

MGM Advantage

Summary financial statement 2010

Full Annual Report and Accounts

This summary financial statement provides a summary of MGM Advantage's performance during 2010 and the state of affairs of the Society at the end of the year.

This document does not contain sufficient information to allow you as full an understanding of the results and state of affairs of MGM Advantage, and of its policies and arrangements concerning directors' remuneration, as would be provided by the Annual Report and Accounts 2010.

The Auditor's report in the Annual Report and Accounts 2010 was unqualified and did not contain statements under sections 498(2) and (3) of the Companies Act 2006.

If you would like a copy of the full Annual Report and Accounts 2010 free of charge and/or all future years, please telephone 01903 836067 or e-mail customers@mgmadvantage.com. Alternatively, you can view and download the full Annual Report and Accounts 2010 by visiting the Society's website - www.mgmadvantage.com.

Summary Chief Executive's statement

Strategic performance

Our strategic focus on the retirement income market continues to be extremely successful. In another record year for sales for the Society, new gross written annuity premiums rose to £191 million. In 2010 we sold more than 2,500 Enhanced Annuity policies and more than 500 Flexible Income Annuity policies.

Sales of the Flexible Income Annuity have particular strategic importance within these results. It is a ground-breaking product in two important respects. Firstly, it meets a key need for retirees by giving them access to possible investment growth and the ability to change the level of income they receive at different stages of their retirement. The product is proving to be highly valued amongst advisers and customers.

Secondly, the design of the Flexible Income Annuity means that policyholders participate in the miscellaneous surpluses of the Society and the Financial Services Authority ("FSA") agreed to designate it as a With Profits product.

These factors are hugely significant for the Society, as it means policyholders become members of the Society which is vital to the continuity of our successful mutual model and demonstrate that MGM Advantage is playing a leading role in the development of the mutual sector.

This product also demonstrates the Society's commitment to delivering solutions that meet genuine customer needs and I look forward to announcing further product developments in 2011. We'll carry on working closely with the FSA to ensure our products and services continue to put the economic interests of our members at the heart of everything we do and above all other considerations.

Solvency II

All insurers are currently facing the challenge of preparing for Solvency II, the new EU capital regime that is due to be implemented at the beginning of 2013. The new regime will have a considerable impact on the capital required to be held by insurers and, in 2010, we concluded a major strategic project to assess the potential impact on the Society and identify ways to mitigate this impact.

Progressing the Society's ability to meet the requirements of Solvency II will be a major focus for us in 2011, and I'm confident that our proactive approach will put the Society in the best possible position to protect the long term capital strength of the Society. However, the internal resources and effort needed to address Solvency II are significant and there are still many "unknowns" that the Society, and other insurers, are likely to face in the year ahead.

Capital

After the volatility of 2009, a sense of economic stability returned to the market in 2010 - although we remain vigilant to the risk of further market turmoil. During 2010, we took a number of actions to further strengthen and stabilise our capital position and I am pleased to report that, at the end of 2010, our capital position was within our agreed risk appetite.

Each year, I make reference to the Society's Fund for Future Appropriations, which represents the surplus capital we hold and is often used as a measure of financial strength. At the end of 2009, the Fund stood at £114.5m. By the end of 2010 it had risen by £8.5m to £123.0m.

Financial performance highlights

The Society's gross written premiums increased by £14m from £205m last year to £219m in 2010, driven by the increase in the annuity business. Investment income remained constant at £50m. However, investment gains of £78m in 2010 were £13m lower than 2009, which reflected a large part of the recovery from the global financial sector crisis.

Net operating expenses increased by £5m from 2009 with an increase in staff numbers to support business development and our preparations for Solvency II.

In that context I am pleased to announce that in 2010 the transfer to the Fund for Future Appropriations was £8.5m, an excellent outcome. Overall the annuity business produced a surplus of just under £7m and, for the first time, the contribution from new business covered all business acquisition costs.

MGM International

During 2010, we successfully completed the legal process to transfer MGM International Assurance Limited ("MGMI") policies into the UK and MGMI was liquidated. Customers with MGMI policies are now looked after by our head office team in the UK and this transfer has improved the Society's capital position by £4m and resulted in reduced administration costs without any reduction in the service provided to these members.

Summary directors' report

Principal activities and business review

The principal activities of the Society are the transaction of annuity business and the administration of a portfolio of existing life and pensions business in the United Kingdom.

The Society is the UK's longest registered company and a provider of annuity and retirement related products to retail customers. It is a mutual and hence is wholly owned by its members, with membership being granted to any customer holding a policy with the Society which, under the Articles of Association, "participates in the profits of the Society". The membership currently stands at around 17,500, of which approximately 750 (including joint lives) are Flexible Income Annuity members. The Flexible Income Annuity was launched in 2010 and is a member-generating product designed to reverse the decline in membership.

In addition to selling annuities, the Society continues to administer premiums and claims on an existing book of policies sold by its appointed representative network, which was closed in September 2007, and independent financial advisers.

Summary financial statement

The summary financial statement has been prepared on the basis of accounting policies set out in the Annual Report and Accounts 2010 and the financial information for the periods shown has been abridged from those accounts. The summary financial statement was approved by the Board of directors.

Directors

Details of the membership of the Board are shown on pages 2 and 3 in the full Annual Report and Accounts 2010, and are contained in the Directors' remuneration report within this document. The full responsibilities of the Board are set out in the members' section of the Society's website.

Regulatory environment

The annuity, life assurance, pensions and investment business undertaken by the Society is all regulated under the Financial Services and Markets Act 2000. Therefore, the Society is authorised by the Financial Services Authority ("FSA") and is bound by the rules and guidance within its various Handbooks. The Society has always sought to fully meet the regulatory requirements applicable to the business it undertakes and has never been the subject of regulatory censure.

Corporate governance

As a mutual, the Society fully subscribes to the Annotated Combined Code for Mutuals ("the Code"), which was introduced to ensure sound, transparent corporate governance standards for mutuals. The Code, which is based upon the Combined Code for Stock Exchange listed companies, became effective for accounting periods commencing 1 January 2006. During 2010, the Society complied with all material requirements of the Code.

A full Corporate Governance statement is included on pages 8 to 12 of the Annual Report and Accounts 2010.

Objectives

The Society's main objectives are to:

- manage the Society for the benefit of its members;
- provide its customers with efficient service in relation to all aspects of the administration of their policies; and
- ensure that its operations remain efficient and cost effective.

Subsidiaries

Previously, the Society had only one subsidiary transacting regulated financial services business, MGM International Assurance Limited ("MGMI"), based in Dublin. This subsidiary, which sold With Profits business through independent distributors in Germany, Belgium and Netherlands, closed to new business in February 2009. In 2010 the legal process to transfer the book of MGMI business to the UK and administer the policies from the Society's Head Office in Worthing was completed and MGMI was officially liquidated.

Risk management and control

As an insurer, the Society operates in a risk environment. To ensure that operational risks are appropriately identified, a formal risk management framework operates within the

Society and this is monitored by the Head of Compliance and Risk and reviewed by the Risk Steering Group, the Society's Audit and Budget Committee and the Board.

In 2011 the newly created Risk Committee will assume the responsibility for monitoring risk from the Audit and Budget Committee. The Society is also using the FSA's Individual Capital Assessment ("ICA") process to embed sound risk management practices across the organisation. The ICA requires an analysis of market, interest rate spread and credit, insurance, operational, liquidity and group risks and these are covered in more detail in note 24 to the Annual Report and Accounts 2010.

Employee involvement

The Society does not have shareholders and therefore a conventional share ownership scheme is not appropriate. However, employees are encouraged to become members and policyholders and thereby share in the long term prosperity of the Society. Bonus schemes are in force where appropriate to encourage employee involvement in the Society's annual performance. Throughout the year, the Society has endeavoured to provide employees with information about the financial and economic factors affecting the business. Individual appraisals and counselling take place with all members of staff at which they are encouraged to express their views on decisions likely to affect their interests. Written material is made available to employees by means of circulars, handbooks and notice boards and through 'Connect', the Society's intranet site.

Equal opportunities

The Society is committed to the principle of equal recruitment, training, development and treatment of all employees irrespective of their race, ethnic origin, nationality, disability, sex or sexual orientation, religious convictions and age.

Charitable and political donations

Charitable donations made by the Society in the UK during 2010 amounted to £1,259 (2009: £1,735). There were no donations for political purposes.

Member relations

The Society publishes a regular member newsletter and its website has a members' area on it called 'Member Central'. This provides members with easy access to relevant information such as product literature and useful generic information, such as guides to retirement income. Members are also given the opportunity to provide feedback throughout the year by means of the Member Survey.

Going concern

The Code specifies that the Board should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

The Board notes the Society's capital position, as set out in note 22 to the Annual Report and Accounts 2010, and the satisfactory conclusion of its contribution to the Financial Services Authority 'Chrysalis' project. It therefore considers that the Society has the ability to service its debts as they fall due and is indeed a going concern.

Capital position statement

The regulatory and realistic positions are summarised below

	2010		2009	
	Regulatory £m	Realistic £m	Regulatory £m	Realistic £m
Working Capital	104.7	117.9	98.4	105.4
Capital Requirement	(40.4)	(13.9)	(33.8)	(10.5)
Available Capital Resources	64.3	104.0	64.6	94.9

Summary financial statement

The summary financial statement consists of:

	2010 £'000	2009 £'000
Summary profit and loss account and statement of total recognised gains and losses		
Gross premiums written - long-term business	218,848	204,955
Outward reinsurance premiums	(95,036)	(96,090)
Other income	129,282	144,110
Claims incurred, net of reinsurance	(92,506)	(74,918)
Change in other technical provisions, net of reinsurance	(89,815)	(65,629)
Change in value of investment contracts	(28,556)	(44,360)
Net operating expenses	(30,964)	(25,285)
Profit on ordinary activities before tax	11,253	42,783
Tax charge on profit or loss on ordinary activities	(2,261)	(1,390)
Profit and loss transfer to the fund for future appropriations	8,992	41,393
Total recognised losses relating to the year transferred to the fund for future appropriations	(515)	(14,931)
Total transfer to the fund for future appropriations	8,477	26,462
Summary balance sheet	2010 £'000	2009 £'000
Assets		
Investments	1,606,770	1,397,440
Reassurers' share of long-term business provision	250,604	170,626
Other assets	46,786	54,476
Total assets	1,904,160	1,622,542
Liabilities		
Fund for future appropriations	122,947	114,470
Gross technical provisions	1,528,504	1,314,022
Pension scheme liability	12,478	15,819
Other liabilities	240,231	178,231
Total liabilities	1,904,160	1,622,542

This summary financial statement was approved by the Directors on 23 March 2011 and signed on their behalf by:



Chris Evans, Chief Executive

Auditor's statement

Independent auditor's statement to the members of Marine and General Mutual Life Assurance Society

We have examined the summary financial statement for the year ended 31 December 2010 which comprises the summary profit and loss account, summary balance sheet, summary directors' report and summary directors' remuneration report set out on pages 6 to 8.

This statement is made solely to the company's members, as a body, in accordance with section 427 of the Companies Act 2006. Our work has been undertaken so that we might state to the company's members those matters we are required to state to them in such a statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of directors and auditor

The directors are responsible for preparing the summarised financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statement within the Summary Financial Statement 2010 with the full annual financial statements, the directors' report and the directors' remuneration report, and its compliance with the relevant requirements of section 427 of the Companies Act 2006 and the regulations made thereunder.

We also read the other information contained in the summary financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statement.

Basis of opinion

We conducted our work in accordance with Bulletin 2008/3 "The auditor's statement on the summary financial statement in the United Kingdom" issued by the Auditing Practices Board. Our report on the Society's full annual financial statements describes the basis of our audit opinions on those financial statements, the directors' report and the directors' remuneration report.

Opinion

In our opinion the summary financial statement is consistent with the full annual financial statements, the directors' report and the directors' remuneration report of Marine and General Mutual Life Assurance Society for the year ended 31 December 2010 and complies with the applicable requirements of section 427 of the Companies Act 2006 and the regulations made thereunder.



Philip Smart, Senior Statutory Auditor,
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
23 March 2011

Summary directors' remuneration report

This report is extracted from the Remuneration report and is a summary of the Society's remuneration policy and practice. Full information appears in the Annual Report and Accounts 2010.

This report sets out the Society's policy for directors' remuneration. Setting the policy, and the remuneration of the Society's directors, is the responsibility of the Remuneration and Nominations Committee. The Committee's terms of reference are set out on pages 8 to 9 in the Annual Report and Accounts 2010.

Executive directors

The Society's remuneration policy is designed to attract, motivate and retain those with the appropriate experience, knowledge, skills and attributes to act as directors of the Society and hence contribute to maximising the benefits of the Society's members. No executive director has a contract containing a notice period in excess of one year. The remuneration of each executive director is reviewed annually and contains the following elements:

Salary

Executive director salaries are determined by reference to data obtained from employment benefit consultancies in relation to firms of a similar size and market sector as the Society. The salary, which is reviewed annually in the light of performance and factors such as inflation, is the only element which is pensionable.

A review of executive remuneration carried out by PricewaterhouseCoopers Consulting ("PwC") in 2009 concluded that the total remuneration for the senior management team was, on average, between lower quartile and median when benchmarked against an appropriate, externally validated, comparator group. In particular the salary of the Chief Executive Officer was below the lower quartile. This was reviewed in 2010 by the Remuneration Committee and a decision was taken to implement increases where appropriate to reflect current market demands.

Bonus

The Society operates a bonus scheme and a Long Term Incentive Plan ("LTIP") for executive directors. The bonus is determined by the participant's personal performance in their role. Performance is determined by the achievement of personal objectives and the demonstration of appropriate behaviours during the year. The terms of the LTIP, which links awards to growth in the Society's long term working capital, are available in the members' section of the Society's website. For further information on LTIP amounts provided for at the year end, please refer to note 29 in the Annual Report and Accounts 2010.

Pension

On 30 April 2010, the Society closed its final salary defined benefit pension scheme, the Staff Pension Plan ("SPP"), to further accrual and members' benefits were deferred until retirement. Those executive directors appointed prior to 2009 were members of this Plan.

On 1 May 2010 the Society opened a defined contribution Group Personal Pension Plan Scheme ("GPPP") and the executive directors who were in the SPP are now members of this scheme. In addition the executive director who joined post 2009 is a member of the GPPP. This scheme will be open to any executive director appointed hereafter.

Life insurance cover

The Society provides life insurance cover at eight times annual salary for all employees, including the executive directors. This was increased in May 2010 from four times annual salary following the closure of the defined benefits pension scheme. The defined benefits pension scheme had offered spouses/dependants a pension in the event of an employee's death. The defined contribution plan does not offer this and this increase in life cover is to compensate.

Private medical insurance

The Society provides private medical insurance cover for executive directors and their immediate families.

Non executive directors

All the Society's non executive directors are appointed under a contract for services. The remuneration of the non executive directors is agreed by the members every three years at the Society's AGM. This matter was last considered by the members at the AGM in 2008 and is due to be considered at the AGM in 2011.

Non executive directors are not provided with any benefits in addition to their basic remuneration.

Remuneration of directors

	Salary/Fees		Bonuses		Other Benefits ¹		Total	
	2010	2009	2010	2009 (restated) ²	2010	2009	2010	2009 (restated) ²
	£	£	£	£	£	£	£	£
Executives								
Chris Evans ³	230,000	230,000	78,200	148,800	62,922	75,808	371,122	454,608
David Middleton ⁴	-	49,154	-	-	-	11,910	-	61,064
Sara Charman	153,928	144,200	54,400	80,752	38,773	49,671	247,101	274,623
Robert Craig Fazzini-Jones	150,392	136,250	54,400	78,400	35,044	48,669	239,836	263,319
Geoff Shanks	171,912	10,115	58,667	47,600	40,751	2,204	271,330	59,919
	706,232	569,719	245,667	355,552	177,490	188,262	1,129,389	1,113,533
Non Executives								
Sir William Proby	75,000	75,000	-	-	-	-	75,000	75,000
Laurie Edmans	45,000	45,000	-	-	-	-	45,000	45,000
Moira Siddons	45,000	35,000	-	-	-	-	45,000	35,000
Michael Arnold ⁵	33,750	35,000	-	-	-	-	33,750	35,000
Angela Burns	45,000	45,000	-	-	-	-	45,000	45,000
Brian Harrison	9,923	-	-	-	-	-	9,923	-
Isabel Hudson	3,750	-	-	-	-	-	3,750	-
Susan Sharland ⁶	-	26,250	-	-	-	-	-	26,250
	257,423	261,250	-	-	-	-	257,423	261,250

Note 1 - Other benefits include employer's pension contributions paid into the pension schemes.

Note 2 - 2009 comparatives for bonuses have been restated to the accruals basis to correspond with the Society's accounting policies. They were previously reported on a cash basis in the year they were paid rather than in the year in which they were earned.

Note 3 - The 2009 bonus for Chris Evans includes £20k paid in 2010 but which was earned and deferred in 2009.

Note 4 - David Middleton resigned as a director on 31 March 2009.

Note 5 - Michael Arnold resigned as a director on 30 September 2010.

Note 6 - Susan Sharland resigned as a director on 30 September 2009.

Long term incentive plan

During 2010, the LTIP scheme rules were amended. The most significant change was the removal of the restriction whereby payments would not be made to participants unless the Society's realistic working capital at the end of a performance period exceeded the 31 December 2007 realistic working capital of £133m.

The rule changes had no impact upon the fair value of the 2008 award, which would have vested in 2010, as performance targets were not met and the award was £nil. The rule changes have also meant that amounts have been accrued for the 2009 and 2010 awards.

LTIP awards are only disclosed in the Remuneration report when awards become payable, which is at the end of the performance period if, or when, an award vests. Further details of the LTIP are shown in note 29 to the Annual Report and Accounts 2010.

Pension benefits

Defined contribution		Total transfer value at 31 Dec 2010	Increase in transfer value during 2010	Change in transfer value during the year net of directors' contributions
	Age	£'000	£'000	£'000
Executives				
Chris Evans	54	37	37	28
Sara Charman	43	18	18	14
Robert Craig Fazzini-Jones	35	18	18	12
Geoff Shanks	56	69	54	31

The main term applying to the defined contribution pension of the executive directors is that their pension is payable from normal retirement age of 65.

Defined benefit		Total annual pension payable at 31 Dec 2010 ¹	Increase in annual pension payable during 2010	Total transfer value of accrued pension at 31 Dec 2010 ²	Change in transfer value during the year net of directors' contributions
	Age	£'000	£'000	£'000	£'000
Executives					
Chris Evans	54	10	1	141	22
Sara Charman	43	46	1	611	33
Robert Craig Fazzini-Jones	35	5	1	37	5

The main terms applying to the final salary pension of the executive directors 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. The plan closed to accrual with effect from 30 April 2010.

Note 1 - The total accrued pension is the amount which the director would have been entitled to from normal retirement age if they had left service on 31 December 2010.

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