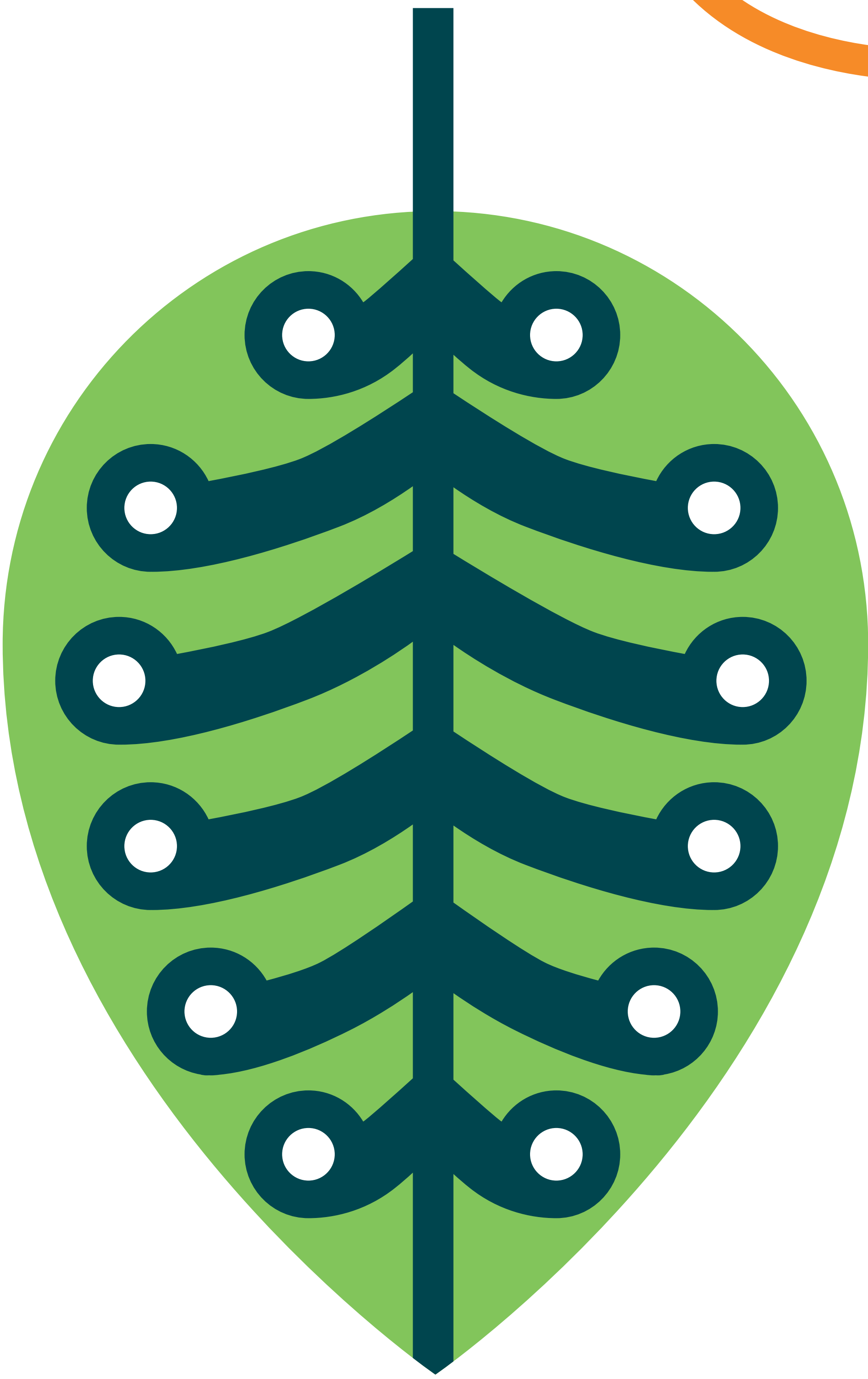
family investments

Annual Report and Accounts

For the year ended 31 December 2011.



£693m

paid out to members
in 2011.

ANNUAL REPORT AND ACCOUNTS 2011

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

FSC

Chairman's Review.

Chairman
Robert Weir

I am pleased to report that despite a difficult trading year in the UK and the rest of the world, the Society was able to increase its membership and the funds that it manages, whilst at the same time strengthening its reserves.

In 2011 we sought to further diversify our business base whilst retaining our focus on providing financial solutions for families throughout the United Kingdom. Following the Government's announcement in 2010 that the Child Trust Fund would be withdrawn, unlike some providers Family kept its product open. We were also amongst the few providers who were ready to offer its replacement, the Junior ISA, as soon as it became available on 1st November. As a result we have been able to provide continuity of service to our customers and build on our established expertise in the market for children's savings.

We have also increased the funds we manage in Individual Savings Accounts through our partnership with the Post Office®. Following our acquisition of Governor Finance Limited we can now offer members a range of attractive fixed term cash deposits from both banks and building societies.

Clearly these are tough times with the increase in the cost of living putting a squeeze on the disposable income of many of our members. Nonetheless it seems clear that in future we will all have to place greater reliance on "self help" and the importance of saving will increase not only for ourselves but also for our children. The Society's task is to provide simple and affordable solutions to this challenge for our members.

I'm very conscious of the need to encourage our staff to maintain a high standard of service and that they should aim at all times to treat our customers fairly. I am equally conscious that the Committee of Management's responsibility is to set the standards and values by which the Society should be judged and to monitor how good we are in meeting them. To aid us in our task we have engaged external consultants to attend Board meetings and to report to myself and the Board to ensure that the way we operate is kept up to the mark. We have very few complaints from members and we take heart from this, however, complaints normally tell us when we have got things wrong and whilst that is very important it is also valuable to us to know where we can do better. I would encourage you to express your opinions by attending the Annual General Meeting in Brighton on May 25th or by contacting our Member Relations Team, details of which can be found on our website at www.family.co.uk

Whilst we should never be complacent I am pleased to report that our customer surveys indicate that most of our members are satisfied with the service we offer. We will make every effort in 2012 and in the years to come to make sure that this remains the case.

UK and world stock markets reflected the difficult economic environment so unfortunately the unit prices of most of our managed funds fell during the year. Whilst future performance can never be guaranteed and the present volatile conditions are likely to continue for some time we continue to believe that equity investment is more likely to produce better returns in the medium to longer term than investments held in cash. For those of you who have shorter term horizons for your investments you may like to consider transferring your savings to the Safety First Fund or the various deposit options we now offer.

Further details on the performance of our funds is provided on page 8.

The evidence suggests that it is not only the younger generation who prefer to transact business over the internet or by mobile phone, but also an increasing number of members of the older generation. We aim to increase our investment in this area so that we can meet this aspiration. However as a mutual our primary concern remains to meet the needs of our members and we will be pleased to hear from you in any way in which you wish to communicate with us.

Our Chief Executive John Reeve has decided to retire in November 2012 when he reaches his 65th birthday. John joined your Society 30 years ago as its Internal Auditor and has been Chief Executive for the last 20 years. When John became Chief Executive, Family Investments was a relative minnow and he will be leaving it as one of the largest life mutuals in the country and the second largest friendly society. He has always been a committed supporter of the mutual sector. He has held senior positions in many of the industry trade bodies and is currently the Chairman of the Association of Financial Mutuals. His contribution has been immense and he has run your Society with energy, sagacity and above all a sense of fun. On behalf of the Members, Staff and Committee of Management I would like to wish him a long and happy retirement. We shall all miss him.

May I finish by thanking all members for their continued support of Family Investments and our staff for their dedication and hard work over the year.

Robert Weir
Chairman
March 2012

Chief Executive's Operational Report.

Chief Executive
John Reeve

Review of Results

2011 was a year of further progress for the Society. The underlying strength of the business meant that we were able to make a record level of payments to members amounting to £693 million and at the same time increase funds under management to just under £3.5 billion.

The membership of the Society now exceeds 1.75 million, almost double the total number just 5 years ago.

We achieved further improvements in our operating efficiency by containing costs and despite it being a difficult year for most investment markets we were able to increase operating profits of the Society and strengthen our reserves.

Review of Activities

The Society maintained its leadership of the long term savings market for children by managing a smooth transfer of activity from the Child Trust Fund (CTF) to the Junior Individual Savings Accounts (JISA), by making the latter available to customers from its launch on 1st November. The Society was particularly active in the consultations which took place with Government prior to the launch of the JISA and keen to see that it would have as wide an appeal to savers as possible. In contrast to the CTF the JISA enjoys no additional Government incentive to start the savings habit but in a number of other respects is similar to its predecessor in that savings are held in a JISA until the child reaches 18 and both family and friends can contribute.

However without the introduction to saving afforded by the CTF voucher the market for the JISA is likely to be considerably smaller and more expensive to operate than its predecessor. Despite these facts we considered it important to offer JISA customers the same level of service we offer CTF customers at similar cost and to continue to offer saving from just £10 per month to ensure that the JISA is available to as many families as possible. The early evidence is that parents have responded positively to this approach and the JISA will allow us to build on our leadership of the market for long term children's savings which we have established with the CTF.

Our level of ISA savings also increased mainly as a result of our successful partnership with the Post Office® and we were also able to widen the range of cash products we offer through the acquisition, in July, of Governor Finance Limited.

Governor Finance is an online cash platform which trades under the name of Governor Money (www.governormoney.com). It offers customers a range of differing deposits with a selection of banks and building societies which can be held in their own right or under the umbrella of an ISA. All deposits have the additional comfort of being covered under the rules of the Financial Services Compensation Scheme (subject to the Scheme limits). Importantly it also helps customers to avoid slipping inadvertently into a low standard variable rate, by alerting the customer whenever a fixed rate is coming to an end, and inviting the customer to consider a range of alternatives available on the platform without going through the disruption of transferring to another provider.

Investment

The generally unfavourable economic climate and the uncertainties particularly in the Eurozone meant that most stock markets around the world were depressed. Sadly, as a result, after 2 years of encouraging returns most of our managed funds lost ground with only our cash and fixed interest funds producing gains in 2011.

Details of how our funds performed are set out in the investment report on page 7.

Outlook

The landscape for financial services is changing, an increasing number of people now prefer to conduct business via the internet or over their mobile phones and are prepared to execute deals without seeking advice from a third party. Indeed changes to regulation which will separate the cost of advice from the cost of the product itself will accelerate this trend.

These changes will increase the demand for straight forward products from organisations which customers believe have their best interests at heart and in whom they can place their trust.

I believe that mutual organisations like Family Investments which are owned by their customers have a significant advantage in this regard.

However this advantage must be backed by excellent products and service provided in a manner which suits customers. Reinvesting our surpluses for the benefit of our members will help ensure that we continue to meet this vital goal.

John Reeve
Chief Executive
March 2012

Investment Review.

Background

The Group has a number of unit trusts and unit-linked funds, together with one With-Profits fund which has been closed to new business since 2002 and is ring fenced from the rest of the Society's funds. The unit trusts and unit linked funds are collective vehicles into which the majority of the Society's tax efficient products invest, i.e. Friendly Society Tax Exempt Savings Plans (TESPs), Child Trust Funds (CTFs) and ISAs. As well as these managed funds, which contain either equities or a mix of equities, bonds and other investments, the Society also manages a number of cash funds for ISAs, CTFs and TESPs. As at the end of 2011 the Society's funds under management totalled £3.5bn of which £1.3bn was in equities, £1.8bn in cash, and £0.3bn in fixed interest stocks, with the balance being invested in other asset classes. More details of asset allocations, for our two largest funds, are set out in Graphs 1 and 2 on page 9.

A sub committee of the Society's Committee of Management, the Investment Sub Committee (ISC), is responsible for the implementation of the Society's investment strategy and policy and currently delegates the management of the various managed investment funds to Santander Asset Management UK Ltd, a subsidiary of the Santander Bank Group. The ISC role is set out in more detail on page 18. The Society's agreement with Santander expires on 1st May 2012 and it is the ISC's intention, having researched the market exhaustively and received presentations from a number of potential managers, to appoint State Street Global Advisors as the Society's principal investment manager from 1st May 2012.

State Street is one of the world's largest and best resourced index managers and the ISC firmly believe they will do an excellent job of managing the Society's investments.

Overview of Investment Conditions

2011 will be remembered as another eventful year for investors in which world events and ongoing economic concerns resulted in much volatility across financial markets. A review of the FTSE100 across 2011 shows a general downward trend in the first half of the year before the major, and as yet unresolved, concerns over Europe forced markets to fall sharply. Despite the occasional periods of optimism that 'Europe was solved', the rallies in the second half of the year were brief and followed by sharp falls as the realisation dawned that the solution to Europe's debt crisis remained unresolved.

Despite the underlying issues existing at the start of the New Year the sense was that the green shoots of recovery had been glimpsed with the early positive news from economic indicators showing that the UK was slowly moving away from recession. However, it was clear that any recovery across financial markets would be fragile as nervousness over the prospects for some European nations increased and the beginnings of the Arab Spring heightened geo-political tensions.

These concerns quickly crystallised as Greece and Ireland were forced to take bailout funds from the International Monetary Fund, whilst tensions in Egypt led to concerns that unrest could spread across the Middle East and North Africa resulting in rising oil prices. Furthermore, the global economy received another blow on 11th March 2011 as a result of the Japanese earthquake and tsunami.

Against a backdrop of increasing inflation the UK Government continued on its austerity path with investors questioning the effects that this would have on consumer spending and the broader economy, including unemployment and investment in infrastructure. Investors grew increasingly risk averse throughout 2011, which benefited Gilts and Corporate Bonds.

Investment Review.

Although larger than expected, the additional financial aid package awarded to Greece at the end of June was still not sufficient to support markets whilst in August equity markets fell in excess of 10% as further disappointing macroeconomic data, particularly coming from the US, negatively influenced markets. The anxiety produced by the Eurozone crisis continued to spread from the so-called peripheral European countries such as Greece, Ireland and Portugal to core economies such as France. Meanwhile, across the Channel, worse than expected growth data in the UK and the continued deterioration of the Purchasing Managers Index survey data led to concerns of a more severe slowdown in the economy.

By the end of the year, equity markets in the Eurozone were at their most volatile, reflecting the increased risk perceived locally. In the UK, the Bank of England report downplayed economic prospects for 2012.

Performance

The performance of the Society's largest funds against their benchmarks during 2011 is set out below in Table 1. Clearly, as stated above, 2011 was a difficult year for investments with the MSCI World Total Return index falling by 4.8% and problems in the Eurozone leading to considerable volatility in markets, which is inevitably reflected in the figures in Table 1.

However, the benefit of the Society's diversified asset allocation can be seen from the fact that despite the MSCI World Total Return index falling by 4.8%, the Family Balanced International Fund in which our largest fund - the Sovereign Fund - is invested, fell by significantly less, at 3.2%.

Clearly though it is disappointing that the fund has underperformed its specific benchmark, as a result of adopting a more defensive stance at what, in retrospect, proved to be the wrong time. This was exacerbated by underperformance against the index by the manager to whom the management of our Far East equities was delegated.

However, as reported above, we believe we have taken the necessary steps to correct the underperformance by appointing State Street as our new principal investment manager.

Table 1
Fund Performance
as at 31 December 2011

Fund Name	Actual Performance %	Benchmark Performance %	Variance %
Family Balanced International Fund (Share Class A)*	-3.23%	-1.97%	-1.26%
Child Trust Fund	-4.50%	-5.17%	0.67%
Fixed Interest Fund	13.09%	13.38%	-0.29%
Family Asset Trust	-2.63%	-2.18%	-0.45%
Family Charities Ethical Trust	-4.04%	-3.17%	-0.87%

Note: Performance is calculated on a close to close basis for the year before charges and therefore does not necessarily match the change in published unit prices over the year which is based on a 10am pricing point.

Family Balanced International Fund is an ICVC in which many of our customers including those in our largest fund, Sovereign Fund, are invested.

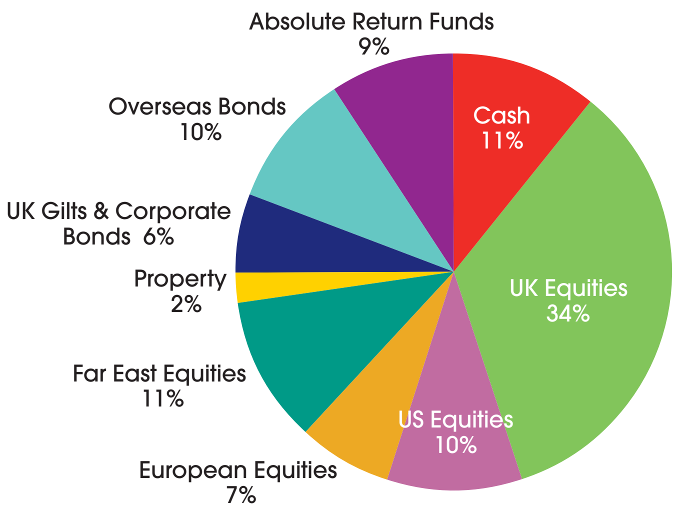
Outlook

It would be easy to look at the gloomy news from 2011 and to adopt a risk-averse mentality. However, investing is about the future prospects for companies and economies. It is a fact that despite the current national and regional issues, companies have spent the last few years making themselves stronger and more efficient. Many balance sheets have been repaired, and in general corporate health is good. The European issue will continue to be a major drag on markets until a resolution is found, but attractive opportunities exist within the UK and Europe, and perhaps more clearly in the US and Emerging Markets. Across 2011, Santander Asset Management adopted an underweight position in European equities and were overweight where the better prospects existed. 2012 looks like another tough year, but we are comfortable that the asset allocation within our product range is suitable for the current investment landscape.

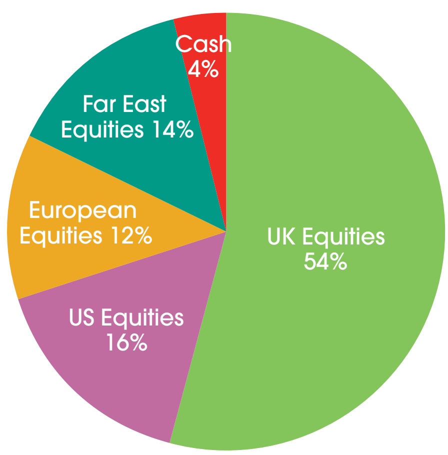
Table 2
Top 10 Holdings
as at 31 December 2011

Security Description	% of Fund
Sovereign Fund	
GAM Absolute Return Fund	8.87%
Blackrock Japan Equity Fund	4.66%
Blackrock Pacific Ex Japan Fund	3.44%
Vodafone Group	2.17%
HSBC HDG	2.10%
BP	2.10%
Royal Dutch Shell A	2.09%
Aberdeen Emerging Markets Fund	1.89%
GlaxoSmithKline	1.80%
Royal Dutch Shell B	1.59%
Child Trust Fund	
Blackrock Japan Equity Fund	8.51%
Blackrock Pacific Ex Japan Fund	5.77%
Vodafone Group	3.09%
BP	3.04%
HSBC HDG	2.99%
Royal Dutch Shell A	2.98%
GlaxoSmithKline	2.58%
Royal Dutch Shell B	2.29%
British American Tobacco	2.09%
BG Group	1.61%

Graph 1 – Sovereign Fund asset allocation.
as at 31/12/2011

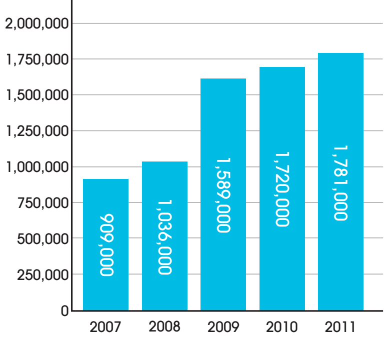


Graph 2 – Child Trust Fund asset allocation.
as at 31/12/2011

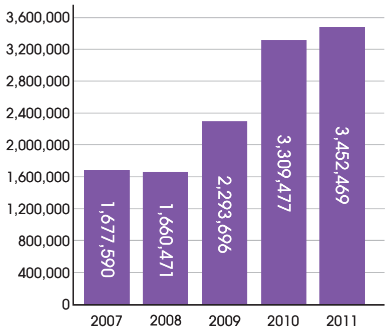


Group Performance Highlights.

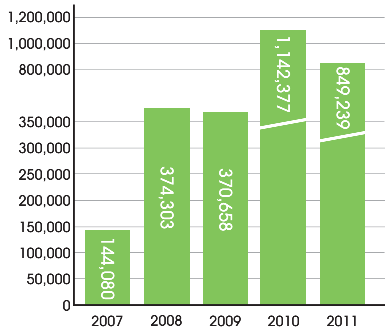
Membership.



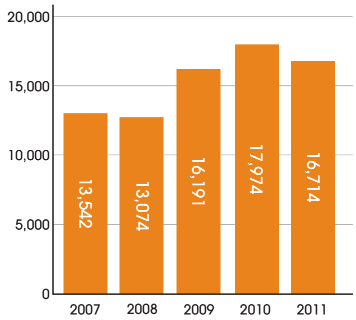
Members' funds under management – £000.



Customer contributions £000.

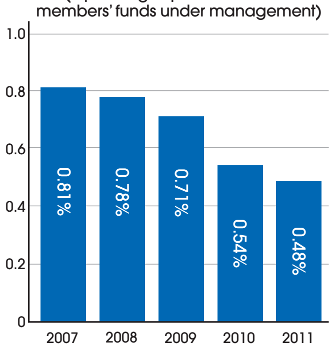


Operating expenses £000.

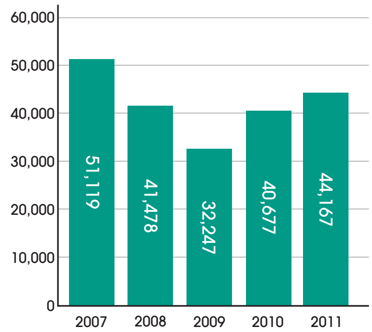


Operating efficiency.

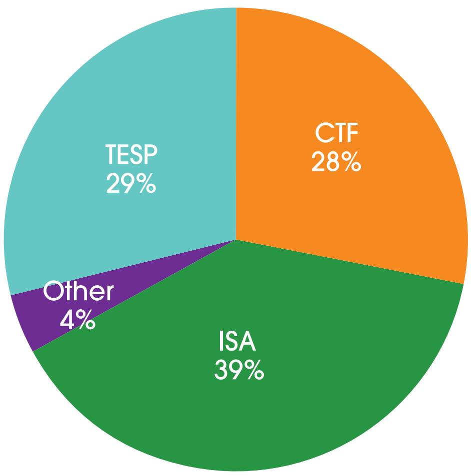
(Operating expenses as a % of members' funds under management)



Reserves – £000.



Source of funds under management 2011.



Group Summary Financial Statements.

Summary of Group Financial Results

Results for the year ended 31 December 2011

	Notes	2011 Group £'000	2010 Group £'000
Members' funds under management			
Opening balance		**3,309,477**	**2,293,696**
Amounts paid in by members	1	849,239	1,142,377
Amounts withdrawn by members	2	(692,966)	(294,980)
Investment income, gains and losses	3	11,108	191,132
Management charges paid to the Society (below)	4	(24,389)	(22,748)
Closing balance		**3,452,469**	**3,309,477**
Results for the year			
Operating income			
Management charges from members' funds (above)	4	24,389	22,748
Other charges levied on members	5	890	858
Other income	6	5,982	5,084
		31,261	**28,690**
Operating expenses	7	(16,714)	(17,974)
Operating profit		**14,547**	**10,716**
Investment in systems and new business	8	(12,098)	(9,206)
Change in non-linked fund reserves	9	(3,018)	5,847
Investment income, gains and losses net of taxation	10	4,059	1,073
Net result for the year		**3,490**	**8,430**
Reserves at 1 January		40,677	32,247
Reserves at 31 December		**44,167**	**40,677**

Notes:

1 The contributions paid by members into their policies.

2 The amounts paid out to members on maturity or surrender of their policies.

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

4 The management fees charged by the Group and paid out of members funds.

5 Other charges include charges for life cover and early surrender.

6 Income from activities not paid for by members.

7 The cost of administering members' policies. This number 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.

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

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

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

Committee of Management.

Non-Executive Directors

Chairman
Robert Weir FCA

Mr. Weir, aged 63, has been a member of the Committee since 1997, Vice Chairman and Senior Independent Director from 2007 and appointed Chairman in 2010. He was previously a director of the Household Mortgage Corporation and has wide experience in financial and general management.

Vice Chairman
Norman Riddell

Mr. Riddell, aged 64, 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 Executive 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 a non-executive director of Invesco UK Limited.

Peter Box

Mr. Box, aged 59, 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 Vice Chairman and non-executive director of Marsh Limited and non-executive director of Pool Reinsurance Company Limited.

Ian Buckley

Mr. Buckley, aged 61, 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 50, was appointed to the Committee in 2006. She has held positions as Marketing Director for a life assurance and unit trust group and a reassurance company. Since 1992 she has been an independent business development consultant working with a wide range of UK financial services organisations. She is a past chairman of the Investment and Life Assurance Group (ILAG) and its Non-Executive Directors' Forum.

Committee of Management.

Executive Directors

Chief Executive
John Reeve FCA

Mr. Reeve, aged 64, 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 (ILAG), 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 56, has been a full-time executive of the Society since 1988. Prior to this he had 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 (COO) in 2006. He is responsible for overseeing the Society's Marketing, Customer Services, Operational Finance, Corporate Projects and IT functions. He is an active member of the Association of Financial Mutuals COO Network.

Finance Director
John Adams FCCA

Mr. Adams, aged 57, 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 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 54, 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 and he is responsible for overseeing the Society's Regulatory Compliance, Risk, Internal Audit, Human Resources and Facilities functions. He is a director of the Investment and Life Assurance Group (ILAG), Chairman of its Regulations Practitioner Group and a member of the Association of Financial Mutuals Regulations Committee.

Business Development Director
Miles Bingham

Mr. Bingham, aged 46, 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 and 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 as a group 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 12 to 13.

Committee of Management

During 2011 the members of the Committee were as follows:

Non-executives

Robert Weir (Chairman)
Norman Riddell (Vice Chairman)
Peter Box
Ian Buckley
Veronica France

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)

Statement of responsibilities of the Committee of Management

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.

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 ensuring 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 (see the Risk and Audit Sub-Committee report on page 18).

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.

Strategic objectives and activities

The Group's objective is to be a trusted provider of financial solutions for families. We aim to provide good value life assurance and savings products and excellent service. We judge our performance against these objectives through customer research and monitoring the performance of our products. 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.

In 2011 we extended the range of products available to members by being one of the first to launch the Junior ISA and also acquiring the Governor Money online cash savings business.

As at 31st December 2011 the Society's margins of solvency comfortably exceeded the minimum requirements, as prescribed by the Financial Services Authority.

Number of members

As at 31st December 2011, the Society had 1,780,884 members (2010: 1,719,847).

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.

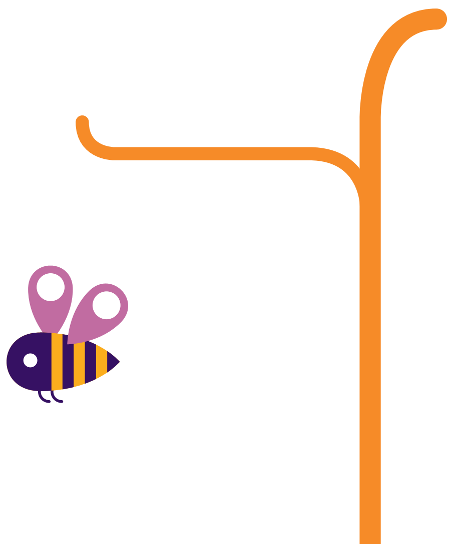
The Group manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the Group's ALM is to match assets to the liabilities 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 (see page 18).



Committee of Management's Annual Report.

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 25th May 2012.

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 2011 we resolved 96% of complaints within four weeks.

Health and safety report

The Society has developed a health and safety framework to ensure compliance with applicable laws and regulations including a Health and Safety committee that comprises senior management and employee representatives. We are pleased to report that in 2011 there were no serious accidents or injuries.

Corporate governance

The Society is committed to high standards of corporate governance.

The UK Corporate Governance Code (as Annotated for Mutual Insurers (the "Code")) applies to these Report and Accounts.

The Society considers the 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. The Committee has set the values and standards for the Society and its employees, taking account of the principles of the 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 Code, other than as follows:

The board comprises five executive directors and five non-executive directors, including the Chairman. The 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 has reviewed the length of service of the non-executive directors and considers that they all meet the criteria of independence. The Code for Mutual Insurers recommends that all directors should stand for re-election annually. The Committee has not followed this recommendation 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 2012, 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.

Attendance at meetings in 2011

The following table sets out the attendance of directors at Committee and Sub-Committee meetings held in 2011. 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.uk

	Committee of Management	Nominations Sub-Committee	Risk and Audit Sub-Committee	Investment Sub-Committee	Remuneration Sub-Committee
Robert Weir	(8) 8	(2) 2		(9) 8[1]	(3) 3
Norman Riddell	(8) 8	(2) 1[2]	-	(9) 9	(3) 3
Peter Box	(8) 8	(2) 2	(4) 4	-	-
Ian Buckley	(8) 8	(2) 2	(4) 4	(9) 9	-
Veronica France	(8) 8	(2) 2	(4) 4	-	(3) 3
John Reeve	(8) 8	-	-	(9) 8[3]	-
Rob Edwards	(8) 8	-	-	-	-
John Adams	(8) 7[4]	-	-	-	-
Keith Meeres	(8) 8	-	-	-	-
Miles Bingham	(8) 8	-	-	-	-

Notes:
1 - Robert Weir was unable to attend the 22/6/2011 meeting.
2 - Norman Riddell was unable to attend the 15/9/2011 meeting.
3 - John Reeve was unable to attend the 14/10/2011 meeting.
4 - John Adams was unable to attend the 21/7/2011 meeting.

The Committee operates the following Sub-Committees:

Nominations Sub-Committee
Robert Weir (Chairman)
Peter Box
Ian Buckley
Veronica France
Norman Riddell

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.

In 2011 the Nominations Sub-Committee commenced the process of the recruitment and selection of a new Chief Executive Officer to replace Mr Reeve on his retirement in November 2012. With the assistance of specialists, a list of external and internal candidates of mixed gender was drawn up. The Committee of Management expects to announce soon the new CEO who will, in accordance with the Rules of the Society, stand for election by the members in the 2013 Annual General Meeting.

The Nominations Sub-Committee also 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. It 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 (Chairman)
Ian Buckley
Robert Weir
John Reeve
Roger Nightingale (external adviser – ceased December 2011)
Gregor Logan (external adviser – commenced August 2011)

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

In 2011 the Investment Sub-Committee met more frequently than usual in order to consider, as part of a triennial review, changing the Society's investment manager. Following detailed proposals submitted by a number of fund managers, State Street has been appointed with effect from 1st May 2012 to replace the current manager, Santander. We thank Santander for their efforts over the past three years of turbulent market conditions and we welcome State Street who, as managers of £1 trillion worldwide, are ideally placed to deliver the Society's long term investment strategy for its members.

As part of these changes we welcomed Gregor Logan as an adviser to the Investment Sub-Committee. Mr Logan has significant fund management experience including previously managing the Society's funds whilst at New Star and Pavilion Asset Management.

Mr Nightingale ceased to be an adviser to the Committee at the end of 2011 and we thank him for his support and guidance to the Committee over the past 15 years.

Remuneration Sub-Committee
Veronica France (Chairman)
Robert Weir
Norman Riddell

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 23 to 25.

Risk and Audit Sub-Committee
Peter Box (Chairman)
Ian Buckley
Veronica France

The Risk and Audit Sub-Committee meets at least three times a year. It comprises individuals who have recent and relevant experience to enable the Committee of Management to meet 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 by reviewing their work and meeting regularly with the Audit Partner and Audit Manager. It considers the effectiveness of the Internal Audit and Compliance departments by reviewing Internal Audit reports and assessing and agreeing the Internal Audit and Compliance work programmes. The Internal Audit Manager and Head of Audit and Risk Review meet periodically with the Chairman of the Risk and Audit Sub-Committee and both have 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 review of the Group's systems and controls 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.

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 reviews 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.

Other Risk Controls
The above sub-committees operate within a risk framework and defined risk appetite that is designed to ensure regular review and stress testing of 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. Key risk areas reviewed include: Operational; Credit; Insurance; Liquidity; Investment.

The risk framework ensures appropriate monitoring 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 Head of Audit and Risk Review provides regular risk reports to the Committee of Management and the Risk and Audit Sub-Committee.

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 Management Association Fraud Alert Scheme whose main objectives are to protect member assets and work with the industry in reducing financial crime.

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 strategic objectives and activities section on page 15. The Committee monitors performance against these objectives at regular intervals.

In compliance with the UK Corporate Governance Code, 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 2011 the evaluation was conducted by questionnaires, interviews and attendance at committee meetings by an independent consultant who provided summary reports to the Chairman, Vice Chairman and the Committee. Boards of financial services firms generally are finding it increasingly necessary to devote more time to strategic, investment and regulatory matters. This is reflected in our 2011 board evaluation which made recommendations as to how committee meetings might be more effective in accommodating increased demands on the Committee's time.

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

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.

Committee of Management's Annual Report.

Employees

The group employed an average of 393 employees during 2011 at a total cost of £13.2m.

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 2011 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 sixth year and through this the Society aims to continue to develop its managers and leaders to a consistently high standard to be good advocates of its customer ethos and articulate what it means to treat customers fairly.

The Society communicates with its employees on a regular basis to ensure that they are fully aware of the Society's core values and business strategy and the part which they play in achieving a successful outcome.

Equal opportunities and diversity

It is the Society's policy to treat job applicants and employees equally, 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.

The gender mix at management levels is:

	Male	Female
Committee of Management	90%	10%
Heads of Department	50%	50%
Managers	63%	37%

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, who takes seriously and supports 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

Our environment

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.

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.

Our work 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. Our award-winning Community Programme, which has been running for 20 years, has always taken a different approach to working with the local community by 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.

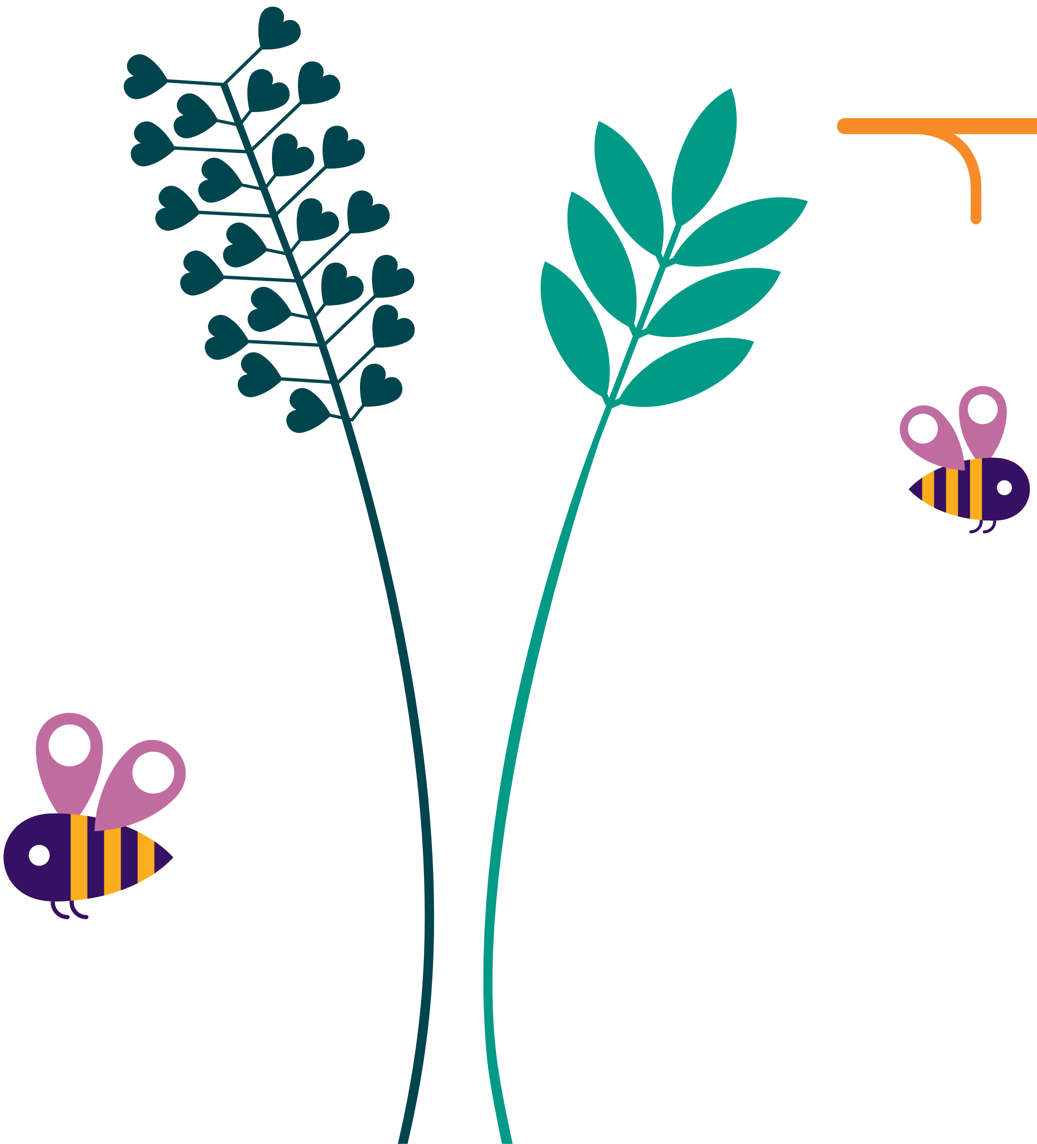
2011 has been an excellent year with 100 employees giving more than 880 hours in support of the programme. Included in these figures are our core activities, which can be broadly broken down into two categories: education and community challenges.

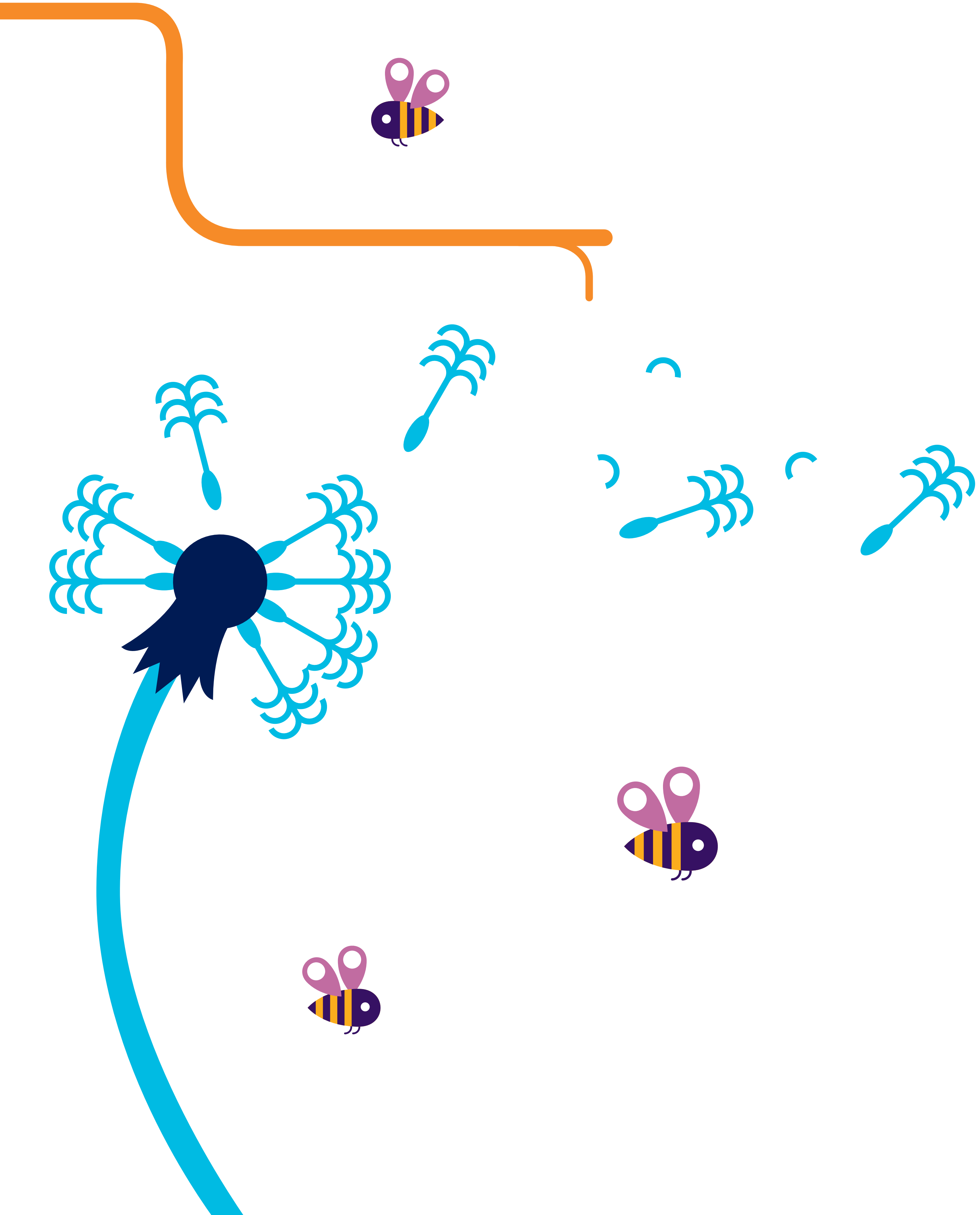
- Education has been a major part of our programme. We support all age groups, from nurseries through to sixth form students. Activities range from Family employees running regular maths clubs at a local primary school, through to running work orientation and interview skills days for a local sixth form college.

- Our community challenges are an opportunity to get employees out into the community to provide 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.

This year we have increased the total amount of top-up funding provided to employees and throughout the year we were able to support fundraising ventures by raising over £19,000 for over 20 different charities.

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 Code as regards directors' remuneration.

Remuneration Sub-Committee

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

Remuneration Policy

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

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' 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 such as Towers Watson. This is the only element of remuneration which is pensionable.

Long term incentive scheme and bonuses

The five executive directors, together with twenty five senior managers, are included within a bonus scheme targeted at increasing the embedded value of the Society. Payments are capped at 25% of salary and are awarded, based on individual performance, at the discretion of the Remuneration Sub-Committee.

A proportion of the total bonus due is withheld 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 executive directors participate in the scheme. The Society operates 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 [1]		Bonuses [2]		Other benefits [3]		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Executives								
John Reeve[6]	257	250	36	12	41	40	334	302
Rob Edwards	183	178	32	9	28	27	243	214
John Adams	174	169	18	9	27	26	219	204
Keith Meeres	152	148	27	7	23	24	202	179
Miles Bingham	124	115	21	6	16	14	161	135
Non-executives								
Robert Weir[5]	73	54	-	-	-	-	73	54
Robert Dolman[4]	-	29	-	-	-	-	-	29
Peter Box	30	27	-	-	-	-	30	27
Ian Buckley	30	27	-	-	-	-	30	27
Veronica France	30	27	-	-	-	-	30	27
Norman Riddell[5]	36	33	-	-	-	-	36	33
John Wybrew[4]	-	11	-	-	-	-	-	11
	1089	**1068**	**134**	**43**	**135**	**131**	**1358**	**1242**

Note 1 – Excluding new appointments, promotions and retirements noted below, year on year the Salaries and Fees paid to the Committee of Management have increased by 4% (2010: nil).

Note 2 – Bonuses include amounts added to, and movement in, the value of the long term incentive scheme.

Note 3 – The figures include the contributions paid by the Society into the Stakeholder Pension Scheme.

Note 4 – Messrs Dolman and Wybrew retired from the Committee of Management on 21st May 2010.

Note 5 – Mr Weir was appointed Chairman and Mr Riddell was appointed Vice Chairman on 21st May 2010.

Note 6 – In 2011 £39k was invested into the long term incentive scheme as an alternative to a pension contribution for Mr Reeve. In 2010 £37k was paid as a cash alternative to a pension contribution to Mr Reeve. These are included as 'other benefits' in the table above.

Long term incentive scheme

	Value at 1.1.2011	Bonus withdrawn during 2011	Amount added in lieu of pension contributions	Embedded value movement during 2011	Bonus added during 2011	Value at 31.12.2011
	£'000	£'000	£'000	£'000	£'000	£'000
Executives						
John Reeve	-	-	39	-	15	54
Rob Edwards	-	-	-	-	14	14
John Adams	-	-	-	-	8	8
Keith Meeres	-	-	-	-	11	11
Miles Bingham	1	-	-	-	9	10
	1	-	39	-	57	97

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 31.12.10[2]	Transfer value of accrued pension at 31.12.11[2]	Change in transfer value during the year
		£'000	£'000	£'000	£'000
Executives					
John Reeve	64	134	2,187	2,746	559
Rob Edwards	56	53	655	871	216
John Adams	57	58	739	977	238
Keith Meeres	54	56	577	782	205

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	
	2011	2010
	£'000	£'000
Executives		
Rob Edwards	27	26
John Adams	26	25
Keith Meeres	22	22
Miles Bingham	4	3
	79	76

Average remuneration for senior managers

The table below shows the average remuneration for the six Heads of Department of Family Investments for the year ended 31st December 2011.

	Average salary		Average bonus		Average pension contributions		Total average remuneration[1]	
	2011	*2010*	*2011*	*2010*	*2011*	*2010*	*2011*	*2010*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Heads of Department	87	83	10	4	11	10	108	97

Note 1 – Total does not include other benefits.

Independent Auditor's Report.

To the Members of Family Assurance Friendly Society Limited

We have audited the financial statements of Family Assurance Friendly Society Limited for the year ended 31st December 2011 which comprise the Group and Society's Income and Expenditure Account, the group and society's Technical account – Long term Business, the Group and Society's Balance Sheet and the related notes. 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 14, 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 Boards ((APB's)) Ethical Standards for Auditors.

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 website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the Group and Society's financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group and Society's affairs as at 31st December 2011 and of its income and expenditure for the year then ended; and
- 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 eight provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals.

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

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

13th March 2012

Income and Expenditure Account.

Technical Account – Long Term Business

for the year ended 31 December 2011

Notes		*Group 2011 £'000*	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
2	Earned premiums	45,441	45,441	50,858	50,858
	Outward reassurance premiums	(206)	(206)	(178)	(178)
	Earned premiums, net of reassurance	45,235	45,235	50,680	50,680
3	Investment income	40,521	40,521	38,696	38,696
3	Unrealised gains on investments	-	-	63,149	62,817
3	Realised gains on investments	5,236	5,236	11,945	11,945
5	Other technical income	17,848	-	13,746	-
	Total Technical Income	**108,840**	**90,992**	**178,216**	**164,138**
	Claims incurred, net of reassurance				
	Claims paid				
	Gross amount	(113,424)	(113,424)	(148,092)	(148,092)
	Reassurers' share	140	140	144	144
		(113,284)	(113,284)	(147,948)	(147,948)
16	Change in provision for claims				
	Gross and net amount	5	5	163	163
	Net claims incurred	(113,279)	(113,279)	(147,785)	(147,785)
16	**Change in technical provisions, net of reassurance**				
	Long term business provision, net of reassurance				
	Gross amount	5,676	5,676	7,526	7,526
	Reassurers' share	50	50	14	14
		5,726	5,726	7,540	7,540
	Other technical provision, net of reassurance				
	Technical provision for linked liabilities	101,764	101,764	(7,135)	(7,135)
	Net change in technical provisions	107,490	107,490	405	405
	Other expenditure				
4	Net operating expenses	(8,364)	(8,364)	(6,420)	(6,420)
3	Investment expenses and charges	(1,788)	(1,788)	(1,988)	(1,988)
3	Unrealised losses on investments	(66,606)	(67,207)	-	-
5	Other technical charges	(19,332)	(883)	(18,068)	(3,990)
		(96,090)	(78,242)	(26,476)	(12,398)
	Total Technical Charges	**(101,879)**	**(84,031)**	**(173,856)**	**(159,778)**
	Surplus of technical income over technical charges before taxation	**6,961**	**6,961**	**4,360**	**4,360**
6	Tax attributable to the long term business	(392)	(392)	(399)	(399)
	Surplus on technical account - long term business	**6,569**	**6,569**	**3,961**	**3,961**
20	Actuarial (loss) / gain on pension scheme	(3,079)	(3,079)	4,469	4,469
16	Transfer to the fund for future appropriations	**(3,490)**	**(3,490)**	**(8,430)**	**(8,430)**
	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 2011

Notes		Group 2011 £'000	Society 2011 £'000	Group 2010 £'000	Society 2010 £'000
	Investments				
9	Land and buildings	2,004	2,004	2,046	2,046
10	Investments in group undertakings				
	Investments in subsidiaries	-	11,273	-	10,450
11	Other financial investments				
	Shares, variable yield securities and units in unit trusts	2,611	2,611	6,712	6,712
	Debt securities and other fixed income securities	64,847	64,847	74,195	74,195
	Deposits with credit institutions	20,266	11,173	10,572	2,741
		89,728	91,908	93,525	96,144
12	**Assets held to cover linked liabilities**	1,000,113	1,000,113	1,101,877	1,101,877
	Reassurers' share of technical provisions				
	Long term business provision	561	561	511	511
	Other assets				
13	Tangible assets	548	-	44	44
14	Other debtors	5,115	4,317	2,593	1,229
	Cash at bank and in hand	6,573	6,132	5,272	4,892
	Prepayments and accrued income				
	Accrued interest and rent	2,361	699	1,864	649
	Other prepayments and accrued income	487	440	324	324
		1,105,486	**1,104,170**	**1,206,010**	**1,205,670**

Balance Sheet.

LIABILITIES

As at 31 December 2011

Notes		Group 2011 £'000	Society 2011 £'000	Group 2010 £'000	Society 2010 £'000
16	**Reserves**				
	Fund for future appropriations	44,167	44,167	40,677	40,677
16	**Technical provisions**				
	Long term business provision	49,248	49,248	54,924	54,924
	Claims outstanding	1,648	1,648	1,653	1,653
16	**Technical provision for linked liabilities**	1,000,113	1,000,113	1,101,877	1,101,877
15	**Creditors**				
	Other creditors, including taxation and social security	4,597	3,700	3,395	3,184
	Accruals and deferred income	3,077	2,658	3,037	2,908
20	**Pension liability**	2,636	2,636	447	447
		1,105,486	1,104,170	1,206,010	1,205,670

Approved by the Committee of Management on 13th March 2012, and signed on its behalf by:

Robert Weir, Chairman

John Reeve, Chief Executive

Keith Meeres, Secretary

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 (until closed to accrual) 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 31 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
Computer platform	5 years

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 Interim 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.

a) Gross premiums written:	Group and Society 2011 £'000	Group and Society 2010 £'000
Life assurance business:		
Linked	41,404	46,013
Non-linked	2,477	3,214
Pension business:		
Linked	1,560	1,631
Total gross premiums written	45,441	50,858
Regular premiums	43,881	49,227
Single premiums	1,560	1,631
Total gross premiums written	45,441	50,858

b) Gross new business premiums:	Society 2011 Single £'000	Society 2011 Regular £'000	Society 2010 Single £'000	Society 2010 Regular £'000
New business premiums	-	3,041	14	4,070

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.

c) Contributions received for products administered by subsidiary companies:	Group 2011 £'000	Society 2011 £'000	Group 2010 £'000	Society 2010 £'000
Regular contributions	86,589	-	74,563	-
Single contributions	717,415	-	1,017,134	-
	804,004	-	1,091,697	-

Contributions relate to business conducted by four of the Society's regulated subsidiaries, Family Equity Plan Limited, Family PEP Managers Limited, Family Investment Management Limited and Governor Finance 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 2011	Number of policies Society 2011	Number of policies Group 2010	Number of policies Society 2010
Average during the year	1,877,960	368,190	1,768,814	406,391
As at 31 December	1,906,957	353,162	1,848,963	383,218

3 Investment return summary.

	Group 2011 £'000	Society 2011 £'000	Group 2010 £'000	Society 2010 £'000
Investment income:				
Income from listed investments	32,647	32,647	29,944	29,944
Income from other investments	7,484	7,484	8,625	8,625
Net return on pension scheme (see note 20)	390	390	127	127
	40,521	40,521	38,696	38,696
Unrealised (losses) / gains on investments	(66,606)	(67,207)	63,149	62,817
Realised gains on investments	5,236	5,236	11,945	11,945
Investment expenses and charges:				
Investment management expenses, including interest	(1,788)	(1,788)	(1,988)	(1,988)
Net investment return included in the Technical Account - Long Term Business	(22,637)	(23,238)	111,802	111,470

4 Net operating expenses.

	Group 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
Acquisition costs incurred in the year:				
Commission	188	188	73	73
Other acquisition expenses	663	663	318	318
	851	851	391	391
Research and development costs	4,392	4,392	2,263	2,263
Administration expenses	3,121	3,121	3,766	3,766
	8,364	8,364	6,420	6,420

Included in net operating expenses and other technical charges are:

	Group 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
Depreciation charge for the year (see note 13)	129	44	81	81
Interest paid and similar charges to customers	28	28	25	25
Remuneration of the Auditors in respect of audit and related services:	200	144	175	132
Statutory audit - Society	134	134	122	122
Statutory audit - Subsidiaries	45	-	32	-
Auditing of staff pension scheme	10	10	10	10
Auditing of certain unit trusts	11	-	11	-

5 Other technical income and charges.

	Group 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
Other technical income:				
Income generated in subsidiary companies	17,848	-	13,746	-
Other technical charges:				
Costs relating to subsidiary company products:				
Acquisition expenses	5,271	823	5,925	3,692
Research and development costs	1,584	60	1,073	298
Administration expenses	12,477	-	11,070	-
	19,332	883	18,068	3,990

6 Taxation.

	Group 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
UK Corporation tax:				
Current year	344	344	405	405
Tax payable on unrealised gains on unit-linked assets	41	41	(6)	(6)
Adjustments in respect of prior periods	7	7	-	-
	392	392	399	399

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 £385k (2010: £399k) relating to taxable business has been provided for. Taxes have been charged at 20% (2010: 20%).

	Group 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
Deferred tax liability:				
Actuarial reserves	8	8	6	6
Deferred tax liability	8	8	6	6
Deferred acquisition expenses	(8)	(8)	(6)	(6)
Deferred tax balance	-	-	-	-

There is a potential deferred tax asset of £829k (2010: £861k), in respect of the mutual business carried on by the Society, of which £8k (2010: £6k) has been set aside to offset recognised deferred tax liabilities of the mutual business. The balance of £821k (2010: £855k) 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 2011 Number*	*Society 2011 Number*	*Group 2010 Number*	*Society 2010 Number*
Marketing	21	20	17	17
Investments	9	9	9	9
Administration	363	360	327	327
	393	389	353	353

Staff costs for the above employees were:	*Group 2011 £'000*	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
Wages and salaries	11,421	11,301	9,866	9,866
Pension costs	655	655	642	642
Social security costs	1,151	1,136	997	997
	13,227	13,092	11,505	11,505

All employees are employed and remunerated directly by the Society, other than the staff who joined the Group following the acquisition of Governor Finance Limited on 27 July 2011. These staff members continued to be employed and remunerated directly by that subsidiary, for the remainder of 2011.

8 Committee of management emoluments.

	Group 2011 £'000	Society 2011 £'000	Group 2010 £'000	Society 2010 £'000
Fees and benefits to the Chairman and non-executive directors	199	199	208	208
Salaries and benefits to executive directors	1,025	1,025	991	991
Performance related bonuses	134	134	43	43
	1,358	1,358	1,242	1,242

Chairman

The aggregate remuneration paid, comprising salary and benefits, to Mr Robert Weir amounted to £73k (2010: £54k).

Highest paid Committee member

The aggregate remuneration paid to Mr John Reeve for the year ended 31 December 2011, comprising salary and benefits, amounted to £334k (2010: £302k). Had Mr. Reeve left service and pensionable service in the Staff Pension Scheme at 31 December 2011, his deferred pension at leaving would have been £134k per annum (2010: £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 2011 are £97k (2010: £1k). 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 2011 £'000	Society 2011 £'000	Group 2010 £'000	Society 2010 £'000
Movements during the year:				
As at 1 January	2,046	2,046	2,004	2,004
Revaluation during the year	(42)	(42)	42	42
Disposals	-	-	-	-
As at 31 December	2,004	2,004	2,046	2,046
Types of land and buildings held at 31 December:				
Owner-occupied - Short leasehold	2,004	2,004	2,046	2,046
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 2011 and 2010 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 5 December 2011.

10 Investment in group undertakings.

Subsidiaries	*Society 2011 £'000*	*Society 2010 £'000*
Ordinary shares at directors' valuation:		
As at 1 January	10,450	7,783
Purchase of new subsidiary[1]	922	-
Purchase of Share Capital[2]	500	3,000
Revaluation during the year	(599)	(333)
As at 31 December	11,273	10,450

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	ISA & CTF manager
Governor Finance Limited	ISA & Savings manager
Family Enterprise Limited	Administrative services
Family Assurance Staff Pension Scheme Trustees Limited	Corporate trustee of the Staff Pension Scheme
Governor Finance Nominees Limited	Dormant
Post Office Insurance Society Trustees Limited	Dormant
Family.co.uk Limited	Dormant

[1]The Society acquired the entire share capital of Governor Finance Limited and Governor Finance Nominees Limited on 27 July 2011 for a deferred consideration of £922k. The deferred consideration will be paid based on the Total Revenue earned by Governor Finance Limited over the next 5 years as per the Share Purchase Agreement. The amount payable was determined at the time of purchase and was estimated to be £922k.

Governor Finance Nominees Limited is a dormant, wholly owned subsidiary of Governor Finance Limited. Acquisition accounting has been used and the fair value table for this acquisition is set out below:

	Book Value £'000	*Fair Value £'000*
Tangible Assets	513	513
Debtors	200	200
Creditors	(100)	(100)
Cash at Bank	309	309
Net assets acquired	922	922
Deferred consideration		922

[2]On 20 December 2011 Governor Finance Limited issued 500,000 £1 shares at par to the Society for cash.

On 19 March 2010 Family Equity Plan Limited issued 3 million £1 shares at par to the Society for cash.

11 Other financial investments.

	Group 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
At cost:				
Shares, variable yield securities and units in unit trusts	2,152	2,152	5,600	5,600
Debt securities and other fixed income securities	62,916	62,916	74,635	74,635
Deposits with credit institutions	20,266	11,173	10,572	2,741
	85,334	76,241	90,807	82,976

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

Shares, variable yield securities and units in unit trusts	2,611	2,611	6,712	6,712
Debt securities and other fixed income securities	64,847	64,847	73,945	73,945
	67,458	67,458	80,657	80,657

In 2011 all debt securities and other fixed income securities were listed on a recognised investment exchange. In 2010 one debt security of £250k was unlisted.

12 Assets held to cover linked liabilities.

	Group and Society 2011 £'000	*2010 £'000*
Market value as at 31 December	1,000,113	1,101,877
Cost as at 31 December	962,668	997,756

13 Tangible assets.

	Group Equipment £'000	*Group Computer hardware £'000*	*Group Computer software £'000*	*Group Computer platform £'000*	*Group Total £'000*
At cost:					
As at 1 January 2011	639	1,485	3,191	-	5,315
Additions	-	-	-	633	633
As at 31 December 2011	639	1,485	3,191	633	5,948
Accumulated depreciation:					
As at 1 January 2011	639	1,441	3,191	-	5,271
Charge for the year	-	44	-	85	129
As at 31 December 2011	639	1,485	3,191	85	5,400
Net book value as at 31 December 2011	-	-	-	548	548
Net book value as at 31 December 2010	-	44	-	-	44

14 Other debtors.

	Group 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
Amounts falling due within one year:				
Due from subsidiary undertakings	-	235	-	3
Amounts owed by linked funds	422	422	601	601
Loans to members	298	298	391	391
Taxation recoverable	3,282	3,239	84	84
Sundry debtors	1,113	123	1,517	150
	5,115	4,317	2,593	1,229

15 Other creditors.

	Group 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
Taxes payable	600	585	865	862
Sundry creditors	3,997	3,115	2,530	2,322
	4,597	3,700	3,395	3,184

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 2011	54,924	1,101,877	1,653	40,677
Changes in technical provisions:				
Gross change in technical provisions, net of reassurance	(5,726)	(101,764)	(5)	3,490
Reassurers' share of the change in technical provisions	50	-	-	-
As at 31 December 2011	49,248	1,000,113	1,648	44,167

Principal assumptions:
The valuation of the business has been carried out using a net premium valuation method using the following principal assumptions:

	Interest rate %		Mortality rate	
	2011	2010	2011	2010
Taxable with-profits POIS fund	0.25	1.25	100% of AM80/ AF80	100% of AM80/ AF80
Non taxable with-profits POIS fund	0.40	1.75	100% of AM80/ AF80	100% of AM80/ AF80
Taxable non-profit POIS fund[1]	0.75	1.75	100% of AM80/ AF80	100% of AM80/ AF80
Non taxable non-profit POIS fund	0.90	2.25	100% of AM80/ AF80	100% of AM80/ AF80
Taxable business in the Management fund[1]	1.00	1.80	110% of AMC00/AFC00	110% of AMC00/AFC00
Non taxable business in the Long term funds	1.25	2.25	110% of AMC00/AFC00	110% of AMC00/AFC00

[1] Mortality table for Golden Cover plan, Over 50s plan and Mortgage Protection Plan is 150% of AF80/AM80.

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 to reflect falls in gilt yields during 2011
- changes 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 £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 2011 £'000	2010 £'000
Cost of bonuses declared, as at 31 December:		
Reversionary bonuses	232	263

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 2011			
Fund for future appropriations	32,768	11,399	44,167
Allocation of Group capital	(3,365)	-	(3,365)
Other adjustments	(293)	-	(293)
Total available capital resources	29,110	11,399	40,509
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

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 2010	25,520	11,706	37,226
Effect of investment variations	462	3,694	4,156
Effect of experience variations	6,670	103	6,773
Effect of change in valuation basis	(2,482)	(2,694)	(5,176)
New business strain	(3,578)	-	(3,578)
Research and development	(5,976)	-	(5,976)
Cost of bonuses	-	(1,410)	(1,410)
Operating profit in the subsidiaries	5,373	-	5,373
Other factors	3,121	-	3,121
Available capital resources as at 31 December 2011	29,110	11,399	40,509

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 2011			
Unit-linked	1,000,113	-	1,000,113
With-profits liabilities	-	43,625	43,625
Non-profit liabilities	4,687	936	5,623
	1,004,800	44,561	1,049,361
Claims outstanding	1,227	421	1,648
Reassurance	-	(561)	(561)
Technical provisions in the balance sheet	1,006,027	44,421	1,050,448
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

The were no material options or guarantees included within the Technical provisions at either 31 December 2011 or 31 December 2010.

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 £40.5m (2010: £37.2m) of which £11.4m (2010: £11.7m) is held in with-profits funds and £29.1m (2010: £25.5m) is held in the general fund.

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

The available surplus held outside of the with-profit funds is generally available to meet any requirements. It remains the intention of management to ensure that there is adequate capital to exceed the Society's regulatory requirements. At 31 December the Society's available capital was 961% of the capital requirement of £4.2m (2010: 800% of £4.7m).

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 £13.6m (2010: £12.1m), including the impact of the staff pension scheme.

- 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 £2.6m (2010: £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 £0.2m (2010: £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 2011 amounted to £563k (2010: £556k).

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 31 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.

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

Actuarial valuations were carried out as at 31 December 2010 and updated to 31 December 2011 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 31 December 2011 was 6.9% pa (2010: 7.4% 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 31 December 2010.

The following table sets out the key FRS17 assumptions used for the Scheme. The table also sets out, as at 31 December 2011, 2010 and 2009, 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:	*2011*	*2010*	*2009*
Retail Prices Index Inflation	3.3 %	3.7 %	3.8 %
Consumer Prices Index Inflation	2.3 %	3.0 %	n/a
Revaluation in deferment	2.3 %	3.0 %	3.8 %
Pension increases:			
pre April 1997 pension	0.0 %	0.0 %	0.0 %
post April 1997 pension	3.2 %/2.3 %*	3.5 %/3.0 %*	3.7 %
post April 2005 pension	1.9%*	2.2 %*	2.4 %
Salary growth	n/a	n/a	n/a
Discount rate	4.8 %	5.4 %	5.6 %
Investment returns:			
Equities	7.0 %	7.7 %	8.2 %
Bonds	3.0 %	4.2 %	4.4 %
Diversified growth/absolute return funds	6.3 %	7.2 %	7.4 %
Cash	0.6 %	1.7 %	2.2 %
Other assets	4.8 %	5.4 %	5.6 %
Life expectancy:			
male aged 65 at the balance sheet date	22.3 years	22.4 years	22.3 years
male aged 65 in 2036 (25 years from balance sheet date)	24.0 years	24.8 years	24.7 years

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

Fair value of assets	*2011* *£'000*	*2010* *£'000*	*2009* *£'000*
Equities	16,197	17,926	16,177
Bonds	5,567	4,783	4,060
Diversified growth/absolute return funds	3,371	3,380	-
Cash	974	330	3,069
Other net assets	290	290	278
Total fair value of assets	26,399	26,709	23,584
Present value of liabilities	(29,035)	(27,156)	(29,157)
Gross pension liability	(2,636)	(447)	(5,573)

Over the year to 31 December 2011, the Society made contributions amounting to £500k to the Scheme. As part of a staged programme of additional contributions designed to repay the deficit by October 2014, the Society will pay £2m into the fund in 2012, 2013 and 2014 plus the Pension Protection Fund levies due.

20 Staff pension provision (continued).

The post retirement deficit under FRS17 moved as follows:

	2011 £'000	2010 £'000
Post retirement deficit as at 1 January	**(447)**	**(5,573)**
Contributions (employee and employer)	500	530
Other net finance income:		
Expected return on pension scheme assets	1,843	1,746
Interest on post retirement liabilities	(1,453)	(1,619)
Net return credited to finance income	390	127
Actuarial (loss) / profit		
Actual return less expected return on pension scheme assets	(2,153)	1,335
Experience (loss) / gain arising on pension scheme liabilities	(13)	1,276
(Loss) / gain due to changes in assumptions underlying the present value of scheme liabilities	(913)	1,858
Actuarial (loss) / gain recognised in the fund for future appropriations	(3,079)	4,469
Post retirement deficit as at 31 December	**(2,636)**	**(447)**

History of experience gains and losses	2011 £'000	2010 £'000	2009 £'000	2008 £'000
Actual return less expected return on pension scheme assets	(2,153)	1,335	1,804	(8,202)
As a percentage of pension scheme liabilities at end of year	8%	-5%	-8%	42%
Experience gain / (loss) arising on pension scheme liabilities	(13)	1,276	82	(541)
As a percentage of pension scheme liabilities at end of year	0%	-5%	0%	2%
Actuarial (loss) / gain recognised in the fund for future appropriations	(3,079)	4,469	(3,408)	(5,333)
As a percentage of pension scheme liabilities at end of year	11%	-16%	12%	24%

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 £208k as at 31 December 2011 (2010: £192k). Mr Reeve has a 1% shareholding in the company Site Visibility Ltd, this company manages the Group's internet search campaign. Fees paid to this company in 2011 were £82k (2010: £nil).

The company Real Project Manager Limited was contracted in 2011 to provide project consultancy services. This company is owned by a member of Mr Miles Bingham's family. The fees paid to Real Project Manager Limited for consultancy services during 2011 were £16k (2010: £nil).

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 2011 £'000	*Society 2011 £'000*	*Group 2010 £'000*	*Society 2010 £'000*
Family Asset Trust	54,774	54,774	57,652	57,652
Family Charities Ethical Trust – Accumulation Units	7,383	7,383	8,365	8,365
Family Balanced International Fund – Share Class A	769,448	769,448	857,329	857,329
	831,605	831,605	923,346	923,346

During 2011, 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 2011 £'000	*Society 2011 £'000*	*Group 2011 units*	*Society 2011 units*
Family Asset Trust	3,189	3,189	1,570,237	1,570,237

Designed by Fruit Design (01273 711555) www.fruit-design.co.uk

Headquarters and Registered Office
17 West Street, Brighton, East Sussex BN1 2RL
Telephone: 01273 725272 Facsimile: 01273 736958
www.family.co.uk