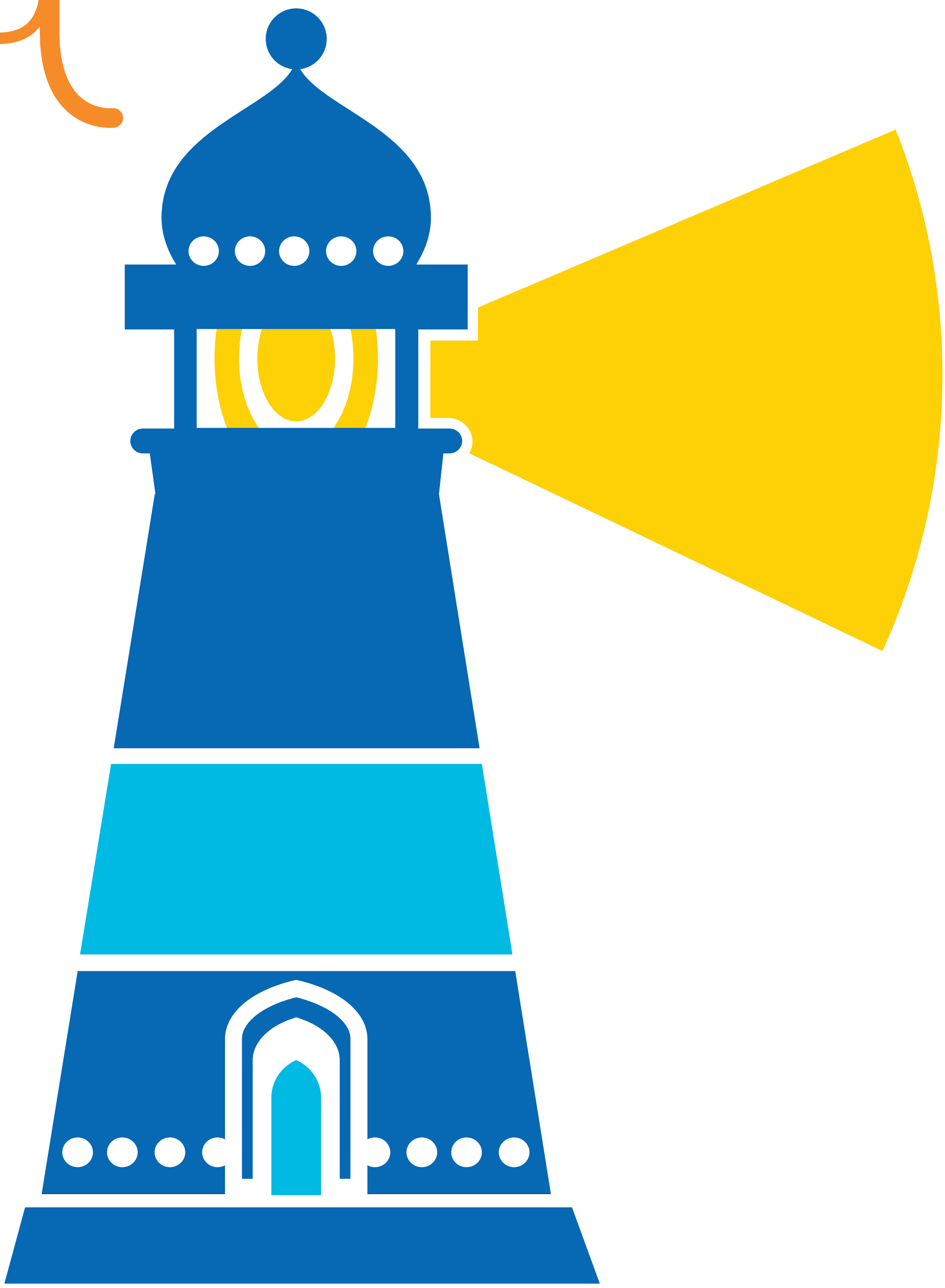
family investments

Annual Report and Accounts

For the year ended 31 December 2013



Annual Report and Accounts 2013

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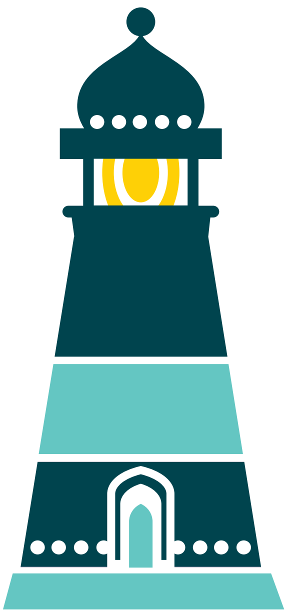
Chairman's review.

Chairman
Robert Weir



Overview.

At the time of preparing this report the Chancellor has just announced his 2014 Budget proposals. While the details have still to emerge I have no doubt that the measures will be seen as a major milestone in our savings and personal finance landscape. I am sure that most of our members will welcome the greater flexibility that the proposed pension and ISA changes will bring and the greater financial responsibility on individuals that ensues. The old order of retirement savings being the preserve of government and employers is disappearing fast, to be replaced by a more American-style vision where the decisions of the individual take centre stage. While the onus is on individuals to involve themselves more with their own money there is still a big responsibility on the Government to ensure that people, especially young people, are given the facts they need to make the right decisions and on the financial services industry to provide the guidance people should have to make good decisions and achieve good outcomes with their money. In turn, that means it is incumbent on companies such as Family Investments to deliver relevant and affordable financial solutions to members.

Although the Government is putting more trust in individuals to secure their financial independence, the great theme in financial services, following the collapse of Lehman Brothers and the banking crisis, remains one of restoring trust. We need to remind ourselves that the trigger events that spiralled into a full banking crisis date from 2008; now some considerable time ago. Yet, last year, the headlines surrounding our industry were all of the wrong kind, be that the tail end of the PPI scandal, mis-sold interest rate swaps or the problems of funding at the Co-op. We have weathered another year in which the financial services industry has continued to give the general public the impression that financial firms are not to be trusted, which I find hugely disappointing.

For a financial services firm, delivering to members what they expect, when they expect it should not be 'rocket science' and where mistakes are made, they should be rectified swiftly. The regulator terms this Treating Customers Fairly. For us, in its simplest manifestation, this is simply good old-fashioned customer service.

However, Family remains a well-run mutual and increasingly positioned to provide the public with a credible alternative to the main banks in the product arenas we choose to operate in. The Board brought in our new Chief Executive, Simon Markey, towards the end of 2012 with a clear mandate to review the business and accelerate both its growth and earnings. I am pleased to report that the improvements in our business, as illustrated in the accompanying charts on page 10, are hugely encouraging. In fact, it is evident for anyone working at Family that there's now a renewed sense of purpose within the business as well as a step change in pace. It certainly feels like a business going through transition.

Inevitably though, such an extended period of change also means that we have experienced a number of people changes. Family's Board is no exception and in mid-year Rob Edwards, our Chief Operating Officer, left the Board. Rob has been part of the Family story since 1988. In addition Miles Bingham, our Business Development Director, left the board in February following the end of the year. Miles has been with Family since 2001. We wish them both well for the future.

Investment Returns.

Shares continued to recover in 2013 and for the first time in several years, there is a great deal of positive momentum about. The UK economy has started the process of recovery which has translated into attractive returns on UK equities. We need to remember that Family's funds are invested both home and abroad and so on the wider stage some of the key points to note were that the US S&P 500 hit new highs, Japan was resurgent and the amount of negative talk around some of the European economies such as Spain has reduced significantly.

Investing members' money, via our arrangements with State Street and elsewhere, is our bread and butter and so it is pleasing to note that the Family Balanced International Fund, where most of our Bond customers hold their money, grew by 12.2% last year. Our other high profile fund is the Family Investments Child Trust Fund where much of our Child Trust Fund money is invested. This fund did particularly well due to its emphasis on equities and returned an impressive 18.0%. At year-end 2013, the five-year performance of this fund reached 58.8%, demonstrating the returns that equities are able to generate and illustrating why over the long-term money is better invested than left in cash.

Thanks.

I became a non-executive director at Family in 1997 and Chairman in 2010, so it is with mixed feelings that I have to tell you that I am stepping down as Chairman and leaving the Committee of Management at the next Annual General Meeting. When becoming Chairman I set myself three main objectives: to appoint a Chief Executive to replace John Reeve who would be able to occupy his big shoes, to make something more of our mutuality and to improve investment outcomes for members. I hope you agree that Simon Markey is well on the way to ensuring that the first objective is realised, certainly our results this year indicate it has. You will see elsewhere that there are new, innovative proposals to make our mutual status more relevant to members and staff. Finally we have revamped our investment procedures and (admittedly with substantial help from worldwide markets!) most members have recently experienced investment returns well in advance of inflation. I have enormously enjoyed my time at Family over the years and appreciate the support that members have shown me over that time.

Finally, I would like to take this opportunity to express my gratitude to all the staff working at Family Investments and congratulate them all on such a positive financial performance.

Robert Weir
Chairman
March 2014

Chief Executive's report.

Chief Executive
Simon Markey

Introduction.

On joining Family Investments and in my first written address to members last year, I announced that we would be undertaking a strategic review of the Society in order to identify our path to a more durable business. I've now had the opportunity to manage this business for a full year and I'm pleased to say that great strides have been taken both in defining our new strategy as well as executing a number of the key underpins that will deliver our future success.

Business Efficiency.

No business can be successful whilst it remains fundamentally inefficient. It can't compete on the modern stage or really look after the demanding customer. This is particularly prevalent in smaller mutual firms which tend to suffer from a lack of scale as well as the required impetus to drive through radical change. Given these pressures, we would expect to see more consolidation in the mutual sector taking place in the market and we would like Family to be positioned to take advantage of such situations.

This can best be achieved by ensuring our own capability is as efficient as possible. My initial impression on joining Family was that the business had been underinvesting in systems and new technology for many years, which in turn has led to staff inefficiencies. So, having taken some hard decisions at the outset, I make no apology for the fact that today we currently manage more policies and plans than ever before and have delivered an improved customer service, but with significantly fewer staff than a year ago. Although our efficiency programmes have been bold, the vast majority of this has been achieved via natural attrition, ensuring minimal disruption. There is still more we can achieve here and based on the projects underway, we are expecting further staff reduction during 2014.

This is not about chasing greater efficiency for the sake of it. We are fully committed to introducing modern systems and practices so that members will benefit from an improved service proposition. Increasingly, customers want to interact with us using the internet rather than being forced to phone, write letters and fill in paper forms and we are reacting to such challenges. We have recently launched slick debit card functionality, making it easier for customers to pay additional sums into plans such as the Child Trust Fund as well as introducing secure messaging for the first time. Additionally, during 2015, we will join a cross-industry initiative, offering electronic transfers of cash ISAs to those customers that want to switch accounts between providers, thereby speeding up the process and eradicating what has been an irritant for many years. These changes represent significant strides in utilising technology to provide a better service.

Business Strategy and Growth.

Our aim is to build an enduring and successful business not only by tackling inefficiencies, but also by accelerating its growth. In terms of our roadmap, we have unveiled a new Vision for the Society which will underpin our organic growth strategy which is to be 'The trusted friend to families when they need specialist financial help'. The family orientation remains critical for us – it's our name and at the core of our business. As our Vision suggests, we will continue to develop new products and services that address the more complex needs of families as they pass through various life stages. We understand that with continuing monetary pressures on family life, we will continue to place the family at the heart of our product design, enabling families to continue to support and provide for themselves as well as each other.

Our strategy also means diversification so that our business is less reliant on sales of investment-based products in the future. This may come as something of a surprise, but the reality is that the way people invest and the brands they use is changing and Family isn't immune to such mega-trends. We don't have anywhere near the size and scale to compete with the huge fund platforms in mainstream investments and hence we are looking to invest in the Family brand allowing us to operate in a wider range of additional markets. For our members, this means that we can broaden our product range and hence the relevance of the Society to you.

Our members remain central to everything we do as we remain owned by and exist for you. As our new strategy starts to deliver results and our business starts to produce greater trading profits, we are conscious of our duty to reinvest and share our profits in sensible and meaningful ways. As already outlined, we will continue to invest more in our systems and service, but at the same time we wish to do more for the wider society that we operate in. Hence, we will be launching our Family Foundation in 2014, building on our existing rich heritage in Corporate and Social Responsibility by providing greater funds to good causes. Please keep an eye on our website for more details as they emerge and the ways that members can get involved.

Review of Results.

2013 was a good year for the Society with operating profits growing to £19.8m, our best performance ever. At the same time we managed to increase our reserves which grew to £52.9m, also their strongest level ever. Positive stock market returns, writing profitable new business and the emerging effect of the aforementioned efficiencies all contributed to such a positive performance. Family's capital position remains sound and well in excess of the regulatory requirements. At the same time, we continue to robustly manage our risks.

We remain the market leader in the Child Trust Fund sector and also a significant player in the more recent Junior ISA product. Our Child Trust Fund business is now a closed book, that is, no new business is being written. Yet those funds and policies remain very important for our expected future profits. At the very end of 2013, the Government confirmed that in April 2015, their intention is to allow parents to transfer their Child Trust Fund plans into a Junior ISA if they so wish. We have questioned the logic of such a decision as it suggests that the Child Trust Fund is in some way an inferior product, which is simply not the case. At Family Investments, we remain proud of the way that we manage all of our children's savings products and look forward to continuing to serve the needs of the many parents that have decided to invest with us. We will embrace any change in rules whilst continuing to communicate messages of reassurance around the Child Trust Fund.

In terms of our brand led strategy, we are currently best known for our association with children's savings, but Family Investments also has an important distribution agreement with the Post Office where we provide them with a range of ISA products. That arrangement continued to be successful in 2013. We are pleased to announce that we recently signed a new contract with Bank of Ireland UK to continue to manage the Post Office ISA for the next eight years. This reflects a commitment on both sides to build on the already successful ISA business even further in the coming years. Given that Family Investments' future growth will be driven by diversification and partnerships, our Post Office ISA relationship is a great example of how this works in practice.

Outlook.

We are confident in Family's ability to achieve considerable growth in 2014 and beyond on the back of our 2013 results based on the strong pipeline of projects and initiatives we are currently working on. One of the keys to our success is the pace and agility being injected into the organisation. Not only have we accelerated our ability to execute change, but this also gives us greater flexibility to take on new challenges and to deal with any bumps in the roads that are surely out there.

With the strength of our new strategy and the commitment of staff, we remain very positive about our future and look forward to reporting next year on what will be another critical and transitional year for the business.

Simon Markey
Chief Executive
March 2014

Investment review.

Background.

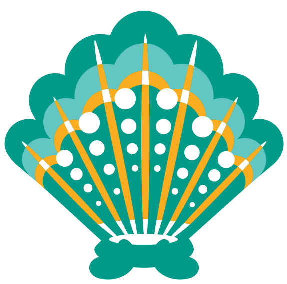
The Group's total funds under management as at the end of December 2013 amounted to just over £4.9bn, of which £2.5bn was held in cash funds, including our Cash ISA product distributed through our partnership with the Post Office; whilst the remaining £2.4bn was in managed balanced funds invested in a range of asset classes including UK and overseas equities, fixed interest stocks, property and absolute return funds. Further information on the asset allocation of our two largest funds is shown in Tables 2 and 3 on page 9.

These balanced funds are structured either as unit trusts, OEICs or internal 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.

In managing these funds the Society pursues a largely passive, or index tracking strategy. 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 currently delegates the management of the managed funds to State Street Global Advisors Limited, one of the largest and best resourced managers of passive funds in the world.

Market Review.

Investors in developed markets' equities enjoyed a richly rewarding year in 2013, an outcome that stood in stark contrast with the challenges faced by investors in emerging markets. However, despite some substantial asset price swings at times, 2013 didn't feel like a particularly volatile year; in fact, it was a year when there was a greater sense of stability around both markets and the global economy alike. It wasn't without its drama, but five years on from the Lehman Brothers collapse that marked the onset of the financial crisis, investors seemed less inclined to linger in a post-crisis haze. That meant a considerable ramping up of risk appetite as major central banks remained committed to keeping official interest rates anchored at historically low levels.



At the start of 2013, the US fiscal cliff was averted by last-minute negotiations, while the fact that the 'sequester' will tighten fiscal policy was largely ignored by markets as US economic data continued its positive tone (employment, consumption, housing and business data in general were all strong). Meanwhile, there was a reawakening of euro concerns on the inconclusive outcome of Italian elections and the imposition of losses on Cypriot bank depositors. In Asia, the new Japanese government reiterated its commitment to economic stimulus and Japanese equities maintained considerable upward momentum into 2013. However, new curbs to contain a potential property bubble in China dampened sentiment across emerging markets.

Risk assets in general took a knock following comments by Fed Chairman Ben Bernanke in May that a scaling back of quantitative easing measures could happen later in the year if the Fed saw a sustained economic improvement; 'tapering' concerns weighed on markets over the summer months. Evidence of sluggish Chinese growth had knock-on consequences for emerging markets around this time and concerns about the shadow banking system increased, unsettling investors and resulting in a spike in money market rates in late June.

The second half of the year saw a better tone to markets, with the Fed's unexpected decision in September to keep bond purchases at $85bn giving investors a lift. By the time the Fed lowered that level to $75bn in December, markets were more comfortable with growth prospects and seemed to accept the Fed's position that 'tapering' would not mean imminent interest rate hikes. In the UK, the Bank of England maintained its loose monetary policy and stated it would not consider raising interest rates or reduce its stock of asset purchases until the unemployment rate falls to 7%. However, the surprising strength of the economy helped lower the jobless rate to 7.4% by November, prompting the bank to say it did not expect to increase rates until 2015 (earlier than the 2016 guidance it was giving until recently). Inflation slowed to 2.1% in November, with core inflation, which excludes food and energy costs, falling to a four-year low of 1.7%.

The European Central Bank (ECB) surprised markets by cutting interest rates in early November, a move that served to draw a distinction between the respective positions of US and Eurozone economies on the economic recovery curve. Although the Eurozone economy recorded growth in the second quarter after six consecutive negative quarters, the pace of expansion slowed in the third quarter, reflecting the fragility of the recovery. However, forward-looking purchasing manager indices indicate continuing growth and the ECB is keen to foster that.

Developed markets equities delivered particularly strong returns in 2013, with many markets overcoming a mid-year wobble to achieve record highs. The FTSE All-Share Index posted a total return of 21.3% for the 12 months, while the FTSE 100 recorded a moderately lower return of 19.2%. In Europe, the gains were equally impressive, with the German Dax returning 25.5% in local currency terms. Peripheral Eurozone markets rallied, with Spanish and Italian markets up by 21.4% and 16.6% respectively, while the Irish market gained 33.6%. The US S&P 500 Index finished the year close to a record high with a 29.6% capital gain. Japan's Nikkei was the star performer with a 57% gain, although the return to unhedged UK-based investors would have been substantially lower amid significant yen weakness. At the other end of the performance spectrum, emerging markets were out of favour with speculation about tighter US policy and concerns about the Chinese economy contributing to significant underperformance. China's stock market fell nearly 7%, while Brazil's Ibovespa dropped 15.5%. Overall, the FTSE World Index achieved a total return of 22.4% in sterling terms for 2013.

With greater stability in the euro area in particular and improving economic outlooks for the world's major economies, sovereign bond markets lost some of their safe haven lustre. The ECB's commitment to Outright Monetary Transactions (OMT) helped stabilise peripheral Eurozone bond yields to such an extent that Italian elections, the Cypriot bailout and stresses in Portugal did not result in material contagion across the region. Improving data out of the UK and US, and the expectation of a gradual exit from QE by the Fed, dragged sovereign bond yields higher. Even with a Fed commitment not to raise interest rates until at least 2015, 10-year treasury yields rose more than one percent in 2013 to end the year at 3.03%. UK gilts followed a similar trajectory to 2013 at 3.02%. German bonds also lost ground, although the increase in yields was more modest given ECB actions, rising from 1.32% to 1.93% in the year. Amid diminishing euro crisis fears, European peripheral bonds narrowed the yield gap with those of the 'core'; Italian, Spanish and Irish bonds made gains in 2013. Japanese 10-year bonds benefitted from the Bank of Japan's (BoJ) quantitative easing programme and rallied from 0.79% to 0.74% by year-end.

While economic data in developed market economies generally improved, growth in emerging economies (notably the BRICs, i.e. Brazil, Russia, India and China) was generally weaker than expected. US GDP growth improved through the year despite budgetary issues and the temporary government shutdown in October. At the same time, the labour market showed steady improvement with unemployment falling from 7.8% to 7.0%. In Japan, GDP grew at an annualised rate of 2.6% in the third quarter and forward-looking indices such as the Tankan survey and Purchasing Managers Indices (PMIs) indicate that growth remains relatively strong. Retail sales and private consumption have continued to improve, while core inflation is now positive, suggesting that the bold measures taken by the BoJ are working, at least for now. In China, the longer term view is that restructuring and reform commitments contained in the Third Plenum will be positive, but shorter term data indicate a slowdown in manufacturing activity.

Investment review (continued).

Arguably there were three main factors influencing currency markets in 2013. Firstly, 'Abenomics' has resulted in a dramatic weakening of the Japanese yen and it lost more than 20% against the euro, British pound and US dollar. Secondly, Chinese growth concerns weighed on Asian currencies and those with significant commodity exports. Finally, the 'tapering' debate surrounding US quantitative easing hurt many emerging market currencies.

Source: SSgA / Bloomberg

Performance of the Society's Funds.

You will note from Table 1 that generally speaking our managed funds had a good year in 2013, with four of our core funds, Family Balanced International (FIBI), Child Trust Fund, Charities Ethical and Family Asset Trust all showing double digit unit price increases.

The Child Trust Fund, in which the majority of our CTF plans are invested and which invests in UK, US, European and Far East Equities, grew by 18% in the year, whilst FIBI, in which many of our Family and Junior Bond policies are invested and which also invests in emerging market equities, property and bonds, in addition to the global equities referred to above, grew by more than 12%. This follows a good year in 2012 in which the CTF grew by 8.9% and FIBI by 8.4%.

Table 1
Unit price growth.

Fund Name	One Year %	Three Year %	Five Year %
Family Balanced International Fund (FIBI) (Share Class A)	12.2	15.9	43.9*
Child Trust Fund	18.0	20.6	58.8
Family Asset Trust	18.9	26.2	72.8
Family Charities Ethical Trust	18.0	23.2	72.3
Fixed Interest Fund	(3.0)	15.4	24.8
FTSE 350 index (ex Investment Trusts)	20.7	31.6	87.2
US index	25.6	34.7	76.2
Euro index	26.5	27.0	60.9
Far East index	2.4	6.6	99.2
Japan index	25.3	12.8	26.5
Barclays UK Gilt 1 to 5 TR Value	(0.8)	6.0	13.8
Barclays UK Gilt 15+ TR Value	(5.6)	18.3	24.7

Members wanting further detail on performance of the Society's funds should contact the Secretary.

* FIBI was launched less than five years ago and therefore does not have a five year performance figure. The figure quoted here is for the Sovereign Fund, which was the predecessor of FIBI and which now invests in FIBI.

Table 2 – Sovereign Fund asset allocation.
as at 31/12/2013

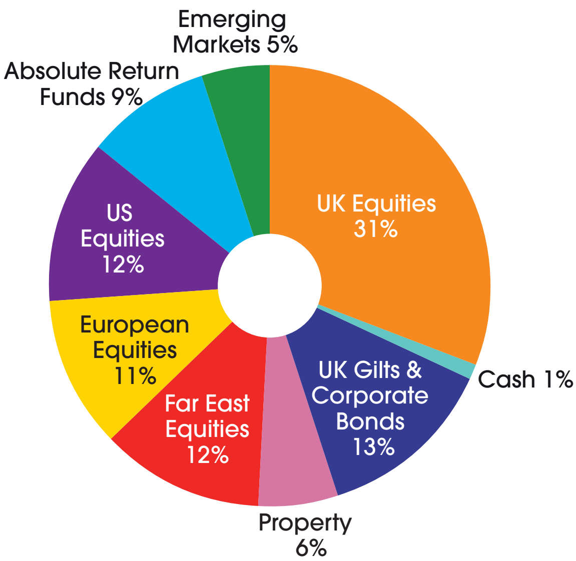


Table 2
Top 10 holdings.
as at 31 December 2013

Security description	% of Fund
Sovereign Fund	
SPDR 1-5 Year Gilt ETF	6.36
SPDR Sterling Corp Bond ETF	5.28
Aberdeen Emerging Markets	5.04
IShares FTSE EPRA/NAREIT	4.64
GAM Absolute Return Fund	2.24
HSBC HDG	1.76
Vodafone Group	1.65
SPDR UK Gilt ETF	1.32
BP	1.30
Royal Dutch Shell A	1.15

Table 3 – Child Trust Fund asset allocation.
as at 31/12/2013

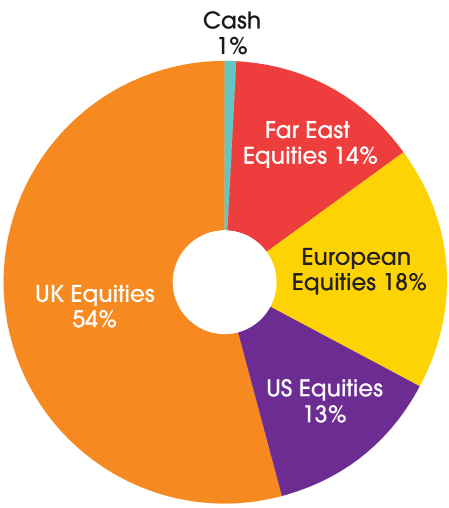
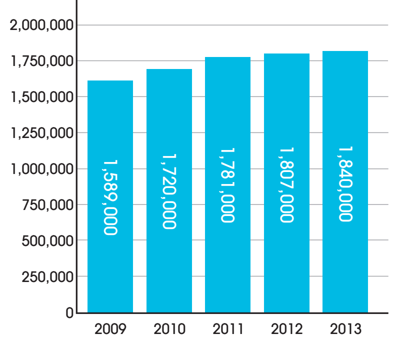


Table 3
Top 10 holdings.
as at 31 December 2013

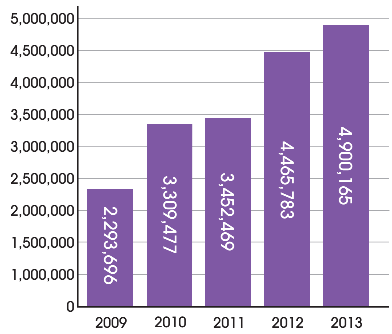
Security description	% of Fund
Child Trust Fund	
HSBC HDG	2.93
Vodafone Group	2.73
BP	2.16
Royal Dutch Shell A	1.93
GlaxoSmithKline	1.86
British American Tobacco	1.45
Royal Dutch Shell B	1.34
Diageo	1.19
Astrazeneca	1.06
BG Group	1.05

Group performance highlights.

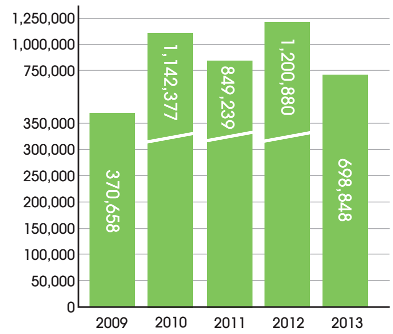
Membership.



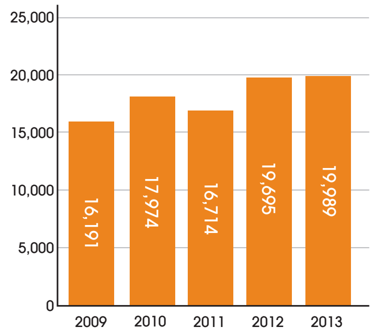
Members' funds under management – £000.



Customer contributions £000.

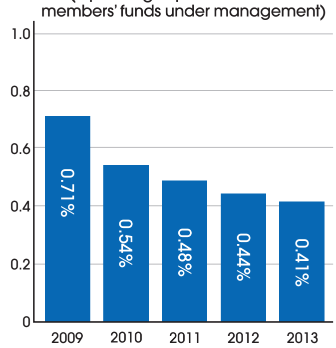


Operating expenses £000.

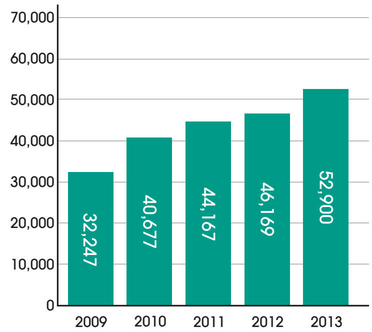


Operating efficiency.

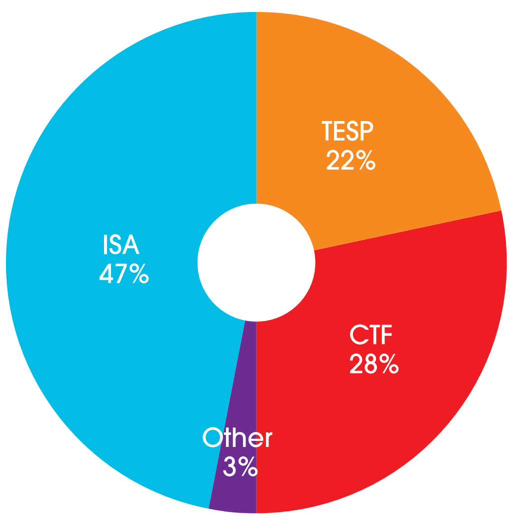
(Operating expenses as a % of members' funds under management)



Reserves – £000.



Source of funds under management 2013.



Group summary financial statement.

Summary of group financial results.

Results for the year ended 31 December 2013

	Notes	2013 Group £'000	2012 Group £'000
Members' funds under management.			
Opening balance		**4,465,783**	**3,452,469**
Amounts paid in by members	1	698,848	1,200,880
Amounts withdrawn by members	2	(591,959)	(372,718)
Investment income, gains and losses	3	357,056	211,076
Management charges paid to the Society (below)	4	(29,563)	(25,924)
Closing balance		**4,900,165**	**4,465,783**
Results for the year.			
Operating income			
Management charges from members' funds (above)	4	29,563	25,924
Other charges levied on members	5	527	806
Other income	6	9,684	8,121
		39,774	**34,851**
Operating expenses	7	(19,989)	(19,695)
Operating profit		**19,785**	**15,156**
Investment in systems and new business	8	(14,498)	(12,314)
Change in non-linked fund reserves	9	(1,125)	(2,199)
Investment income, gains and losses net of taxation	10	2,569	1,359
Net result for the year		**6,731**	**2,002**
Reserves at 1 January		46,169	44,167
Reserves at 31 December		**52,900**	**46,169**

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 policyholders, including administration income from 3rd party products.

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 attempts 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. This includes the positive effect of setting up a Deferred Tax Asset in 2013, reflecting the recognition of the value of tax losses in Family Equity Plan Limited.

Committee of Management.

Non-Executive Directors.

Chairman
Robert Weir FCA

Mr Weir, aged 65, has been a member of the Committee since 1997, Vice Chairman and Senior Independent Director from 2007 and was appointed Chairman in 2010. He was previously a director of the Household Mortgage Corporation and has wide experience in financial and general management. Robert is a member of the Investment Sub-Committee, the Remuneration Sub-Committee and the Nominations Sub-Committee. Mr Weir will retire from the Committee immediately following the 2014 AGM and he will be succeeded as Chairman by Mr Riddell.

Vice Chairman
Norman Riddell

Mr Riddell, aged 66, 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. Norman chairs the Investment Sub-Committee and is a member of the Remuneration Sub-Committee and the Nominations Sub-Committee. Mr Riddell will become Chairman of the Committee immediately following the 2014 AGM. At this point Mr Buckley will take over as Vice Chairman and Senior Independent Director.

Peter Box

Mr Box, aged 61, was appointed to the Committee in 2009 and was 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, a non-executive director of Pool Reinsurance Company Limited and Cardif Pinnacle Insurance Holdings Plc. Peter chairs the Risk and Audit Sub-Committee and is a member of the Nominations Sub-Committee.

Ian Buckley

Mr Buckley, aged 63, joined the Committee in 2009. He is a member of the Group Executive Committee of Rathbone Brothers Plc, having previously served as a director of that company for 11 years. Prior to this, he was Chief Executive of Smith & Williamson from 1985 to 1995. He was subsequently Chief Executive of EFG Private Bank Limited and in February 2000 set up Tenon Group Plc. He is also a non-executive director of Miller Insurance Services LLP. Ian is a member of the Investment Sub-Committee, the Risk and Audit Sub-Committee and the Nominations Sub-Committee. When Mr Riddell becomes Chairman immediately following the 2014 AGM Mr Buckley will become Vice Chairman and Senior Independent Director.

Veronica France

Ms France, aged 52, 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 non-executive director of Chesnara Plc. She is a past chairman of the Investment and Life Assurance Group (ILAG) and its Non-Executive Directors' Forum. Veronica chairs the Remuneration Sub-Committee and is a member of the Risk and Audit Sub-Committee and the Nominations Sub-Committee.

Executive Directors.

Chief Executive
Simon Markey

Mr Markey, aged 48, joined the Society in 2012 as Chief Executive. He started his career at Lloyds Bank in 1984 where he remained for over 20 years and held numerous positions including Head of Savings and Director of Customer and Sales. Following Lloyds, Simon became Managing Director of Lifestyle Services Group Limited and CEO of Consumer at Marsh Limited, before joining NBNK Investments Plc in 2011.

Finance Director
John Adams FCCA

Mr Adams, aged 59, 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.

Secretary and Corporate Services Director
Keith Meeres MCSI

Mr Meeres, aged 56, 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 and Legal functions. He is the Deputy Chairman of the Investment and Life Assurance Group (ILAG), a member of its Regulations Practitioner Group and a member of the Association of Financial Mutuals Regulations Committee.

Business Development Director
Miles Bingham

Mr Bingham, aged 47, 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. He left the Society on 28 February 2014.

Committee of Management's strategy and annual report.

The Annual Report and Accounts and strategic report have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations'). A Committee of Management comprising, as at March 2014, the Chairman, four other independent non-executive directors and three 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 2013 the members of the Committee were as follows:

Non-executives.

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

Executives.

Simon Markey	(Chief Executive)
Rob Edwards	(Chief Operating Officer) left the Society on 13/09/2013
John Adams	(Finance Director)
Keith Meeres	(Secretary and Corporate Services Director)
Miles Bingham	(Business Development Director) left the Society on 28/02/2014

Statement of responsibilities of the Committee of Management.

The Committee is primarily responsible for the strategic direction and governance of the Society. It delegates responsibility for the day-to-day running of the business to executive management. Progress on operational matters, governance and key initiatives is reported through Committee and Sub-Committee meetings. All initiatives involving significant expenditure, strategic change, governance policies, 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 Simon Markey, Chief Executive has been agreed by the Committee and documented. Norman Riddell, Vice Chairman, undertakes the role of Senior Independent Director. Robert Weir will retire from the Committee immediately following the 2014 Annual General Meeting and will be succeeded as Chairman by Norman Riddell. Ian Buckley will assume 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 and believes they provide a fair, balanced and understandable view of the Society.

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, independence 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 deliver compelling financial solutions that satisfy the needs of families at key life stages. We aim to provide good value 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.

Historically the Society has focussed on the children's savings market and successfully achieved significant market share in the CTF and Junior ISA markets. We will continue to service this sector however we recognise that the Society's strategy should be broadened and, as part of the 2013 strategic review, we expect to launch a wider range of financial services products in the future.

The Society has an important agreement with Bank of Ireland UK to administer Post Office ISAs and partnerships of this nature are seen as an important strand of our future strategy.

More details of the strategic review can be found in the Chairman's Review and Chief Executive's Report.

As at 31 December 2013 the Society's margins of solvency comfortably exceeded the minimum requirements, as prescribed by the Prudential Regulatory Authority and Financial Conduct Authority.

Number of members.

As at 31 December 2013, the Society had 1,840,345 members (2012: 1,806,686).

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 strategy and annual report (continued).

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 auditor.

A resolution to reappoint Mazars LLP as auditor to the Society will be proposed at the forthcoming AGM on 22 May 2014.

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 2013 we resolved 97.0% 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 2013 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 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, thus ensuring that the Society complied with the intention of the Code. Until September 2013, the Committee comprised five executive directors and five non-executive directors including the Chairman. In September the number of executives reduced to four, which ensures the balance of the Committee meets the Code requirement.
- 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.

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 2013.

The following table sets out the attendance of directors at Committee and Sub-Committee meetings held in 2013. 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	10 (10)	1 (1)	-	5 (5)	5 (5)
Norman Riddell[1]	9 (10)	1 (1)	-	5 (5)	5 (5)
Peter Box[3]	9 (10)	1 (1)	4 (4)	-	-
Ian Buckley[2]	9 (10)	1 (1)	4 (4)	5 (5)	-
Veronica France[3]	9 (10)	1 (1)	4 (4)	-	5 (5)
Simon Markey	10 (10)	-	-	5 (5)	-
Rob Edwards[4]	8 (8)	-	-	-	-
John Adams	10 (10)	-	-	-	-
Keith Meeres	10 (10)	-	-	-	-
Miles Bingham	10 (10)	-	-	-	-

Notes:
1 - Due to a late change in meeting date, Mr Riddell was unable to attend the April CoM meeting.
2 - Mr Buckley was unable to attend the September CoM meeting.
3 - Ms France and Mr Box were unable to attend the October CoM meeting.
4 - Mr Edwards left the Society on 13 September 2013.

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.

When assessing the current and future composition of the Committee of Management the Nominations Sub-Committee considers the balance of skills, experience, independence, knowledge, diversity and effectiveness of the directors. In line with the Diversity Policy, the Nominations Sub-Committee recognises the benefits of having a diverse senior management team and sees increasing diversity at senior levels as an essential element in maintaining an effective Board. Our policy is to ensure that there is broad experience and diversity on the Committee of Management.

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.

Following the resignation of Mr Edwards in September 2013, it was agreed that his position on the Committee of Management would not be immediately replaced but would be reviewed in the light of the development of the Society's new strategy in 2014.

Mr Weir has decided to retire from the Committee of Management immediately following the 2014 AGM. At this point Mr Riddell will succeed Mr Weir as Chairman and Mr Buckley will succeed Mr Riddell as Vice Chairman and Senior Independent Director.

Committee of Management's strategy and annual report (continued).

Investment Sub-Committee.
Norman Riddell (Chairman)
Ian Buckley
Robert Weir
Simon Markey
Gregor Logan (external adviser)

The Investment Sub-Committee is responsible for monitoring the Group's investment performance and for assessing the effectiveness of the investment strategy.

In 2012 State Street Global Advisors Limited became the Society's fund manager. State Street Global Advisors Limited manages £1 trillion worldwide, and is ideally placed to deliver the Society's long term investment strategy for its members. They have responsibility for the discretionary investment management decisions taken on behalf of the Society's funds.

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 27.

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

The members of the Risk and Audit Sub-Committee have been selected with the aim of providing a wide range of financial and commercial expertise.

The duties and responsibilities of the Sub-Committee are contained in its Terms of Reference which can be viewed in the Member Information section of the Society's website (www.family.co.uk).

The key activities of the Sub-Committee have been focussed on the oversight of the Society's governance, risk, internal audit and compliance functions, the Society's internal controls, integrity of financial reporting and the quality of external audit. The Sub-Committee also fulfils the function of a "With-Profits Committee" in order to oversee the Society's With-Profits business. The Sub-Committee continually reviews its activities in the light of change to the Society's strategy and changing domestic and European regulation.

The key duties and responsibilities of the Sub-Committee are:

- Oversee the design and effective implementation of the Risk Management Framework including adequate systems, internal control and the identification, assessment, monitoring, mitigation and reporting of risks including stress testing.
- Advise the Committee of Management on risk related matters including: operational, strategic, financial, investment, liquidity, credit and insurance.
- Review and approve the annual compliance monitoring plan and monitor the activities of the compliance department.
- Ensure adequacy of resource within the risk, compliance and internal audit departments.
- Consider and make recommendations to the Committee of Management as regards the appointment of the external auditor, terms of engagement and fees.
- Monitor and review the effectiveness of the internal audit function including the annual internal audit plan and consider the major findings of the internal audit work.
- Review the integrity of the annual financial statements.
- Act as a With-Profits Committee in providing oversight of the Society's With-Profits business.

Sub-Committee Meetings.
The Sub-Committee meets at least four times a year. The Sub-Committee comprises three independent non-executive directors named above and meetings are attended also, by invitation, by the Chief Executive, Finance Director, Corporate Services Director, Chief Risk Officer and Head of Internal Audit. Other relevant managers from the business attend meetings to provide greater insight into current issues. The Society's Actuarial Function Holder and external auditors are also invited to each meeting.

Main activities of the Sub-Committee during the year.
A key focus of each meeting involves assessment of the outputs from the work of the risk, compliance and internal audit functions and additionally taking a forward looking approach in the assessment of the risks that might arise from the development of the new strategy outlined in the Chief Executive's report.

Financial Reporting.
The Sub-Committee reviews, with management and external auditors, the appropriateness of the Annual Financial Statements including:

- Changes to regulatory requirements.
- Whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable so that members can assess the Society's performance, business model and strategy.
- Consideration of material issues in which significant judgement has been applied or where there has been discussion with the external auditor.
- Quality and appropriateness of accounting policies and practices.
- Quality of disclosures and compliance with the relevant financial reporting standards and governance requirements.
- Major judgemental areas and the "going concern" assumption.
- Significant adjustments resulting from the audit.

The primary areas of judgement considered by the Sub-Committee in relation to the 2013 accounts were as follows:

- The measurement of long term insurance technical provisions, for which a valuation report is considered from the Actuarial Function Holder and a review commentary from the external auditors.
- The extent of disclosure of risks associated with the portfolio of investments and, in the Society's accounts, the measurement of the carrying amount of subsidiary companies.
- The measurement of the commitment to the defined benefit pension scheme.
- The presentation of the Capital position as at the reporting date, including the position of the ring-fenced fund.
- Whether any contingent assets or liabilities warrant disclosure.

In an overall sense, the Sub-Committee is concerned that the accounts as a whole are clear and understandable within the constraints of legal requirements and free from clutter. To further support this, a Group summary financial statement is presented in plain language alongside the audited accounts.

Internal Control.
The Sub-Committee reviewed the Group's systems and controls by means of receiving audit, risk, compliance and management reports, holding discussions with executive and operational management and reviewing the risk management process and framework. Where significant control shortcomings or risks are identified, progress is monitored until the issue is satisfactorily resolved.

Risk Management.
The Sub-Committee assessed the adequacy of the risk framework and monitored its implementation. It reviewed the key risks that arose in the business and monitored whether the Society's activities remained within its risk appetite. The principal risks and uncertainties are set out on page 15. The Sub-Committee met privately with the Chief Risk Officer during the year and provided input to the annual performance appraisal.

Compliance.
The Sub-Committee assessed the effectiveness of the Compliance Department throughout the year. It approved the Compliance Charter which sets out the authority and scope of the department as regards its role in securing adherence to financial services regulation. The Sub-Committee received reports on the progress and results of the Compliance plan. The Sub-Committee approved the Compliance plan and budget for the coming year.

Internal Audit.
The Sub-Committee assessed the effectiveness of the Internal Audit Department throughout the year. It approved the Internal Audit Charter, setting out the authority and scope of Internal Audit. The Head of Internal Audit provided reports on the progress of the audit plan and results of the audit activity. The Sub-Committee met privately with the Head of Internal Audit during the year and provided input to the annual performance appraisal. The Sub-Committee approved the audit plan and Internal Audit budget for the coming year.

Committee of Management's annual report (continued).

External Audit.
The Sub-Committee is responsible for safeguarding auditor objectivity, independence and the effectiveness of the external audit. It considers the appointment of, and fees for, the external auditor and meets regularly with the audit partner and audit manager. The criteria against which the external auditor's performance is assessed includes independence, expertise, resource, timeliness and accuracy of reporting, and fee levels.

The Sub-Committee held a private meeting with the external auditor during the year. Discussions with the external auditors include their assessment of business risks and confirmation that there has been no restriction placed on them by management. Other matters communicated by the external auditor to the Committee included the inherent risks of mis-allocating costs, management override of controls, revenue recognition, capital management and future profitability, regulations, defined benefit pension scheme, taxation, internal control and reporting misstatements. These risks are regularly monitored and no material issues have arisen.

The Sub-Committee considers the reappointment of the external auditor including the rotation of the audit partner and also assesses their independence on an on-going basis.

Mazars LLP were appointed in 2007, following a full tender process. Their tenure is 10 years.

Non Audit Services.
The Sub-Committee regularly reviews the nature and extent of non-audit work and related fees. The Committee of Management has developed a policy setting out the terms and conditions for engaging the Society's external audit to supply non-audit services. The policy is designed to protect objectivity and independence.

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 uses a 'Balanced Scorecard' approach to monitor 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 2013 the evaluation was conducted by questionnaires and interviews by the Chairman, who reported to the Committee of Management. The main action point arising from the review was that as the Society's strategic plans are further developed the Committee must ensure that it appoints directors with appropriate skills and experience to oversee new aspects of the strategy.

The Committee intends to conduct a detailed review externally facilitated every three years. 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 who 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.

Employees.

The Group employed an average of 400 employees during 2013 at a total cost of £16.3m. 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.

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. Employees are consulted, either directly, or via the Talking Family Staff forum, on any decisions that are likely to affect their interests.

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.

As at 31 December 2013 the gender mix at management levels is:

	Male	Female
Committee of Management	89%	11%
Senior Managers	59%	41%

Corporate social responsibility.

Our role as an institutional investor.

The UK Stewardship Code was first published in July 2010, a revision to the Code came into effect in October 2012. Its aim is 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 Member Information section of our website: www.family.co.uk

Committee of Management's annual report (continued).

Our environment.

The Society recognises that its day-to-day operation will impact on the environment in a number of ways and wishes to minimise the potentially harmful effects of such activity wherever possible. The Society's environmental policy can be found on the website under the Member Information section at www.family.co.uk

Our work in the community.

Our award-winning local Community Programme has been running for more than 20 years, and over that time we have encouraged our employees to get actively involved in our Brighton community.

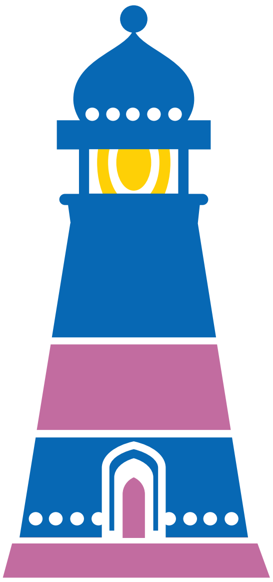
Education was a major part of the 2013 programme including a range of activities from running a maths club at a Brighton primary school, through to work orientation and interview skills days for sixth formers. At the same time, our employees are great fundraisers and, with the support of our charity matching scheme, have raised over £20,000 for 30 local and national charities in 2013.

From local to national.

Looking forward, we have ambitious plans to build on our local success by creating a programme with significant funding and a national footprint – the Family Foundation. The Family Foundation will provide us a genuine opportunity to play a bigger role in building a better society while, at the same time, allowing employees and customers to take an active role in their local community.

We will publish more information on the Family Foundation, including how members and customers can get involved, in the summer of 2014.

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 2014 AGM for approval, explains how the Society has applied the UK Corporate Governance Code requirements and the changes that have been made to directors' bonus schemes.

Remuneration Sub-Committee.

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

Remuneration policy.

The Society's remuneration policy complies with the requirements of the UK Corporate Governance Code and the Remuneration Code (the latter governed by the Financial Conduct Authority). The policy is designed to attract, motivate and retain key executives (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 taking.

The Society believes it is important that its mutual status is reflected in its remuneration policy. Bonus schemes are designed to be aligned to our members' interests by rewarding performance against key criteria that are important to our members, for example customer service, product performance and financial strength. This means that our bonus schemes reward for performance that is demonstrably of benefit to our members.

On page 11 you will see that the Society performed exceptionally well in 2013 including a record year for profitability that will allow it to invest for the future benefit of members. All employees were able to participate in a bonus scheme and approximately 90% received a pro-rata bonus, on their individual performance and the group performance in 2013, that averaged approximately 60% higher than 2012.

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

Service contracts.

It is the Society's policy that the notice period of executive directors' service contracts should not exceed one year and any compensation for loss of office should not exceed 12 months' remuneration. 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 the scope and responsibilities of each role, 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.

Bonus schemes.

In 2013 the Society redefined its strategy to further improve, for the benefit of members, the Society's efficiency, its services and to broaden the product range so as to enhance the long term value of the Society (commonly referred to as Embedded Value).

The Remuneration Sub-Committee has redefined the current bonus schemes so as to motivate and reward the implementation and delivery of the new strategy through the achievement of short term and longer term objectives.

The new bonus schemes are outlined below. They have been designed in consultation with independent expert consultants (E&Y) and the scheme rules have been defined to ensure compliance with the relevant remuneration codes. The key principles that underpin each scheme include:

- reward linked to individual and business performance (using Balanced Scorecard measurement against key criteria including customer service, financial and operational performance, risk control). Performance related elements are stretching and designed to promote the long term success of the Society for the benefit of its members;
- deployment of appropriate moderators to discourage excessive risk-taking, including the requirement for deferral of payment of a proportion of bonus and provisions to enable reduction, claw-back or forfeiture of bonus under certain defined scenarios;
- reward of between 25-50% of base salary for achievement of budgeted targets and up to 100% for achievement of stretch targets.

Ultimately, any payment under the bonus schemes is at the discretion of the Remuneration Sub-Committee.

Remuneration report (continued).

a) Short term Incentive Scheme.

The 2013 scheme was open to four executive directors and one non-board director. The 2014 scheme is open to three executive directors and two non-board directors. The key threshold targets are to generate specified minimum levels of income and profit. The scheme rules require that 60% of all bonus entitlements will be paid following completion of the financial year. The remaining 40% must be deferred and payable in equal parts on the first and second anniversary of the initial payment. The deferred payment is re-valued at the end of each year in line with the Society's largest member investment fund, thus aligning the movement of deferred bonus with the movement in members' policies.

b) Long term Incentive Scheme.

The 2013 scheme was open to four executive directors and the 2014 scheme is open to three executive directors. The key threshold targets are to achieve specific Embedded Value growth targets. The scheme rules provide that payment of 50% of any bonus award shall be made only upon the third anniversary of the completion of the financial year on which the bonus award is made. The remaining 50% must be deferred and payable in equal parts on the first and second anniversary of the initial payment. The deferred payment is re-valued at the end of each year in line with the Society's largest member investment fund, thus aligning the movement of deferred bonus with the movement in members' policies.

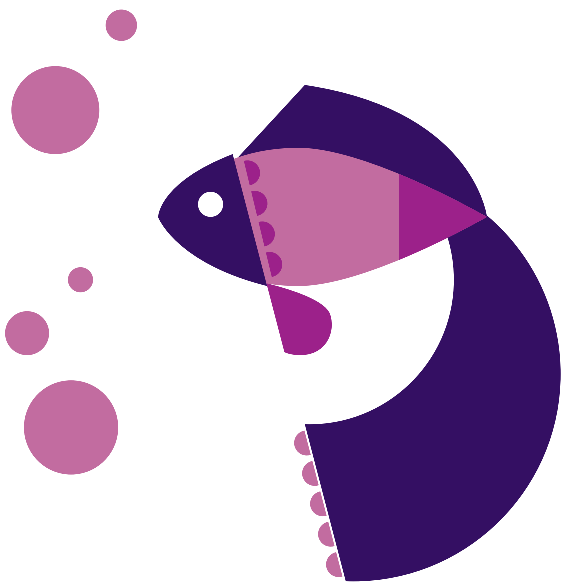
A provision has been made in the 2013 accounts for potential awards under this scheme.

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. All of the executive directors participate in the scheme. The Society previously operated 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.



Committee of Management remuneration.

	Salary / Fees [1]		*Bonuses [2]*		*Other benefits[3]*		*Sub-total*		*Deferred Bonuses[2]*		*Total remuneration*	
	2013	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*	*2013*	*2012*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Executives												
Simon Markey[5]	300	50	162	-	66	8	528	58	108	-	636	58
John Reeve[4]	-	221	28	33	-	35	28	289	-	-	28	289
Rob Edwards[6]	377	189	-	26	50	29	427	244	-	-	427	244
John Adams	184	179	51	24	28	28	263	231	31	-	294	231
Keith Meeres	161	157	43	22	26	24	230	203	26	-	256	203
Miles Bingham	131	127	31	18	5	19	167	164	18	-	185	164
Non-executives												
Robert Weir	79	75	-	-	-	-	79	75	-	-	79	75
Norman Riddell	42	39	-	-	-	-	42	39	-	-	42	39
Ian Buckley	34	33	-	-	-	-	34	33	-	-	34	33
Peter Box	34	33	-	-	-	-	34	33	-	-	34	33
Veronica France	34	33	-	-	-	-	34	33	-	-	34	33
	1,376	**1,136**	**315**	**123**	**175**	**143**	**1,866**	**1,402**	**183**	**-**	**2,049**	**1,402**

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 3% (2012:4%).

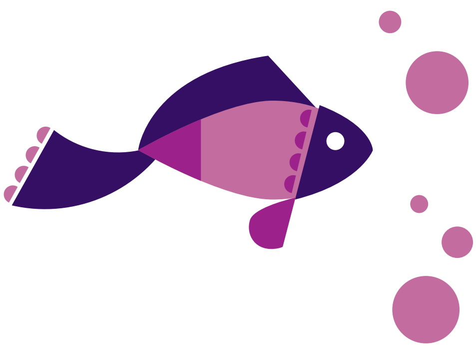
Note 2 – Bonuses include amounts added to, and movement in, the value of the previous long term incentive scheme and the 2013 short term incentive scheme.

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

Note 4 – Mr Reeve retired on 31 October 2012. In 2012 £33k was invested into the long term incentive scheme as an alternative to a pension contribution for Mr Reeve.

Note 5 – Mr Markey was appointed Chief Executive on 1 November 2012.

Note 6 – Mr Edwards left the Society on 13 September 2013. All payments were made within the parameters of the remuneration policy.



Remuneration report (continued).

Previous long term incentive scheme.

	Value at 1.1.2013	*Bonus withdrawn during 2013*	*Movement on accrued value during 2013*	*Value at 31.12.2013*
	£'000	*£'000*	*£'000*	*£'000*
Executives				
John Reeve[1]	120	-	28	148
Rob Edwards[2]	26	26	-	-
John Adams	19	-	4	23
Keith Meeres	21	-	5	26
Miles Bingham	18	-	4	22
	204	26	41	219

Note 1 – Mr Reeve retired on 31 October 2012. He will withdraw his benefits accrued under the long term incentive scheme during 2014.

Note 2 – Mr Edwards left the Society on 13 September 2013. All payments were made within the parameters of the remuneration policy.

Short term incentive scheme.

	Value at 1.1.2013	*Bonus withdrawn during 2013*	*Movement on accrued value during 2013*	*Bonus added during 2013, to be paid during 2014*	*Deferred bonus for 2013 short term incentive scheme, to be paid after 2014[1]*	*Value at 31.12.2013*
	£'000	*£'000*	*£'000*	*£'000*	*£'000*	*£'000*
Executives						
Simon Markey	-	-	-	162	108	270
John Adams	-	-	-	47	31	78
Keith Meeres	-	-	-	38	26	64
Miles Bingham	-	-	-	27	18	45
	-	-	-	274	183	457

Note1 – The deferred payment is re-valued at the end of each year in line with the Society's largest member investment fund, thus aligning the movement of deferred bonus with the movement in members' policies.

Pension entitlements.

Three executive directors have retirement benefits accruing under the Society's defined benefit (DB) pension scheme. This scheme closed to future accrual of benefits from 31 December 2009.

Five executive directors receive benefits under the Society's defined contribution pension scheme.

The table below sets out these benefits:

	Age at 31.12.2013	*Normal retirement age*	*Total deferred DB pension at date of Scheme closure[2]* £'000	*Single pension figure for 2013[3]* £'000	*Comparator single pension figure for 2012* £'000
Executives					
Simon Markey[1]	48	65	-	45	8
John Adams	59	65	58	27	27
Rob Edwards[1]	58	65	53	49	28
Keith Meeres	56	65	56	24	23
Miles Bingham	47	65	-	4	4

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 – Mr Edwards left the Society on 13 September 2013. All payments were made within the parameters of the remuneration policy. Mr Markey was appointed on 1 November 2012.

Note 2 – The total deferred pension is the annual pension amount accrued by the executive director as at 31 December 2009, the date the Scheme closed to all future accrual. Deferred defined benefit pensions receive statutory revaluation up to Normal Retirement Age and inflationary increases in payment as specified in the Scheme rules.

Note 3 – This single figure is equal to the contributions to the Directors' stakeholder pension scheme paid by the Society during 2013. Contributions into the defined benefit scheme were nil.

Independent auditor's report.

To the Members of Family Assurance Friendly Society Limited.

Opinion on financial statements.

We have audited the financial statements of Family Assurance Friendly Society Limited for the year ended 31 December 2013 which comprise the Group and Society Income and Expenditure Account, the Group and Society 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).

In our opinion the financial statements of Family Assurance Friendly Society Limited for the year ended 31 December 2013:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and Society's affairs as at 31 December 2013 and of the Group's and Society's result for the year then ended; and
- have been properly prepared in accordance with the requirements of the Friendly Societies Act 1992.

Assessment of the risks of material misstatement.

In arriving at our audit opinion, the risks of material misstatement that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team, were as follows:

Measurement of the long term business provisions and the appropriateness of methods and assumptions used in the measurement;

- **The risk:** The Society is liable for future payments due under the terms of its long term insurance contracts in payments on maturity at the end of the contract, early encashments on surrender and occurrences of death or illness. Significant judgements are made by the Society and its Actuarial Function Holder to assess the size of this liability using statistical methods. The subjective nature of the management judgements and assumptions required means there is an inherent risk that the liability will prove to be materially misstated as the contracts are satisfied over the course of time.
- **Our response:** We challenged management's assumptions used in the valuation of long term business technical provisions, and examined a sensitivity analysis on their assumptions, to ensure there were no indicators of material misstatement or management bias. We made use of appropriately qualified actuarial experts employed by our firm to assist in evaluating actuarial calculations and the appropriateness of assumptions used to determine the provisions and associated disclosures.

Valuation of investments and the appropriateness of the methods and assumptions made in valuation and the risk arising from the type of investments held within certain funds;

- **The risk:** The Society invests in financial assets in order to fund its long term business liability and capital requirements. Accordingly the portfolio of investments is a significant item within the financial statements. The existence and valuation of the investment portfolio is a risk that requires particular audit attention.
- **Our response:** We obtained third party confirmation of investments held as at 31 December 2013 directly from the independent custodian. Controls over the investment of member monies in to the underlying collective investment funds managed by the Group were tested. Investment valuations were agreed to an independent source of market prices. Valuations of properties held by the Society were agreed to advice from independent experts engaged by the Society. We challenged management's judgements relating to the recoverability of the amounts invested in hedge funds by the Group's collective investments.

Measurement of the pension fund liability and the appropriateness of methods and assumptions used in the measurement and valuation of the investments held;

- **The risk:** The Society operates a defined benefit pension scheme which is closed to new members and to future accrual. The Society must ensure that the net position of the scheme arising from a comparison of the value of investments held by the scheme and its liability for future pension payments is properly reflected in the financial statements. Due to the subjective nature of the management judgements and assumptions made in this assessment, there remains an inherent risk that the net position of the scheme will be materially misstated.
- **Our response:** We obtained the report commissioned by management from their pension actuary and engaged our own pensions actuary to critically review the judgements made in setting the valuation assumptions. We confirmed the

valuation of investments to the result of the concurrent audit of the scheme by our firm and challenged the findings of their work.

Capital management;

- **The risk:** The Society is required to have sufficient surplus assets, or capital, to enable it to meet its obligations having regard to uncertain future outcomes as to the payments required to satisfy insurance contracts and the performance of investment markets designed to underpin the liability.
- **Our response:** The Society operates within a highly regulated industry that sets strict minimum capital requirements. The regulations require the Society to produce evidence that it has properly considered the specific risks it faces as a product provider and that it has set aside funds of appropriate security and liquidity accordingly. We examined the Society's compliance with regulations in this area for evidence of sound and prudent management. This work is not indicative of any heightened concern over the ability of the Society and its subsidiaries to continue as a going concern.

The audit procedures relating to the above mentioned matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks and we do not express an opinion on these individual risks.

Our assessment and application of materiality.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement.

The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. The overall materiality level we set for the Society's financial statements was £2.65m. This has been calculated with reference to the Society's fund for future appropriations (of which it represents approximately 5%). The fund for future appropriations is a measure of accumulated surplus and we have determined, in our professional judgement, it to be one of the principal benchmarks within the financial statements relevant to members in assessing financial position and financial performance. We agreed with the Risk and Audit Sub-Committee that we would report to it all audit differences in excess of £79,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Scope of the audit of the financial statements.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Committee of Management; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Committee of Management Strategy and Annual Report in order to identify material inconsistencies with the audited financial statements and to identify any information that is materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

There are six legal entities in the Group, one being the Society itself, which together account for 100% of the Group's revenue, 100% of surplus of technical income over technical charges before taxation and 100% of total assets. All were subject to full scope audits for the year ended 31 December 2013 undertaken by the Group audit team.

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

In our opinion the Committee of Management's Strategy and Annual Report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it and the information given therein is consistent with the financial statements for the financial year.

Independent auditor's report (continued).

Matters on which we are required to report by exception.

We have no exceptions to report arising from the following responsibilities:

Under the Friendly Societies Act 1992, we are required 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 Report reflects the Society's compliance with the nine provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals.

Under the International Standards on Auditing (ISAs) (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

In particular we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Respective responsibilities of Directors and 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 the preparation of the financial statements and for being satisfied that they 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 ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body for our audit work, for this report, or for the opinions we have formed.

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

12 March 2014

Income and expenditure account.

Technical Account – Long Term Business

for the year ended 31 December 2013

Notes		*Group 2013 £'000*	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
2	Earned premiums	37,270	41,921	37,270	41,921
	Outward reassurance premiums	(89)	(92)	(89)	(92)
	Earned premiums, net of reassurance	37,181	41,829	37,181	41,829
3	Investment income	29,762	27,073	29,762	27,073
3	Unrealised gains on investments	84,872	52,011	90,475	50,835
3	Realised gains on investments	10,530	8,208	10,530	8,208
5	Other technical income	24,327	20,000	924	713
	Total Technical Income	**186,672**	**149,121**	**168,872**	**128,658**
	Claims incurred, net of reassurance				
	Claims paid				
	Gross amount	(101,646)	(107,530)	(101,646)	(107,530)
	Reassurers' share	30	4	30	4
		(101,616)	(107,526)	(101,616)	(107,526)
16	Change in provision for claims				
	Gross and net amount	197	360	197	360
	Net claims incurred	(101,419)	(107,166)	(101,419)	(107,166)
16	**Change in technical provisions, net of reassurance**				
	Long term business provision, net of reassurance				
	Gross amount	7,077	7,057	7,077	7,057
	Reassurers' share	(28)	41	(28)	41
		7,049	7,098	7,049	7,098
	Other technical provision, net of reassurance				
	Technical provision for linked liabilities	(53,964)	(14,919)	(53,964)	(14,919)
	Net change in technical provisions	(46,915)	(7,821)	(46,915)	(7,821)
	Other expenditure				
4	Net operating expenses	(11,568)	(8,908)	(11,568)	(8,908)
3	Investment expenses and charges	(2,042)	(1,717)	(2,042)	(1,717)
5	Other technical charges	(19,819)	(20,463)	-	-
		(33,429)	(31,088)	(13,610)	(10,625)
	Total Technical Charges	**(181,763)**	**(146,075)**	**(161,944)**	**(125,612)**
	Surplus of technical income over technical charges before taxation	**4,909**	**3,046**	**6,928**	**3,046**
6	Tax attributable to the long term business	2,132	202	113	202
	Surplus on technical account - long term business	**7,041**	**3,248**	**7,041**	**3,248**
20	Actuarial gain / (loss) on pension scheme	1,846	(1,246)	1,846	(1,246)
20	Pension adjustment for asset limitation	(2,156)	-	(2,156)	-
16	Transfer to the fund for future appropriations	**(6,731)**	**(2,002)**	**(6,731)**	**(2,002)**
	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 2013

Notes		Group 2013 £'000	Group 2012 £'000	Society 2013 £'000	Society 2012 £'000
	Investments				
9	Land and buildings	1,906	1,770	1,906	1,770
10	Investments in group undertakings				
	Investments in subsidiaries	-	-	17,751	11,847
11	Other financial investments				
	Shares, variable yield securities and units in unit trusts	65,319	68,870	65,319	68,870
	Deposits with credit institutions	12,549	12,129	4,000	7,613
		79,774	82,769	88,976	90,100
12	**Assets held to cover linked liabilities**	1,068,996	1,015,032	1,068,996	1,015,032
	Reassurers' share of technical provisions				
	Long term business provision	574	602	574	602
	Other assets				
13	Tangible assets	-	3	-	-
14	Other debtors	10,430	4,796	2,997	2,660
	Cash at bank and in hand	13,062	10,477	6,681	4,633
	Prepayments and accrued income				
	Accrued interest and rent	590	423	24	92
	Other prepayments and accrued income	317	534	317	534
		1,173,743	**1,114,636**	**1,168,565**	**1,113,653**

Balance sheet.
LIABILITIES
As at 31 December 2013

Notes		Group 2013 £'000	Group 2012 £'000	Society 2013 £'000	Society 2012 £'000
16	Reserves				
	Fund for future appropriations	52,900	46,169	52,900	46,169
16	Technical provisions				
	Long term business provision	35,114	42,191	35,114	42,191
	Claims outstanding	1,091	1,288	1,091	1,288
16	Technical provision for linked liabilities	1,068,996	1,015,032	1,068,996	1,015,032
15	Creditors				
	Other creditors, including taxation and social security	4,170	4,767	3,765	4,310
	Accruals and deferred income	11,472	3,487	6,699	2,961
20	Pension liability	-	1,702	-	1,702
		1,173,743	1,114,636	1,168,565	1,113,653

Approved by the Committee of Management on 12 March 2014, and signed on its behalf by:

Robert Weir, Chairman

Simon Markey, 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 and as amended December 2006.

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 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.

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 advisers at market value. 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.

	Group and Society	
	2013	*2012*
a) Gross premiums written:	*£'000*	*£'000*
Life assurance business:		
Linked	35,592	38,474
Non-linked	1,655	1,919
Pension business:		
Linked	23	1,528
Total gross premiums written	37,270	41,921
Regular premiums	37,247	40,393
Single premiums	23	1,528
Total gross premiums written	37,270	41,921
b) Gross new life business premiums:	1,717	1,819

In classifying new regular life 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.

	Group	*Group*	*Society*	*Society*
	2013	*2012*	*2013*	*2012*
c) Contributions received for products administered by subsidiary companies:	*£'000*	*£'000*	*£'000*	*£'000*
Regular contributions	102,930	96,880	-	-
Single contributions	558,737	1,062,171	-	-
	661,667	1,159,051	-	-

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).

	Number of policies		*Number of policies*	
	Group	*Group*	*Society*	*Society*
d) Policies on file:	*2013*	*2012*	*2013*	*2012*
Average during the year	1,957,573	1,933,493	310,926	338,785
As at 31 December	1,949,299	1,960,029	298,133	324,407

3 Investment return summary.

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Investment income:				
Income from listed investments	14,816	12,756	14,816	12,756
Income from other investments	14,946	14,137	14,946	14,137
Net return on pension scheme (see note 20)	-	180	-	180
	29,762	27,073	29,762	27,073
Unrealised gains on investments	84,872	52,011	90,475	50,835
Realised gains on investments	10,530	8,208	10,530	8,208
Investment expenses and charges:				
Investment management expenses, including interest	(2,042)	(1,717)	(2,042)	(1,717)
Net investment return included in the Technical Account - Long Term Business	123,122	85,575	128,725	84,399

4 Net operating expenses.

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Acquisition costs incurred in the year:				
Commission	107	132	107	132
Other acquisition expenses	256	241	256	241
	363	373	363	373
Research and development costs	7,490	4,695	7,490	4,695
Administration expenses	3,715	3,840	3,715	3,840
	11,568	8,908	11,568	8,908

Included in net operating expenses and other technical charges are:

Depreciation charge for the year (see note 13)	3	115	-	-
Impairment charge for the year	-	430	-	-
Interest paid and similar charges to customers	39	37	39	37
Remuneration of the Auditor in respect of audit and related services:	209	198	145	143
Statutory audit - Society	134	132	134	132
Statutory audit - Subsidiaries	47	43	-	-
Auditing of staff pension scheme	11	11	11	11
Auditing of certain unit trusts	17	12	-	-

5 Other technical income and charges.

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Other technical income:				
Income relating to subsidiary companies	24,327	20,000	924	713
Other technical charges:				
Costs relating to subsidiary company products:				
Acquisition expenses	4,480	4,892	-	-
Research and development costs	505	931	-	-
Administration expenses	14,834	14,640	-	-
	19,819	20,463	-	-

6 Taxation.

	Group 2013 £'000	Group 2012 £'000	Society 2013 £'000	Society 2012 £'000
UK Corporation tax:				
Current year	100	200	100	200
Tax repayable on unrealised gains on unit-linked assets	-	(22)	-	(22)
Adjustments in respect of prior periods	(213)	(380)	(213)	(380)
Deferred tax on unrealised tax losses	(2,019)	-	-	-
	(2,132)	(202)	(113)	(202)

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 £100k (2012: £178k) relating to taxable business has been provided for. Taxes have been charged at 20% (2012: 20%).

	Group 2013 £'000	Group 2012 £'000	Society 2013 £'000	Society 2012 £'000
Deferred tax:				
Unit trust deemed disposals	334	-	334	-
Actuarial reserves	1	4	1	4
Deferred tax liability	335	4	335	4
Deferred acquisition expenses	(335)	(4)	(335)	(4)
Unrealised tax losses	(2,019)	-	-	-
Deferred tax balance	(2,019)	-	-	-

There are unrealised tax losses in respect of Family Equity Plan Limited. The group has taken the view that it is likely these losses will be recovered over the next three years and has therefore decided to recognise the benefit of the deferred tax asset.

There is a potential deferred tax asset of £1,031k (2012: £811k), in respect of the mutual business carried on by the Society, of which £335k (2012: £4k) has been set aside to offset recognised deferred tax liabilities of the mutual business. The balance of £696k (2012: £807k) represents the net unrecognised deferred tax asset. This balance comprises, inter-alia, two principal components: excess management expenses 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 2013 Number	Group 2012 Number	Society 2013 Number	Society 2012 Number
Marketing	24	22	24	22
Investments	11	10	11	10
Administration	365	383	365	383
	400	415	400	415

Staff costs for the above employees were:	Group 2013 £'000	Group 2012 £'000	Society 2013 £'000	Society 2012 £'000
Wages and salaries	14,205	12,594	14,205	12,594
Pension costs	886	809	886	809
Social security costs	1,161	1,265	1,161	1,265
	16,252	14,668	16,252	14,668

All employees are employed and remunerated directly by the Society.

8 Committee of management emoluments.

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Fees and benefits to the Chairman and non-executive directors	223	213	223	213
Salaries and benefits to executive directors	1,328	1,066	1,328	1,066
Performance related bonuses	493	123	493	123
	2,044	1,402	2,044	1,402

Chairman.

The aggregate remuneration paid, comprising salary and benefits, to Mr Robert Weir amounted to £79k (2012: £75k).

Highest paid Committee members.

The aggregate remuneration paid to Mr Simon Markey amounted to £636k.
The aggregate remuneration paid to Mr Simon Markey for the period 1 November to 31 December 2012 amounted to £58k.

Pension contributions.

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

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

Short term incentive scheme.

The executive directors had benefits under a short term incentive scheme during the year. The scheme is targeted at increasing the value of the Management Fund and amounts accrued, for the benefit of the executive directors, as at 31 December 2013 are £457k (2012: nil). Benefits are receivable over the following two years after the bonus declaration, 40% of which is revalued in line with movements in the Sovereign fund unit price. The criteria used for determining executive directors' bonuses are the same as those which apply to the general bonus scheme applicable to all staff.

Long term incentive scheme.

The executive directors had benefits under an existing long term incentive scheme during the year, which has now been closed. The scheme was targeted at increasing the embedded value of the Society and amounts accrued, for the benefit of the executive directors, as at 31 December 2013 are £214k (2012: £204k). Benefits are receivable three years after the bonus declaration, contingent on the overall improvement of the Society's embedded value. A provision has also been made for potential awards under a new 2013 scheme.

9 Land and buildings.

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Movements during the year:				
As at 1 January	1,770	2,004	1,770	2,004
Revaluation during the year	136	(234)	136	(234)
As at 31 December	1,906	1,770	1,906	1,770
Types of land and buildings held at 31 December:				
Owner-occupied - Short leasehold	1,906	1,770	1,906	1,770
Cost of land and buildings held at 31 December:				
Owner-occupied - Short leasehold	1,628	1,626	1,628	1,626

Land and buildings were valued for the purpose of the 2013 and 2012 Annual Report and Accounts at open market value. The valuation of the owner-occupied property was made by Capita Symonds, a firm of independent Chartered Surveyors, on 3 December 2013.

10 Investment in group undertakings.

	Society 2013 £'000	*Society 2012 £'000*
Subsidiaries		
Ordinary shares at directors' valuation:		
As at 1 January	11,847	11,273
Purchase of Share Capital[1]	300	1,750
Revaluation during the year	5,604	(1,176)
As at 31 December	17,751	11,847

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
Family PEP Managers Limited	ISA 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
Family Nominees Limited	Dormant

[1] On 19 March 2012 Governor Finance Limited issued 1,000,000 £1 shares at par to the Society for cash.

On 11 December 2012 Governor Finance Limited issued 250,000 £1 shares at par to the Society for cash.

On 20 September 2012 Governor Finance Limited issued 500,000 £1 shares at par to the Society for cash.

On 19 March 2013 Governor Finance Limited issued 100,000 £1 shares at par to the Society for cash.

On 12 August 2013 Governor Finance Limited issued 200,000 £1 shares at par to the Society for cash.

11 Other financial investments.

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
At cost:				
Shares, variable yield securities and units in unit trusts	65,298	67,381	65,298	67,381
Deposits with credit institutions	12,549	12,129	4,000	7,613
	77,847	79,510	69,298	74,994

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

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Shares, variable yield securities and units in unit trusts	65,319	68,870	65,319	68,870

£57m of the shares, variable yield securities and units in unit trusts shown above are held in Exchange Traded Funds, which in turn invest in fixed income securities (2012: £62m).

12 Assets held to cover linked liabilities.

	Group and Society 2013 £'000	*Group and Society 2012 £'000*
Market value as at 31 December	1,068,996	1,015,032
Cost as at 31 December	892,278	924,478

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 2013	639	1,493	3,191	625	5,948
Additions	-	-	-	-	-
As at 31 December 2013	639	1,493	3,191	625	5,948
Accumulated depreciation:					
As at 1 January 2013	639	1,490	3,191	625	5,945
Charge for the year	-	3	-	-	3
As at 31 December 2013	639	1,493	3,191	625	5,948
Net book value as at 31 December 2013	-	-	-	-	-
Net book value as at 31 December 2012	-	3	-	-	3

14 Other debtors.

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Amounts falling due within one year:				
Due from subsidiary undertakings	-	-	1,258	358
Amounts owed by linked funds	1,083	162	1,083	162
Loans to members	170	183	170	183
Taxation recoverable	2,246	1,684	227	1,684
Interest receivable	5,239	1,346	-	-
Sundry debtors	1,692	1,421	259	273
	10,430	4,796	2,997	2,660

15 Other creditors.

	Group 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Taxes payable	369	876	364	862
Sundry creditors	3,801	3,891	3,401	3,448
	4,170	4,767	3,765	4,310

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 2013	42,191	1,015,032	1,288	46,169
Changes in technical provisions:				
Gross change in technical provisions, net of reassurance	(7,049)	53,964	(197)	6,731
Reassurers' share of the change in technical provisions	(28)	-	-	-
As at 31 December 2013	35,114	1,068,996	1,091	52,900

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	
	2013	2012	2013	2012
Non-linked business in POIS fund				
With-Profit, Taxable	0.15	0.00	AM80/AF80 (100%)	AM80/AF80 (100%)
With-Profit, Non-taxable	0.30	0.00	AM80/AF80 (100%)	AM80/AF80 (100%)
Non-Profit, Taxable	0.65	0.40	AM80/AF80 (150%)	AM80/AF80 (150%)
Non-Profit, Non-Taxable	0.80	0.50	AM80/AF80 (150%)	AM80/AF80 (150%)
Non-linked business in OLTB fund				
Annuity – Non-Profit	1.50	1.00	Nil	Nil
Protection – Non-Profit, Taxable	0.80	0.50	AM80/AF80 (150%)	AM80/AF80 (150%)
Unit-linked business – Non-Taxable	1.50	1.00	Unisex AMC00/ AFC00 (104%)	Unisex AMC00/ AFC00 (104%)
Unit-linked business – Taxable	1.20	0.80	Unisex AMC00/ AFC00 (104%)	Unisex AMC00/ AFC00 (104%)

The level of expenses included in the valuation are based on the current year's expenses allowing for cost inflation of 4.00%.

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

- an increase in the gross valuation rate of interest from 1.00% to 1.50% for business in the Management Fund to reflect increases in gilt yields during 2013, in addition to an increase in the gross valuation rate of interest for with-profits business in the POIS Fund from 0.00% to 0.30%, and an increase in the gross valuation rate of interest for non-profits business in the POIS Fund from 0.50% to 0.80%.
- changes in the assumed level of volatility of assets backing policies with guarantees, reflecting current economic experience.
- changes in the expense inflation from 3.75% to 4.00% and an increase in the unit price growth rate from 4.25% to 4.50%.

The overall impact of the changes described above has been to decrease the long term business provision, net of reassurance, by £0.5 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 £0.5m. This does not include the corresponding effect on the valuation of assets.

17 Bonuses and rebates.

	Group and Society	
	2013	*2012*
	£'000	*£'000*
Cost of bonuses declared, as at 31 December:		
Reversionary bonuses	159	193

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 2013			
Fund for future appropriations	43,359	9,541	52,900
Adjustments to assets	(2,019)	-	(2,019)
Allocation of Group capital	(3,794)	-	(3,794)
Other adjustments	(30)	-	(30)
Total available capital resources	37,516	9,541	47,057
As at 31 December 2012			
Fund for future appropriations	35,703	10,466	46,169
Allocation of Group capital	(3,575)	-	(3,575)
Other adjustments	(157)	-	(157)
Total available capital resources	31,971	10,466	42,437

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 2012	31,971	10,466	42,437
Effect of investment variations	62	(1)	61
Effect of experience variations	1,837	574	2,411
Effect of change in valuation basis	1,907	318	2,225
New business strain	(1,899)	-	(1,899)
Cost of bonuses	-	(1,816)	(1,816)
Operating profit in the subsidiaries	3,524	-	3,524
Other factors	114	-	114
Available capital resources as at 31 December 2013	37,516	9,541	47,057

Technical provisions	*UK non-profit £'000*	*former POIS Assurance Limited UK with-profits £'000*	*Total £'000*
As at 31 December 2013			
Unit-linked	1,068,996	-	1,068,996
With-profits liabilities	-	30,646	30,646
Non-profit liabilities	3,617	851	4,468
	1,072,613	31,497	1,104,110
Claims outstanding	687	404	1,091
Reassurance	(38)	(536)	(574)
Technical provisions in the balance sheet	1,073,262	31,365	1,104,627
As at 31 December 2012			
Unit-linked	1,015,032	-	1,015,032
With-profits liabilities	-	36,963	36,963
Non-profit liabilities	4,320	908	5,228
	1,019,352	37,871	1,057,223
Claims outstanding	788	500	1,288
Reassurance	(38)	(564)	(602)
Technical provisions in the balance sheet	1,020,102	37,807	1,057,909

The were no material options or guarantees included within the Technical provisions at either 31 December 2013 or 31 December 2012.

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 PRA. These regulatory capital tests are based upon required levels of solvency capital and a series of prudent assumptions in respect of the type of business written by the Society.

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

18 Capital position statement (continued).

Restrictions on available capital resources

The Society is required to hold sufficient capital to meet the PRA'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 £49m (2012: £42.4m) of which £9.5m (2012: £10.4m) is held in with-profits funds and £39.5m (2012: £32m) 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 fund 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 1324% of the capital requirement of £3.7m (2012: 1087% of £3.9m).

Capital resource sensitivities

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

The most significant sensitivities arise from the following three risks:

- Market risk in relation to the unit-linked business, which would arise if there were adverse changes in the value of unit-linked assets. The Society's most significant income stream is derived as a fixed percentage of the market value of unit-linked assets. A 30% decrease in the value of the unit-linked investments held by the Group would reduce available capital resources by approximately £23.2m (2012: £18.8m), 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 £3.9m (2012: £2.2m).

- 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 50% would reduce available capital resources by approximately £2.7m (2012: 80% to £1.5m).

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 2013 amounted to £540k (2012: £525k).

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.

An actuarial valuation was carried out as at 31 December 2013 by an independent qualified actuary in accordance with FRS17. As required by FRS17, the defined benefit liabilties have been measured using the projected unit method.

The expected rate of return on assets for the financial year ending 31 December 2013 was 6.1% pa (2012: 5.8% pa). This rate is derived by taking the weighted average of the long term expected rate of return on each of the asset classes that the Scheme was invested in at 31 December 2012.

The following table sets out the key FRS17 assumptions used for the Scheme. The table also sets out, as at 31 December 2013, 2012 and 2011, 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:	*2013*	*2012*	*2011*
Retail Prices Index Inflation	3.6%	3.2%	3.3%
Consumer Prices Index Inflation	2.6%	2.5%	2.3%
Revaluation in deferment	2.6%	2.5%	2.3%
Pension increases:			
pre April 1997 pension	0.0%	0.0%	0.0%
post April 1997 pension	3.4%/2.6%*	3.1%/2.5%*	3.2%/2.3%*
post April 2005 pension	2.0%*	2.0%*	1.9%*
Salary growth	n/a	n/a	n/a
Discount rate	4.6%	4.5%	4.8%

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

Investment returns:			
Equities	7.6%	7.0%	7.0%
Gilts	3.6%	3.0%	3.0%
Corporate bonds	4.6%	n/a	n/a
Diversified growth / absolute return funds	6.9%	6.3%	6.3%
Cash	1.3%	0.5%	0.6%
Other assets	4.6%	4.5%	4.8%
Life expectancy:			
male aged 65 at the balance sheet date	23.0 years	22.7 years	22.3 years
male aged 65 in 2038 (25 years from balance sheet date)	25.8 years	24.9 years	24.0 years

Fair value of assets	*2013 £'000*	*2012 £'000*	*2011 £'000*
Equities	22,551	19,651	16,197
Gilts	6,864	6,064	5,567
Corporate bonds	779	-	-
Diversified growth / absolute return funds	4,696	4,257	3,371
Cash	9	18	974
Other net assets	299	292	290
Total fair value of assets	35,198	30,282	26,399
Present value of liabilities	(32,604)	(31,984)	(29,035)
Pension surplus / (deficit)	2,594	(1,702)	(2,636)
Adjustment for asset limit	(2,594)	-	-
Gross pension liability	-	(1,702)	(2,636)

Over the year to 31 December 2013, the Society made contributions amounting to £2.012m to the Scheme (2012: £2m). As part of a staged programme of additional contributions designed to remove the deficit, the Society is committed to pay £1.67m into the Scheme by 31 October 2014, plus the Pension Protection Fund levies due, where these are met from the Scheme assets. The Society will continue to make additional contributions after 31 October 2014, to remove any remaining deficit, up to £2m for 2014. Additionally, the Society has agreed to make a contribution of £13k in 2014, in respect of discretionary pension increases.

The post retirement deficit under FRS17 moved as follows:

	2013 £'000	2012 £'000
Post retirement deficit as at 1 January	**(1,702)**	**(2,636)**
Contributions (employer)	2,012	2,000
Other net finance income:		
Past service cost	(13)	(12)
Past service cost extinguished due to unrecognised surplus	13	-
Expected return on pension scheme assets	1,866	1,573
Interest on post retirement liabilities	(1,415)	(1,381)
Restriction on expected return due to unrecognised surplus	(451)	-
Net return credited to finance income	-	180
Actuarial (loss) / profit		
Actual return less expected return on pension scheme assets	2,125	834
Experience gain / (loss) arising on pension scheme liabilities	47	(18)
Loss due to changes in assumptions underlying the present value of scheme liabilities	(326)	(2,062)
Actuarial gain / (loss) recognised in the fund for future appropriations	1,846	(1,246)
Loss due to movement in the balance sheet limitation	(2,156)	-
Post retirement deficit as at 31 December	**-**	**(1,702)**

History of experience gains and losses	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Actual return less expected return on pension scheme assets	2,125	834	(2,153)	1,335
As a percentage of pension scheme liabilities at end of year	-6%	-3%	8%	-5%
Experience gain / (loss) arising on pension scheme liabilities	47	(18)	(13)	1,276
As a percentage of pension scheme liabilities at end of year	0%	0%	0%	-5%
Actuarial gain / (loss) recognised in the fund for future appropriations	1,846	(1,246)	(3,079)	4,469
As a percentage of pension scheme liabilities at end of year	-6%	4%	11%	-16%

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.

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 2013 £'000	*Group 2012 £'000*	*Society 2013 £'000*	*Society 2012 £'000*
Family Asset Trust	65,781	59,118	65,781	59,118
Family Charities Ethical Trust – Accumulation Units	9,460	8,060	9,460	8,060
Family Balanced International Fund – Share Class A	839,478	788,360	839,478	788,360
Family Balanced International Fund – Share Class C	87	-	87	-
	914,806	855,538	914,806	855,538

During 2013, 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 2013 £'000	*Group 2013 units*	*Society 2013 £'000*	*Society 2013 units*
Family Asset Trust	1,249	514,500	1,249	514,500
Family Charities Ethical Trust – Accumulation Units	157	24,000	157	24,000
Family Balanced International Fund – Share Class A	5,103	1,584,624	5,103	1,584,624
Family Balanced International Fund – Share Class C	85	72,678	85	72,678
	6,594		6,594	

22 Other financial commitments.

The Society and Group have the following commitments under non cancellable operating leases:

	Land & Buildings		*Other*	
	2013 £'000	*2012 £'000*	*2013 £'000*	*2012 £'000*
Less than a year	-	-	-	-
Between 2 and 5 years	-	-	62	-
More than 5 years	-	-	-	-
	-	-	62	-

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