | (88,512) | (88,512) |
| 16 | **Change in technical provisions, net of reassurance** | | | | |
| | Long term business provision, net of reassurance | | | | |
| | Gross amount | 7,526 | 7,526 | 12,775 | 12,775 |
| | Reassurers' share | 14 | 14 | (14) | (14) |
| | | 7,540 | 7,540 | 12,761 | 12,761 |
| | Other technical provision, net of reassurance | | | | |
| | Technical provision for linked liabilities | (7,135) | (7,135) | (140,430) | (140,430) |
| | Net change in technical provisions | 405 | 405 | (127,669) | (127,669) |
| | **Other expenditure** | | | | |
| 4 | Net operating expenses | (6,420) | (6,420) | (6,955) | (6,955) |
| 3 | Investment expenses and charges | (1,988) | (1,988) | (2,011) | (2,011) |
| 3 | Unrealised losses on investments | - | - | (19,325) | (23,300) |
| 5 | Other technical charges | (18,068) | (3,990) | (19,655) | (7,858) |
| | | (26,476) | (12,398) | (47,946) | (40,124) |
| | **Total Technical Charges** | **(173,856)** | **(159,778)** | **(264,127)** | **(256,305)** |
| | **Surplus/(deficit) of technical income over technical charges before taxation** | **4,360** | **4,360** | **(5,811)** | **(5,811)** |
| 6 | Tax attributable to the long term business | (399) | (399) | (12) | (12) |
| | **Surplus/(deficit) on technical account - long term business** | **3,961** | **3,961** | **(5,823)** | **(5,823)** |
| 20 | Actuarial gain/(loss) on pension scheme | 4,469 | 4,469 | (3,408) | (3,408) |
| 16 | Transfer (to)/from the fund for future appropriations | **(8,430)** | **(8,430)** | **9,231** | **9,231** |
| | **Balance on the technical account - long term business** | **-** | **-** | **-** | **-** |

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

# Balance Sheet.

## ASSETS

As at 31 December 2010

| Notes | | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|---|
| | **Investments** | | | | |
| 9 | Land and buildings | 2,046 | 2,046 | 2,004 | 2,004 |
| 10 | Investments in group undertakings | | | | |
| | Investments in subsidiaries | - | 10,450 | - | 7,783 |
| 11 | Other financial investments | | | | |
| | Shares, variable yield securities and units in unit trusts | 6,712 | 6,712 | 7,914 | 7,914 |
| | Debt securities and other fixed income securities | 74,195 | 74,195 | 83,754 | 83,754 |
| | Deposits with credit institutions | 10,572 | 2,741 | 7,050 | 1,657 |
| | | 93,525 | 96,144 | 100,722 | 103,112 |
| 12 | **Assets held to cover linked liabilities** | 1,101,877 | 1,101,877 | 1,094,742 | 1,094,742 |
| | **Reassurers' share of technical provisions** | | | | |
| | Long term business provision | 511 | 511 | 497 | 497 |
| | **Other assets** | | | | |
| 13 | Tangible assets | 44 | 44 | 125 | 125 |
| 14 | Other debtors | 2,593 | 1,229 | 2,199 | 1,213 |
| | Cash at bank and in hand | 5,272 | 4,892 | 2,289 | 2,410 |
| | **Prepayments and accrued income** | | | | |
| | Accrued interest and rent | 1,864 | 649 | 1,437 | 1,011 |
| | Other prepayments and accrued income | 324 | 324 | 637 | 637 |
| | | 1,206,010 | 1,205,670 | 1,202,648 | 1,203,747 |

# Balance Sheet.

## LIABILITIES

As at 31 December 2010

| Notes | | Group 2010 £'000 | Society 2010 £'000 | Group 2009 £'000 | Society 2009 £'000 |
|---|---|---|---|---|---|
| 16 | **Reserves** | | | | |
| | Fund for future appropriations | 40,677 | 40,677 | 32,247 | 32,247 |
| 16 | **Technical provisions** | | | | |
| | Long term business provision | 54,924 | 54,924 | 62,450 | 62,450 |
| | Claims outstanding | 1,653 | 1,653 | 1,816 | 1,816 |
| 16 | **Technical provision for linked liabilities** | 1,101,877 | 1,101,877 | 1,094,742 | 1,094,742 |
| 15 | **Creditors** | | | | |
| | Other creditors, including taxation and social security | 3,395 | 3,184 | 2,717 | 3,931 |
| | **Accruals and deferred income** | 3,037 | 2,908 | 3,103 | 2,988 |
| 20 | **Pension liability** | 447 | 447 | 5,573 | 5,573 |
| | | 1,206,010 | 1,205,670 | 1,202,648 | 1,203,747 |

Approved by the Committee of Management on 16 March 2011, and signed on its behalf by:

**Robert Weir,** Chairman

**John Reeve,** Chief Executive

# Notes to the Accounts.

## 1 Principal accounting policies.

### Basis of accounting

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

### Basis of consolidation

The Group Accounts comprise the assets, liabilities and 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 (see note 10).

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 related systems development costs incurred and written off during the year.

## Foreign currencies

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

## Fund for future appropriations

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

This fund includes surpluses arising on the former POIS Assurance Limited closed fund which is ring fenced according to the transfer of engagements agreement.

## 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* | |
|---|---|---|
| | *2010* | *2009* |
| a) Gross premiums written: | *£'000* | *£'000* |
| **Life assurance business:** | | |
| Linked | 46,013 | 51,072 |
| Non-linked | 3,214 | 4,211 |
| **Pension business:** | | |
| Linked | 1,631 | 1,919 |
| **Total gross premiums written** | 50,858 | 57,202 |
| Regular premiums | 49,227 | 55,246 |
| Single premiums | 1,631 | 1,956 |
| **Total gross premiums written** | 50,858 | 57,202 |

| | *Society 2010* | | *Society 2009* | |
|---|---|---|---|---|
| | *Single* | *Regular* | *Single* | *Regular* |
| b) Gross new business premiums: | *£'000* | *£'000* | *£'000* | *£'000* |
| New business premiums | 14 | 4,070 | 38 | 2,480 |

**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* |
|---|---|---|---|---|
| | *2010* | *2010* | *2009* | *2009* |
| c) Contributions received for ISAs, Child Trust Funds and direct unit trust investments: | *£'000* | *£'000* | *£'000* | *£'000* |
| Regular contributions | 74,563 | - | 57,261 | - |
| Single contributions | 1,017,134 | - | 256,400 | - |
| | 1,091,697 | - | 313,661 | - |

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 2010 | *Number of policies* Society 2010 | *Number of policies* Group 2009 | *Number of policies* Society 2009 |
|---|---|---|---|---|
| Average during the year | 1,768,814 | 406,391 | 1,415,600 | 445,803 |
| As at 31st December | 1,848,963 | 383,218 | 1,688,662 | 429,561 |

## 3 Investment return summary.

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| **Investment income:** | | | | |
| Income from listed investments | 29,944 | 29,944 | 16,043 | 16,043 |
| Income from other investments | 8,625 | 8,625 | 2,571 | 2,571 |
| Net return on pension scheme (see note 20) | 127 | 127 | (49) | (49) |
| | 38,696 | 38,696 | 18,565 | 18,565 |
| **Unrealised gains/(losses) on investments** | 63,149 | 62,817 | (19,325) | (23,300) |
| **Realised gains on investments** | 11,945 | 11,945 | 174,932 | 174,932 |
| **Investment expenses and charges:** | | | | |
| Investment management expenses, including interest | (1,988) | (1,988) | (2,011) | (2,011) |
| **Net investment return included in the Technical Account - Long Term Business** | 111,802 | 111,470 | 172,161 | 168,186 |

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 its linked funds into Collective Investment Schemes administered by its subsidiary Family Investment Management Limited (see note 21).

This transfer of assets generated a significant realised gain on the investments transferred. Investment Income fell in 2009 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 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| Acquisition costs incurred in the year: | | | | |
| Commission | 73 | 73 | 65 | 65 |
| Other acquisition expenses | 318 | 318 | 428 | 428 |
| | 391 | 391 | 493 | 493 |
| Research and development costs | 2,263 | 2,263 | 962 | 962 |
| Administration expenses | 3,766 | 3,766 | 5,500 | 5,500 |
| | 6,420 | 6,420 | 6,955 | 6,955 |
| **Included in net operating expenses and other technical charges are:** | | | | |
| Depreciation charge for the year (see note 13) | 81 | 81 | 178 | 178 |
| Interest paid and similar charges to customers | 25 | 25 | 149 | 149 |
| Remuneration of the Auditors in respect of audit and related services: | 175 | 132 | 166 | 115 |
| Statutory audit - Society | 122 | 122 | 115 | 105 |
| Statutory audit - Subsidiaries | 32 | - | 25 | - |
| Auditing of staff pension scheme | 10 | 10 | 10 | 10 |
| Auditing of certain unit trusts | 11 | - | 16 | - |

## 5 Other technical income and charges.

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| **Other technical income:** | | | | |
| Income generated in subsidiary companies | 13,746 | - | 7,822 | - |
| | | | | |
| **Other technical charges:** | | | | |
| Costs relating to subsidiary company products: | | | | |
| Acquisition expenses | 5,925 | 3,692 | 6,268 | 4,663 |
| Research and development costs | 1,073 | 298 | 4,504 | 3,195 |
| Administration expenses | 11,070 | - | 8,883 | - |
| | 18,068 | 3,990 | 19,655 | 7,858 |

## 6 Taxation.

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| **UK Corporation tax:** | | | | |
| Current year | 405 | 405 | 51 | 51 |
| Tax payable on unrealised gains on unit-linked assets | (6) | (6) | (1) | (1) |
| Adjustments in respect of prior periods | - | - | (38) | (38) |
| | 399 | 399 | 12 | 12 |

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 £399k (2009: £50k) relating to taxable business has been provided for. Taxes have been charged at 20% (2009: 20%).

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| **Deferred tax liability:** | | | | |
| Actuarial reserves | 6 | 6 | 16 | 16 |
| **Deferred tax liability** | 6 | 6 | 16 | 16 |
| Deferred acquisition expenses | (6) | (6) | (16) | (16) |
| **Deferred tax balance** | - | - | - | - |

There is an unrecognised deferred tax asset of £861k (2009: £854k), in respect of the mutual business carried on by the Society, of which £6k (2009: £16k) has been set aside to offset recognised deferred tax liabilities of the mutual business. The balance of £855k (2009: £838k) 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 2010 Number* | *Society 2010 Number* | *Group 2009 Number* | *Society 2009 Number* |
|---|---|---|---|---|
| Marketing | 17 | 17 | 16 | 16 |
| Investments | 9 | 9 | 11 | 11 |
| Administration | 327 | 327 | 345 | 345 |
| | 353 | 353 | 372 | 372 |

| **Staff costs for the above employees were:** | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| Wages and salaries | 9,866 | 9,866 | 10,557 | 10,557 |
| Pension costs | 642 | 642 | 926 | 926 |
| Social security costs | 997 | 997 | 887 | 887 |
| | 11,505 | 11,505 | 12,370 | 12,370 |

All employees are employed and remunerated directly by the Society.

## 8 Committee of management emoluments.

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| Fees and benefits to the Chairman and non-executive directors | 208 | 208 | 191 | 191 |
| Salaries and benefits to executive directors | 991 | 991 | 884 | 884 |
| Performance related bonuses | 43 | 43 | 86 | 86 |
| Increase in total accrued pensions | - | - | 23 | 23 |
| | 1,242 | 1,242 | 1,184 | 1,184 |

### Chairman

The aggregate remuneration paid, comprising salary and benefits, to Mr Robert Weir since his appointment, as Chairman, in May 2010 amounted to £40k. The aggregate remuneration paid, comprising salary and benefits, to Mr Robert Dolman (retired May 2010) for the period to 31 May 2010 amounted to £29k (2009: £69k).

### Highest paid Committee member

The aggregate remuneration paid to Mr John Reeve for the year ended 31 December 2010, comprising salary and benefits and the change in his accrued pension during the year, amounted to £302k (2009: £302k). Had Mr. Reeve left service and pensionable service in the Staff Pension Scheme at 31 December 2010, his deferred pension at leaving would have been £134k per annum (2009: £134k per annum).

### Pension contributions

Four of the executive directors had contributions paid into the Stakeholder Pension Scheme during the year. Four of the executive directors had retirement benefits accruing under the defined benefit pension scheme during the year.

Further details of the emoluments of the Committee of Management can be found in the Remuneration Report.

### 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 2010 are £1k (2009: £265k). 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 at 25% of salary.

# 9 Land and buildings.

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| **Movements during the year:** | | | | |
| As at 1 January | 2,004 | 2,004 | 1,770 | 1,770 |
| Revaluation during the year | 42 | 42 | 234 | 234 |
| As at 31 December | 2,046 | 2,046 | 2,004 | 2,004 |
| **Types of land and buildings held at 31 December:** | | | | |
| Owner-occupied - Short leasehold | 2,046 | 2,046 | 2,004 | 2,004 |
| **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 2010 and 2009 Annual Report and Accounts at open market value on vacant possession basis. The valuation of the owner-occupied property was made by Capita Symonds, a firm of independent Chartered Surveyors, on 7 December 2010

# 10 Investment in group undertakings.

| | *Society 2010 £'000* | *Society 2009 £'000* |
|---|---|---|
| **Subsidiaries** | | |
| **Ordinary shares at directors' valuation:** | | |
| As at 1 January | 7,783 | 8,758 |
| Purchase of Share Capital | 3,000 | 3,000 |
| Revaluation during the year | (333) | (3,975) |
| As at 31 December | 10,450 | 7,783 |

On 19th March 2010 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 as 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 2010 £'000 | Society 2010 £'000 | Group 2009 £'000 | Society 2009 £'000 |
|---|---|---|---|---|
| At cost: | | | | |
| Shares, variable yield securities and units in unit trusts | 5,600 | 5,600 | 7,107 | 7,107 |
| Debt securities and other fixed income securities | 74,635 | 74,635 | 84,462 | 84,462 |
| Deposits with credit institutions | 10,572 | 2,741 | 7,050 | 1,657 |
| | 90,807 | 82,976 | 98,619 | 93,226 |

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

| | Group 2010 £'000 | Society 2010 £'000 | Group 2009 £'000 | Society 2009 £'000 |
|---|---|---|---|---|
| Shares, variable yield securities and units in unit trusts | 6,712 | 6,712 | 7,914 | 7,914 |
| Debt securities and other fixed income securities | 73,945 | 73,945 | 83,504 | 83,504 |
| | 80,657 | 80,657 | 91,418 | 91,418 |

## 12 Assets held to cover linked liabilities.

| | Group and Society 2010 £'000 | 2009 £'000 |
|---|---|---|
| Market value as at 31 December | 1,101,877 | 1,094,742 |
| Cost as at 31 December | 997,756 | 1,053,139 |

## 13 Tangible assets.

| | Group and Society | | | |
|---|---|---|---|---|
| | Equipment £'000 | Computer hardware £'000 | Computer software £'000 | Total £'000 |
| At cost: | | | | |
| As at 1 January 2010 | 2,234 | 2,114 | 3,908 | 8,256 |
| Disposals | (1,595) | (629) | (717) | (2,941) |
| As at 31 December 2010 | 639 | 1,485 | 3,191 | 5,315 |
| Accumulated depreciation: | | | | |
| As at 1 January 2010 | 2,234 | 1,989 | 3,908 | 8,131 |
| Charge for the year | - | 81 | - | 81 |
| Eliminated on disposals | (1,595) | (629) | (717) | (2,941) |
| As at 31 December 2010 | 639 | 1,441 | 3,191 | 5,271 |
| Net book value as at 31 December 2010 | - | 44 | - | 44 |
| Net book value as at 31 December 2009 | - | 125 | - | 125 |

## 14 Other debtors.

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| **Amounts falling due within one year:** | | | | |
| Due from subsidiary undertakings | - | 3 | - | - |
| Amounts owed by linked funds | 601 | 601 | 407 | 407 |
| Loans to members | 391 | 391 | 528 | 528 |
| Taxation recoverable | 84 | 84 | 59 | 59 |
| Sundry debtors | 1,517 | 150 | 1,205 | 219 |
| | 2,593 | 1,229 | 2,199 | 1,213 |

## 15 Other creditors.

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| Due to subsidiary undertakings | - | - | - | 1,305 |
| Taxes payable | 865 | 862 | 436 | 436 |
| Sundry creditors | 2,530 | 2,322 | 2,281 | 2,190 |
| | 3,395 | 3,184 | 2,717 | 3,931 |

## 16 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 2010** | 62,450 | 1,094,742 | 1,816 | 32,247 |
| **Changes in technical provisions:** | | | | |
| Gross change in technical provisions, net of reassurance | (7,540) | 7,135 | (163) | 8,430 |
| Reassurers' share of the change in technical provisions | 14 | - | - | - |
| **As at 31 December 2010** | 54,924 | 1,101,877 | 1,653 | 40,677 |

**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 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Taxable with-profits POIS fund | 1.25 | 1.75 | 100% of AM80/AF80 | 100% of AM80/AF80 |
| Non taxable with-profits POIS fund | 1.75 | 2.25 | 100% of AM80/AF80 | 100% of AM80/AF80 |

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

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

- a decrease in the valuation rate of interest from 2.75% to 2.25% to reflect falls in gilt yields during 2010.
- a decrease in the assumed level of volatility of assets backing policies with guarantees, reflecting current economic experience.

The overall impact of the changes described above has been to increase the long term business provision, net of reassurance, by £1.3 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 £1.1m. This does not include the corresponding effect on the valuation of assets.

## 17 Bonuses and rebates.

| | *Group and Society 2010 £'000* | *2009 £'000* |
|---|---|---|
| **Cost of bonuses declared, as at 31 December:** | | |
| Reversionary bonuses | 263 | 305 |

# 18 Capital position statement.

| Available capital resources | *UK non-profit £'000* | *former POIS Assurance Limited UK with-profits £'000* | *Total £'000* |
|---|---|---|---|
| **As at 31 December 2010** | | | |
| Fund for future appropriations | 28,971 | 11,706 | 40,677 |
| Allocation of Group capital | (2,826) | - | (2,826) |
| Other adjustments | (625) | - | (625) |
| **Total available capital resources** | 25,520 | 11,706 | 37,226 |
| **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 |

| 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 2009** | 17,728 | 10,916 | 28,644 |
| Effect of investment variations | 1,221 | 3,435 | 4,656 |
| Effect of experience variations | 7,021 | 1,295 | 8,316 |
| Effect of change in valuation basis | 5,072 | (1,245) | 3,827 |
| New business strain | (1,089) | - | (1,089) |
| Research and development | (3,336) | - | (3,336) |
| Cost of bonuses | - | (2,695) | (2,695) |
| Operating loss in the subsidiaries | (1,097) | - | (1,097) |
| **Available capital resources as at 31 December 2010** | 25,520 | 11,706 | 37,226 |

# 18 Capital position statement (continued).

| **Technical provisions** | *UK non-profit £'000* | *former POIS Assurance Limited UK with-profits £'000* | *Total £'000* |
|---|---|---|---|
| **As at 31 December 2010** | | | |
| Unit-linked | 1,101,877 | - | 1,101,877 |
| With-profits liabilities | - | 48,809 | 48,809 |
| Non-profit liabilities | 5,205 | 910 | 6,115 |
| | 1,107,082 | 49,719 | 1,156,801 |
| Claims outstanding | 1,217 | 436 | 1,653 |
| Reassurance | - | (511) | (511) |
| **Technical provisions in the balance sheet** | 1,108,299 | 49,644 | 1,157,943 |
| **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 |

The were no material options or guarantees included within the Technical provisions at either 31 December 2010 or 31 December 2009.

## 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.

# 18 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 £37.2m (2009: £28.6m) of which £11.7m (2009: £10.9m) is held in with-profits funds and £25.5m (2009: £17.7m) 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 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 800% of the capital requirement of £4.65m (2009: 531% of £5.4m).

### Capital resource sensitivities

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

The most significant sensitivities arise from the following three risks:

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

- Expense risk in relation to the costs of running the business and administering the policies held by the Society, which would arise if there was an increase in expense inflation and / or the cost structure of the Society. An immediate 20% increase in the costs of administration on all policies would reduce available capital resources by approximately £3.1m.

- Persistency risk in relation to unit-linked business, which would arise if there was a significant increase in surrender rates which would deprive the Society of the future income that business provides. An increase in surrender rates of 80% would reduce available capital resources by approximately £0.1m.

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.

## 19 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 2010 amounted to £556k (2009: £447k).

## 20 Staff pension provision.

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

The defined benefit scheme closed to all further benefit accrual with effect from 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.

In July 2010, the government announced its intention that future statutory minimum pension indexation would be measured by the Consumer Prices Index, rather than the Retail Prices Index. This has been reflected in the Society's assumptions and a gain of £2,496k has been recognised as a result, included in actuarial gains on assumptions in the figures below.

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

Actuarial valuations were carried out as at 31st December 2010 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 2010 was 7.4% pa (2009: 6.5% 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 2009 and allows for the change in investment strategy implemented at the start of 2010.

The following table sets out the key FRS17 assumptions used for the Scheme. The table also sets out, as at 31st December 2010, 2009 and 2008, 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).

## 20 Staff pension provision (continued).

| Assumptions: | *2010* | *2009* | *2008* |
|---|---|---|---|
| Retail Prices Index Inflation | 3.7 % | 3.8 % | 3.1 % |
| Consumer Prices Index Inflation | 3.0 % | n/a | n/a |
| Revaluation in deferment | 3.0 % | 3.8 % | 3.1 % |
| Pension increases: | | | |
| pre April 1997 pension | 0.0 % | 0.0 % | 0.0 % |
| post April 1997 pension | 3.5 %/3.0 %* | 3.7 % | 2.9 % |
| post April 2005 pension | 2.2 % | 2.4 % | 2.2 % |
| Salary growth | n/a | n/a | 3.1 % |
| Discount rate | 5.4 % | 5.6 % | 6.0 % |
| Investment returns: | | | |
| Equities | 7.7 % | 8.2 % | 7.6 % |
| Bonds | 4.2 % | 4.4 % | 3.8 % |
| Diversified growth/absolute return funds | 7.2 % | 7.4 % | n/a |
| Cash | 1.7 % | 2.2 % | 3.8 % |
| Other assets | 5.4 % | 5.6 % | 6.0 % |
| Life expectancy: | | | |
| male aged 65 at the balance sheet date | 22.4 years | 22.3 years | 22.2 years |
| male aged 65 in 2035 (25 years from balance sheet date) | 24.8 years | 24.7 years | 24.6 years |

*assumption for members who transferred in to the Scheme from the Family Assurance Society Limited Staff Pension Scheme.

| Fair value of assets | *2010* *£'000* | *2009* *£'000* | *2008* *£'000* |
|---|---|---|---|
| Equities | 17,926 | 16,177 | 13,931 |
| Bonds | 4,783 | 4,060 | 5,334 |
| Diversified growth/absolute return funds | 3,380 | - | - |
| Cash | 330 | 3,069 | 169 |
| Other net assets | 290 | 278 | 82 |
| **Total fair value of assets** | 26,709 | 23,584 | 19,516 |
| Present value of liabilities | (27,156) | (29,157) | (22,473) |
| **Post retirement deficit** | (447) | (5,573) | (2,957) |

Over the year to 31st December 2010, the Society made contributions amounting to £530k to the Scheme. 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 2011 plus the Pension Protection Fund levies due.

## 20 Staff pension provision (continued).

The post retirement deficit under FRS17 moved as follows:

| | *2010* *£'000* | *2009* *£'000* |
|---|---|---|
| Post retirement deficit as at 1 January | (5,573) | (2,957) |
| Contributions (employee and employer) | 530 | 1,610 |
| Operating charge: | | |
| Current service cost (employer's part only) | - | (769) |
| Other net finance income: | | |
| Expected return on pension scheme assets | 1,746 | 1,303 |
| Interest on post retirement liabilities | (1,619) | (1,352) |
| Net return credited to finance income | 127 | (49) |
| Actuarial profit / (loss) | | |
| Actual return less expected return on pension scheme assets | 1,335 | 1,804 |
| Experience gains arising on pension scheme liabilities | 1,276 | 82 |
| Gain / (loss) due to changes in assumptions underlying the present value of scheme liabilities | 1,858 | (5,294) |
| Actuarial gains / (losses) recognised in the fund for future appropriations | 4,469 | (3,408) |
| Post retirement deficit as at 31 December | (447) | (5,573) |

| History of experience gains and losses | *2010* *£'000* | *2009* *£'000* | *2008* *£'000* | *2007* *£'000* |
|---|---|---|---|---|
| Actual return less expected return on pension scheme assets | 1,335 | 1,804 | (8,202) | (1,625) |
| As a percentage of pension scheme liabilities at end of year | -5% | -8% | 42% | 6% |
| Experience gains / (losses) arising on pension scheme liabilities | 1,276 | 82 | (541) | (629) |
| As a percentage of pension scheme liabilities at end of year | -5% | 0% | 2% | 3% |
| Actuarial gains / (losses) recognised in the fund for future appropriations | 4,469 | (3,408) | (5,333) | (1,585) |
| As a percentage of pension scheme liabilities at end of year | -16% | 12% | 24% | 7% |

## 21 Related party transactions.

Family Assurance Friendly Society Limited and its subsidiaries, (the Group), have a number of transactions between themselves all of which are undertaken in the normal course of business. As these Accounts cover the Society and the Group, no transactions or balances between Group entities, which eliminate on consolidation, require disclosure in accordance with the exemption given in FRS8.

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

Mr John Reeve (Chief Executive) and members of his family had investments in products of the Society of approximately £192k as at 31 December 2010 (2009: £152k).

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 2010 £'000* | *Society 2010 £'000* | *Group 2009 £'000* | *Society 2009 £'000* |
|---|---|---|---|---|
| Family Asset Trust | 57,652 | 57,652 | 53,805 | 53,805 |
| Family Charities Ethical Trust – Accumulation Units | 8,365 | 8,365 | 8,003 | 8,003 |
| Family Balanced International fund – Share Class A | 857,329 | 857,329 | 910,476 | 910,476 |
| | 923,346 | 923,346 | 972,284 | 972,284 |

During 2010, the Society and Group made the following new investments of policyholders' funds. All purchases of units were made at arms length based on the buying price:

| | *Group 2010 £'000* | *Society 2010 £'000* | *Group 2010 units* | *Society 2010 units* |
|---|---|---|---|---|
| Family Asset Trust | 2,504 | 2,504 | 1,305 | 1,305 |

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.

# Notes.

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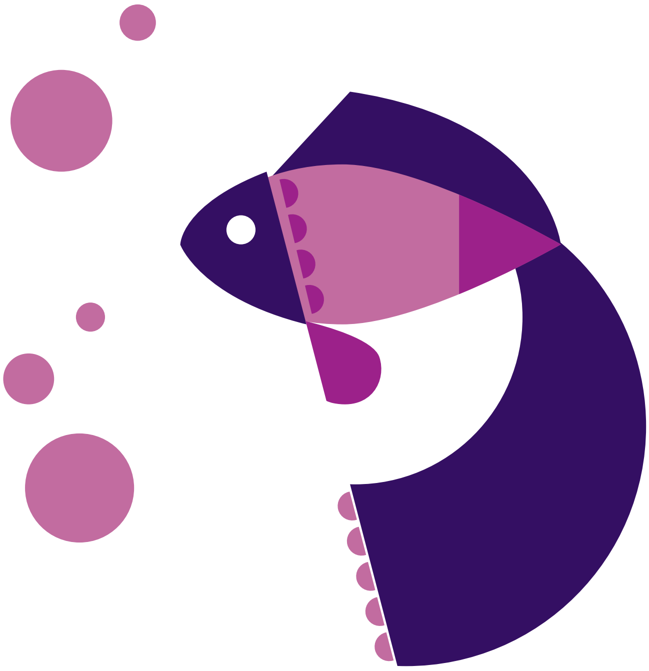

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