

# MGM Advantage

Annual Report and Accounts 2009

## Contents



Sir William Proby  
Chairman

Directors	2 - 3
Chairman's statement	4 - 5
Chief Executive's statement	6 - 11
Corporate governance	12 - 20
Remuneration report	21 - 24
Directors' report	25 - 29
Statement of directors' responsibilities	30
Auditor's report	31 - 32
Group profit and loss account:	
Technical account - long-term business	33
Group statement of total recognised gains and losses	34
Balance sheets	35 - 36
Notes to the financial statements	37 - 76
Notice of meeting	77
How to contact us	78

### Registered name

MGM Advantage is the trading name of  
Marine and General Mutual Life Assurance Society.  
Registered no. 00000006

### Registered office

MGM House, Heene Road, Worthing, West Sussex, BN11 3AT

Telephone	+44 (0)1903 836067
Fax	+44 (0)1903 836006
Internet	<a href="http://www.mgmadvantage.com">www.mgmadvantage.com</a>
Email	<a href="mailto:customercentre@mgmadvantage.com">customercentre@mgmadvantage.com</a>

## Directors

### Non executive directors



Sir William Proby

**Sir William Proby** Bt CBE DL MA FCA

Chairman, aged 60. Appointed 28 July 2006.

Chairman of Keygate Property Investments Limited and Elton Estates Company Ltd. Trustee of the National Portrait Gallery.



Laurie Edmans

**Laurie Edmans** CBE FCII FPMI

Deputy Chairman, aged 61. Appointed 10 March 2008.

Chairman of Safe Home Income Plans Ltd, Deputy Chairman of Computer Patent Annuities (Holdings) Ltd, Director of BDifferent Ltd, The Pensions Regulator and The Pensions Policy Institute.



Moira K Siddons

**Moira K Siddons** FCA

Aged 60. Appointed 25 July 2003.

Independent Member of the Balancing and Settlement Code Panel; Executive Coach.



Michael Arnold

**Michael Arnold** BSc FIA

Aged 62. Appointed 28 May 2004.

Director of Financial Information Technology Ltd, Old Mutual plc and Scottish Equitable Policyholder Trust Ltd.



Angela Burns

**Angela Burns** BSc (Econ) MA MInstD

Aged 46. Appointed 18 December 2008.

Director of Aktiva Ltd and Sarasin Alpha CIF funds.

The following non executive director resigned 30 September 2009:  
Dr. Susan M Sharland MA PhD

## Directors

### Executive directors



Chris Evans

#### **Chris Evans**

Chief Executive.  
Aged 53.  
Appointed 13 August 2007.



Sara Charman

#### **Sara Charman**

Executive Director (Operations).  
Aged 42.  
Appointed 19 February 2007.



Robert Craig Fazzini-Jones

#### **Robert Craig Fazzini-Jones** BA CIPD

Executive Director (Designs for Retirement).  
Aged 34.  
Appointed 23 July 2008.



Geoff Shanks

#### **Geoff Shanks** BA MBA FCA FCII

Executive Director (Finance and Actuarial).  
Aged 55.  
Appointed 9 December 2009.

### Company secretary



Alan J Futter

#### **Alan J Futter** CPFA ACoI

Aged 58.  
Appointed 1 January 2002.

The following executive director resigned 31 March 2009:  
Dave Middleton FIA

## Chairman's statement

4

2009 started with some of the most difficult circumstances in financial markets that any of us can remember. Fortunately by the autumn, partly as a result of massive global government intervention, some stability returned to markets and the general situation improved with rising equity values and a narrowing of the gap in value between corporate bonds and gilts. However the situation is far from resolved and there remains a strong chance of a "double dip" recovery, leaving aside the massive longer term problem of repaying huge levels of government debt.

In these difficult circumstances, our first priority remains the security of our policyholders' assets and it is pleasing to report that the Society's solvency margin strengthened significantly from its low point in 2008. We have taken steps to de-risk exposure to some of our liabilities to ensure that we are well placed to withstand any future knocks.

Against this difficult background we were delighted to report encouraging progress on our new annuity business. Firstly, we enjoyed an excellent year with our enhanced annuity business with sales and margins ahead of budget. Also, in February 2010, after the year end, we launched our new Flexible Income Annuity product. We believe that this will be attractive to consumers, will generate a good margin and, as a product that includes participation in the profits of the Society, policyholders will become members. The product is already receiving very positive feedback from financial advisers and its launch represents a significant step forward in the Society's strategic plans. Its success will bring a new generation of members to the Society and existing members will also benefit from the profits it generates.

Another significant project we started last year was a radical review of our investment model. The aim is to reduce the Society's fund management costs and deliver a better investment return for policyholders. This project is progressing well and Chris Evans will report more fully on this in his report.

There have been a number of Board changes over the year. Susan Sharland stepped down after six successful years and we are most grateful to her for the major contribution that she made to the development of the Society. Dave Middleton resigned as Finance Director to take an opportunity to work closer to home in Birmingham and we welcome Geoff Shanks, the new Finance Director, to the team. He brings extensive experience of our sector.

On behalf of the Board, I record our thanks to our Executive Team and all members of our staff who have worked so hard, often in difficult circumstances, throughout the year. The successes we have achieved are largely due to them.

There are many challenges ahead, not least complying with the new rules arising from the 'Solvency II' requirements, the proposed EU capital regime for insurers, but I am confident that the Society is in good shape and well placed to take advantage of the opportunities ahead.

A handwritten signature in black ink that reads "William Proby". The signature is written in a cursive style with a long, sweeping underline.

**Sir William Proby**

Chairman

24 March 2010

## Chief Executive's statement

6

The recession that followed the banking crisis persisted through most of 2009 and presented the Society with a challenging operating environment for a second year. Despite this, we made a great deal of progress and achieved a number of successful outcomes for the Society and its members.

In my last two statements, I have talked about the Society's new strategy of serving the enormous and growing retirement market and becoming a leading provider of specialist annuities. In 2009, despite the continuing turmoil in the financial markets, the Society returned to growth and achieved record sales, reinforcing the wisdom of this significant strategic change.

### Strategic Performance

The Society's annuity strategy continues to be extremely successful. At the start of 2009, the Board set an annual sales target of £158m of enhanced annuity business at a profit margin of 3%. Given that the Society's re-entry into the annuity market had only taken place six months earlier, this was a very challenging target. I am very pleased to report that not only was this sales target achieved, it was exceeded by more than 6%. The final sales figure was more than £168m, representing 2,800 new annuity policies, a level of sales never previously achieved. Added to this, the feedback from independent financial advisers (IFAs) has been extremely positive with over 1,000 IFA firms placing business with the Society during the year.

Capitalising on the momentum created by the success of the enhanced annuity, the Society developed an innovative new investment backed annuity – the Flexible Income Annuity. This new approach to annuity provision is industry-leading, both in terms of product design and in the evolution of mutual organisations.

In October 2009, the industry's regulator, the Financial Services Authority (FSA) wrote to all Chief Executives of Mutual Societies laying out new criteria for making sure a mutual organisation's strategic plans are fair and appropriate in regard to the interests of existing With Profits policyholders. I am very glad to report that the FSA has indicated that the launch of the Flexible Income Annuity meets the FSA criteria for new, member-generating products. This provides an extremely positive framework for the future prospects of the Society and its members as we seek to build surpluses available for distribution.

In my statement last year, I assured the Society's members that despite the successful launch of the new strategy, the Board had no intention of becoming complacent or underestimating the work that still needed to be undertaken. Despite the completion of another promising year, I would like to repeat that assurance. The Society is still only part of the way into a long term plan to create value for members through the retirement income market and there remains much to do.

What's more, the Flexible Income Annuity has been awarded five stars by Moneyfacts, one of the UK's leading sources of independent financial advice. The top accolade was awarded on the basis of the product's simplicity, low charges, investment choice and income flexibility. This is the first and, to date, only Five Star award made to a retirement income product by Moneyfacts.

## Capital

The capital markets continued to be volatile through much of 2009 and this of course had the potential to adversely impact the Society's own financial strength. During 2009, the Society conducted a comprehensive assessment of its capital position and the impact upon that position should a "1 in 200 year" catastrophic event occur. This "Individual Capital Assessment" (ICA), needs to evidence that the firm not only has sufficient capital to meet its current needs and foreseeable business risks, but also to survive the aforementioned catastrophic event. I am glad to report that our ICA evidenced that not only was such cover in place but that the Society's capital position improved notably during 2009.

Each year I make reference to the Society's Fund for Future Appropriations, which represents the surplus capital held and which is often used as a measure of financial strength. At the end of 2008, the Fund stood at £88m, following a fall during that year, but by the end of 2009, it had risen to £114m. As in previous years, the Board took action during the year to safeguard the Society's capital position and this included putting a financial hedge in place, through two derivative contracts, to protect against falls in the UK and overseas equity markets.

In the earlier part of 2009, in response to the financial crisis and to preserve the capital of the Society, payouts for many With Profits customers were reduced. In many cases, this position was reversed later in the year as markets and investment returns began to recover. Although the impact on individual policyholders varies, the value of guarantees within these With Profits policies has protected policyholders from the worst effects of the market decline.

The Board discusses risk and capital issues at every meeting and it will continue to keep this extremely important area under constant review. To help this process, the Society has developed a comprehensive matrix of “risk triggers” which allows the Board to assess the capital impact of a wide range of factors and market conditions. This not only enables us to more effectively monitor and manage the Society’s capital position, but also to react quickly and appropriately to external events which have the potential to cause adverse capital effects.

I could not end this section on the subject of capital without making some reference to ‘Solvency II’, the new EU capital regime for insurers, which is to be implemented in 2012. The new regime as currently envisaged by the authorities will have a considerable impact upon insurers and place more onerous capital requirements upon firms. With that in mind, the Society has started a major project, with external specialist assistance, to assess the potential impact of the new requirements on the Society and identify appropriate action to minimise any detrimental effects or capitalise on market opportunities.

### Operational Costs

Although considerable work continues to be undertaken to promote the Society’s new business strategy, significant attention is still paid to the requirements of the Society’s existing customers. Last year, I reported that the administration of all the Society’s existing policies had been successfully migrated to a new modern IT system and, in its first full year of operation, it has continued to provide operating efficiencies and a positive impact on operational costs.

Also last year, I reported on the Society's new target operating model, which was seeking a significant reduction in the Society's annual operating costs over a three year time frame with a target to reduce annualised operating costs to £14.4m by the end of 2009. I can report that this was achieved. However, the Society's operations, and hence its cost base, are constantly changing and it is important to keep expenses under continual review. A further exercise will therefore be undertaken in 2010 to identify cost efficiencies and to drive out more cost savings.

### Changes to employee pension provision

Uncertain investment conditions, increasing regulatory demands and increasing life expectancy have all affected the cost and risk for companies running final salary pension schemes for employees.

In common with many employers, the Society has decided to close its final salary employee pension scheme to future accrual with effect from 1 May 2010. By taking this action the Society will reduce future volatility, costs and liabilities and free up capital.

All eligible employees will be offered membership of a version of the existing MGM Group Personal Pension Plan. The Society has consulted with the Trustees of the final salary scheme and is carrying out a comprehensive programme of consultation with its employees before introducing the changes.

### Investment Strategy

During the first quarter of the year, when equity markets were highly volatile, we decided to reduce equity exposure, in favour of increased short-dated bond exposures, reflecting the short period remaining to maturity for some policyholders. Whilst bonds have performed well since then, with the benefit of hindsight, equities have performed better, although the speed of recovery in the equity markets has been unprecedented.

In consequence, the investment returns overall have been less risky but have also been lower in absolute terms than those that might have resulted from a different asset allocation. On balance, we believe that protecting the bulk of the portfolio from volatility was the right decision in the light of evidence available at the time, but recognise that returns would have been higher had we remained more exposed to equities.

Another initiative started last year was a project to reduce the cost of the Society's fund management arrangements by moving from actively managed to passively managed equity funds. This will enable the With Profits funds and the Unit Linked Managed funds to benefit from a strategic asset allocation approach without being diluted by the higher cost of active fund management or the distortion that can be caused by stock selection. At the same time, a decision was made to reduce the number of legacy funds which, over the years, have become sub-optimal in size as a result of matured and surrendered investment policies.

The end result will be a streamlined range of individual funds in all the main asset classes (equities, property, bonds and cash) with equity exposure provided by low cost index tracking funds. Our Unit Linked policyholders can also choose an actively managed option in addition to the MGM Managed Fund. The first phase of the project was completed in December 2009 and we wrote to all affected policyholders to let them know about the changes. The final phase will be completed in May 2010 and we will again inform policyholders invested in affected funds of the changes.

The fund range for the new Flexible Income Annuity product has been designed to provide a choice of either actively or passively managed funds, with each option offering policyholders three fund choices to suit their risk profile; cautious, balanced and adventurous.

### MGM International

At last year's AGM, I reported that the Society's offshore subsidiary, MGM International Assurance Limited (MGMI), would close to new business given the Society's decision not to invest any further capital into the company. During 2009, the Society made considerable efforts to find a credible buyer for the business but, unfortunately, an appropriate buyer was not found. Therefore, the Society has commenced the legal process required to transfer the MGMI policies into the UK, where they will be administered more cost effectively, and with a lower overall capital cost on the Society's systems. MGMI will then be liquidated.

## Treating Customers Fairly

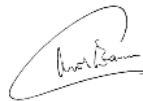
The Society continues to be a keen supporter of the FSA's Treating Customers Fairly initiative, encompassed in our "Customer Advantage" cross-functional activities that champion fairness for our policyholders and members.

The Society is proud of its customer service standards and considers them to be among the very best in the industry. Even so, it is always heartening to receive the reassurance of independent external assessment and in 2009 the Society was shortlisted for the "Customer Service Management Team of the Year" in the National Customer Care Service Awards. We also retained the 4 Star rating for "Service Proposition" that was first awarded to us in 2008 by the Financial Adviser trade newspaper.

We were also named as finalists in the CBI Human Capital Awards for Managing Change and we won the best new product category in a national financial services award for marketing effectiveness.

## And finally...

I look forward to meeting and discussing the above matters with those members able to attend the Society's AGM on Wednesday 26 May 2010.



**Chris Evans**

Chief Executive

24 March 2010

## 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 2009, the Society complied with all material requirements of the Code.

The Code specifies a range of matters which should be reported in the Annual Report and these are also set out below.

### The Board

Details of the membership of the Board can be found on pages 2 and 3. As at the end of the year, there were five non executive directors (including the Chairman) and four executive directors. The Society's Articles of Association prescribe that there must not be more than twelve directors.

In the past, the Board has ordinarily held meetings nine or ten times a year. However, in 2009, the Board met in person eleven times, with August being the only month without a meeting. In addition, there were a small number of conference call meetings held to discuss specific matters that had arisen. All Board meetings in 2009 were held in the UK and, on a small number of occasions, a director "attended" via conference call facilities. All the meetings of the Board were comprehensively minuted.

The full responsibilities of the Board are set out in the members section of the Society's website. The principal responsibilities are to:

- ensure that the Society maintains adequate systems and controls to enable all statutory and regulatory requirements to be fully and appropriately addressed;
- define, and keep under review, the objectives of the Society, including the formulation of strategic policy and its tactical implementation;
- define the powers and terms of reference of, and consider reports from, the Board committees to which responsibilities are delegated;

- maintain close scrutiny over exposure to risk in respect of the insurance, investment or other business transacted by the Society;
- approve the Society's expenditure budget and monitor performance against forecasts;
- authorise all major items of capital expenditure;
- approve the Society's operational policies for all aspects of its operations;
- authorise the distribution of surplus to members in the light of periodic actuarial valuations;
- review the composition of the Board so as to ensure a broad spectrum of knowledge and experience relevant to the Society's business.

Decisions made by the Board in respect of these matters are then enacted by the Society's management under delegated responsibility.

## Board Committees

The Board delegates responsibility for certain aspects of its remit to a number of committees. The membership of these committees, and their respective terms of reference, are set out below.

## Remuneration & Nominations Committee

Unlike the other Board committees, the Remuneration and Nominations Committee has no annual schedule of meetings and meets as and when required. It met three times in 2009. Only non executive directors serve on the committee in relation to the remuneration elements of its remit. The members of the committee during the year were:

Laurie Edmans (Chairman)  
Michael Arnold  
Chris Evans  
Sir William Proby  
Moira Siddons

As an executive director, Chris Evans is only a member of the committee for the nominations element of its remit.

Its terms of reference are to:

### Remuneration

- undertake an annual review of management salaries by considering the Chief Executive's recommendations regarding gradings and personal assessments;
- determine, and authorise on behalf of the Board, senior management salaries;
- approve and report to the Board the outcome of all reviews relating to revisions of salary scales, and staff remuneration generally, including bonus schemes;
- undertake an annual review of directors' fees and make recommendations to the Board;

### Nominations

- whenever vacancies for non executive directors occur, seek and review possible candidates for presentation to the Board for its consideration;
- review the individual performance of non executive directors and make appropriate recommendations to the Board from time to time.

The Code specifies that an explanation should be given where neither an external search consultancy, nor open advertising, was used for the appointment of the Chairman or a non executive director. With regard to the Society's appointment of non executive directors, the prescribed process does include the use of specialist external search consultancies. The prescribed process is to request the search consultancy, which will have been selected through a tendering process, to put forward a number of potential candidates. The Remuneration & Nominations Committee will then interview a number of the candidates, with a smaller number being invited for a second interview before a recommendation is made to the Board. However, there were no non executive director appointments in 2009.

## Audit & Budget Committee

The committee meets quarterly in relation to the audit aspects of its remit and annually, usually in November, to consider the Society's budget for the following year. Only non executive directors serve on the committee. The members of the committee during the year were:

Moira Siddons (Chairman)  
Angela Burns (from October 2009)  
Laurie Edmans

Its terms of reference are to:

- review, and challenge where necessary, the actions and judgements of management, in relation to the Society's financial statements, operating and financial review, interim financial reports, preliminary announcements and related formal statements before submission to, and approval by, the Board and before clearance by the external auditors;
- consider the scope, effectiveness and integrity of the Society's internal control systems;
- review the effectiveness of the systems, processes and plans designed to monitor and report upon compliance with laws and regulations;
- assess the scope of internal audit's, and external audit's, review of internal control over financial reporting, and obtain reports on significant findings and recommendations, together with management responses;
- review the periodic work on the determination of significant strategic and operational risks, and their management and control, carried out from time to time by senior management;
- ensure that the processes in place to identify, manage and mitigate risks are robust;

- receive quarterly reports from the Society's Risk Steering Group and monitor the activity being undertaken in relation to the management of risks;
- review the performance and effectiveness of the outsourced internal audit function;
- review management's responses to the findings and recommendations contained within internal audit reports;
- review the external auditors' proposed audit scope and approach, including co-ordination of effort with internal audit;
- review the relationship with, and performance of, the external auditors and recommend their appointment, remuneration or termination;
- consider the findings of the external auditors;
- review the processes established by senior management to prepare the Society's annual budget;
- review the financial goals and targets set for the Society and for each business activity;
- review the Society's annual operating and capital expenditure budgets and recommend them to the Board;
- monitor the Society's performance as compared to budget.

## Investment Committee

The committee meets quarterly (or more frequently if needed). The members of the committee during the year were:

Angela Burns (Chairman)  
Michael Arnold  
Chris Evans  
Susan Sharland (until September 2009)

Its terms of reference are to:

- formulate the Society's investment policy and objectives and review them from time to time;
- carry out regular reviews of the performance of the external investment managers and make recommendations to the Board on changing them where necessary;
- create investment guidelines for the asset classes within the Society's funds, approve the mandates for the external investment managers and monitor their adherence to the guidelines;
- review the performance of the Society's funds, and sub-funds, by reference to that of competitors;
- review and approve proposals on asset allocation proportions from the Society's advisers;
- review the performance of the Society's treasury function and receive reports on projected cash flows;
- approve investment actions for the investment of new monies or the realisation of investment funds;
- monitor the risk framework associated with the investment activities and ensure compliance with agreed policies and authorisations.

## With Profits Committee

The Committee meets quarterly (or more frequently if needed). Its remit is to consider significant issues relating to the management of the Society's With Profits funds. The members of the committee during the year were:

Michael Arnold (Chairman)  
Laurie Edmans  
Chris Evans  
Moira Siddons

Its terms of reference are to:

- oversee the technical financial management of the Society's affairs;
- ensure that the concept of fairness between policyholders is maintained;
- consider proposals on bonus distributions and make appropriate recommendations to the Board;
- receive regular reports regarding the financial performance of the Society and the resulting impact on long term prospects;
- formulate the Principles and Practices of Financial Management (PPFM) which will form the basis of the detailed financial management of the Society and to present them to the Board for review;
- consider the need for subsequent amendments to the PPFM and make recommendations to the Board accordingly;
- oversee the management of the Society's Estate and to make appropriate recommendations to the Board on substantial issues that arise;
- receive and review advice from the With Profits Actuary on the exercise of discretion in respect of With Profits business.

## Board and Committee Attendance

The details of attendance during 2009 for each director are shown below:

Director	Board	RNC	ABC	IC	WPC
Sir William Proby	10 of 11	3 of 3			
Michael Arnold	9 of 11	2 of 3		3 of 4	5 of 5
Angela Burns	11 of 11		2 of 2	4 of 4	
Sara Charman	11 of 11				
Laurie Edmans	10 of 11	3 of 3	5 of 5		5 of 5
Chris Evans	9 of 11	3 of 3		3 of 4	4 of 5
Craig Fazzini-Jones	11 of 11				
Dave Middleton (1)	3 of 3				
Susan Sharland (2)	8 of 8			2 of 3	
Moira Siddons	7 of 11	3 of 3	3 of 5		4 of 5

**RNC** Remuneration & Nominations Committee

**ABC** Audit & Budget Committee

**IC** Investment Committee

**WPC** With Profits Committee

(1) Resigned as a director in March 2009

(2) Resigned as a director in September 2009

## Evaluation of Board Performance

The Board undertakes a review of its performance each year. The review was undertaken in 2009 by means of a comprehensive questionnaire completed by all directors. The results of the review were presented to the Board at its meeting in February 2010.

In addition, the Chairman undertook an assessment of the performance of the Chief Executive and the Chief Executive assessed the performance of the executive directors.

As recommended by the Code, during the year the Chairman held meetings of the non executive directors without the executive directors present. Also as recommended by the Code, the non executive directors led by the Senior Independent Director and without the Chairman present, appraised the Chairman's performance.

## Independence of Non Executive Directors

The Code specifies a number of criteria to be used to assess the independence of non executive directors. All the Society's non executive directors fully met the criteria for independence throughout 2009.

## Senior Independent Director

The Code suggests that a firm's Board should appoint one of the independent non executive directors to be the Senior Independent Director. The role of the Senior Independent Director is to be available to members if they have concerns which contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve or for which such contact is inappropriate.

The Society's Board resolved that Laurie Edmans should serve as the Senior Independent Director during 2009. He can be contacted through the Company Secretary on 01903 836316.

## Directors' Remuneration

The remuneration of the directors is set out in detail on Page 23.

## Member Relations

The Society believes in an open and honest dialogue with its members. With this in mind, it introduced a new newsletter in April 2009 to provide members with information about the Society's operations.

The Society also recently introduced a new Member Relations strategy and a members area on the website 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 the Board should report that the business is a going concern, with supporting assumptions or qualifications as necessary.

The Board has noted the significant improvements to the working capital in the year. It therefore considers that the Society is indeed a going concern and that there are no supporting assumptions or qualifications to this opinion.

## Remuneration report

This report sets out the Society's policy for Directors' Remuneration and is included herein to meet the requirements of the Annotated Combined Code for Mutuals.

Setting the policy, and the remuneration of the Society's directors, is the responsibility of the Remuneration & Nominations Committee. The Committee's terms of reference are set out on Pages 13-14.

### 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.

During 2009 a review of Executive Remuneration was carried out by PricewaterhouseCoopers consulting (PwC). This 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 Chief Executive Officer, who has not had a salary increase for two years, has a salary that is below the lower quartile. The external review suggested that an increase of £20k would be appropriate and the Committee accepted the proposal. However the CEO was reluctant to take a permanent increase in salary and the associated benefits at this point and it was agreed that this should be postponed for a further year until the Flexible Income Annuity product has bedded in and sales are being achieved at the planned rate. It was agreed therefore that this amount be paid as a one-off, non pensionable payment for 2010.

### Bonus

The Society operates a bonus scheme and a Long Term Incentive Plan (LTIP) for executive directors. 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. A separate resolution regarding some amendments to the LTIP rules is being presented to the Society's Members as part of the 2010 AGM. If the resolution is approved, the value of the potential LTIP bonus at 31st December 2009 for the eligible directors, contingent upon the 2011 target working capital being achieved, and payable in 2012 would be:-

<b>Executive Director</b>	<b>£</b>
Chris Evans	61,333
Sara Charman	38,453
Robert Craig Fazzini-Jones	37,333

### Pension

Those executive directors appointed prior to 2009 are eligible to be members of the Society's Staff Pension Plan, which is a defined benefits scheme. The Plan, which is now closed to new members, is contributory and the current rate of contribution is 5% of salary. The Plan also provides life insurance cover, at four times annual salary, for scheme members.

As mentioned in the CEO's statement we are currently in the process of closing the defined benefits scheme, at which point the executive directors will be eligible to become members of the defined contribution scheme.

Those executive directors appointed after the closure of the Plan to new members are eligible to be members of the Society's defined contribution pension scheme.

### 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.

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

## Remuneration of Directors

	Salary / Fees		Bonuses		Other Benefits <sup>1</sup>		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	£	£	£	£	£	£	£	£
<b>Executives</b>								
Chris Evans	230,000	230,000	73,600	115,575	75,808	62,172	379,408	407,747
Dave Middleton	49,154	79,623	-	-	11,910	21,610	61,064	101,233
Sara Charman	144,200	144,200	67,182	58,200	49,671	41,289	261,053	243,689
Robert Craig Fazzini-Jones	136,250	55,254	33,333	-	48,669	17,095	218,252	72,349
Geoff Shanks	10,115	-	-	-	2,204	-	12,319	-
Nigel Sherry	-	64,620	-	62,665	-	362,729	-	490,014
	<b>569,719</b>	<b>573,697</b>	<b>174,115</b>	<b>236,440</b>	<b>188,262</b>	<b>504,895</b>	<b>932,096</b>	<b>1,315,032</b>
<b>Non Executives</b>								
William Proby	75,000	75,000	-	-	-	-	75,000	75,000
Charles Woodward <sup>2</sup>	-	45,000	-	-	-	-	-	45,000
Laurie Edmans	45,000	37,500	-	-	-	-	45,000	37,500
Michael Arnold	35,000	35,000	-	-	-	-	35,000	35,000
Peter Maydon <sup>2</sup>	-	35,000	-	-	-	-	-	35,000
Susan Sharland	26,250	35,000	-	-	-	-	26,250	35,000
Moira Siddons	35,000	35,000	-	-	-	-	35,000	35,000
Angela Burns	45,000	2,077	-	-	-	-	45,000	2,077
	<b>261,250</b>	<b>299,577</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>261,250</b>	<b>299,577</b>

Note 1 - Other benefits include employers pension contributions paid into the pensions schemes.

Note 2 - In addition to the amounts disclosed above, contractual payments were made in 2009 to Charles Woodward and Peter Maydon of £22,500 and £17,500 respectively in lieu of notice following their resignations in December 2008.

## Pension Benefits

<b>Defined Benefit</b>		<b>Total accrued pension at 31.12.09<sup>1</sup></b>	<b>Increase in total accrued pension during 2009</b>	<b>Transfer value of accrued pension at 31.12.09<sup>2</sup></b>	<b>Change in transfer value during the year net of Directors' contributions</b>
	<b>Age</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Executives</b>					
Chris Evans	53	9	4	115	37
Sara Charman	42	45	3	576	7
Dave Middleton <sup>3</sup>	46	2	0	21	3
Robert Craig Fazzini-Jones	34	4	2	29	9

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.

Note<sup>1</sup> - 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 2009.

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

Note<sup>3</sup> - Dave Middleton resigned on 31 March 2009. All values shown are as at the date of his resignation. A transfer value amount of £21,339 was paid out in July 2009.

### Defined Contribution

		<b>Total accrued pension at 31.12.09</b>	<b>Increase in total accrued pension during 2009</b>	<b>Change in transfer value during the year net of Directors' contributions</b>
	<b>Age</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Executives</b>				
Geoff Shanks	55	15	15	11

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.

## Directors' report

The directors have pleasure in submitting their report for the year ended 31 December 2009, together with the audited Group financial statements.

### Principal Activity

The principal activity of the Society is the transaction of annuity business, and the administration of a portfolio of existing life and pensions business, in the United Kingdom.

### New Business

The figures for new business are disclosed in note 2.

### Directors

None of the directors had any interest in any shares or debentures of any Group companies throughout the year, or was granted any right to subscribe for shares in, or debentures of, any Group company during the financial year. The company has indemnified the directors in respect of proceedings brought by third parties, and permits the company to pay directors' defence costs as they are incurred.

### Business Review

#### Background

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". Since 2004, the With Profits policyholders of MGM International (see below) have also qualified for membership. The membership currently stands at around 20,000.

#### Products and Services

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. These policies can be summarised in the following categories:

- life assurance - including term assurance, whole of life assurance, critical illness and income protection;
- pensions - including personal pensions, group personal pensions and trustee investment bonds;
- investments - including endowments, savings plans (both qualifying and non-qualifying) and single premium bonds (both With Profits and unit linked).

### Fund Management

The Society uses the services of a number of specialist external managers to manage the Society's With Profits and unit-linked funds. The selected fund managers operate mandates that are aligned by asset class (e.g. UK equities, global equities, fixed interest, etc.) and their performance is overseen by the Society's Investment Committee. During the year the Society started a process of consolidating smaller funds and also introduced a range of passively managed funds.

### Subsidiaries

During 2009, 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. Since then it has focused on servicing the needs derived from the current book of business. It currently has €52.5m of funds under management and the Society has commenced the required legal process to transfer the book of MGMI business to the UK in order to administer the policies at its Head Office in Worthing.

### 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 a member of 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.

MGMI is regulated by the Irish financial services regulator, the Irish Financial Services Regulatory Authority.

### 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;
- ensure that its operations remain efficient and cost effective.

Each of these is kept under regular review and appropriate measures used to assess performance against them. Examples of activity in these areas during 2009 are set out below:

- managing the Society for the benefit of its members – the With Profits Actuary has confirmed that the Society has been operating in accordance with the Society's Principles and Practices of Financial Management (PPFM). The PPFM, and a "customer friendly" version, are both available on the Society's website.
- customer services – the Society is strongly committed to customer service and this is demonstrated by its Customer Charter, under which a customer can claim a "no quibble" cash payment if the Society fails to meet any of a wide range of service standards. The charter, which has been operational for a number of years, is regularly refreshed and 120 charter claim payments were made during the year in which there were more than 260,000 customer touchpoints. This commitment to customer service resonates with the FSA's Treating Customers Fairly (TCF) initiative and the Society continues to undertake a number of activities to ensure that TCF requirements are met.
- operational efficiencies – the Society keeps its operational systems under frequent review and there has been considerable change in recent years designed to improve efficiencies and reduce costs.

### Risk Management and Control

As an insurer, the Society operates in a risk environment. To ensure that operational risks (see below) are appropriately identified, a formal risk management framework operates within the Society and this is monitored by the Head of Compliance & Risk and reviewed by the Risk Steering Group, the Society's Audit Committee and the Board. 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, credit, liquidity, insurance, operational and group risks and these are covered in more detail below.

The various types of risk, and examples of the mitigations used to address them, are discussed in note 26.

### 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, and written material is made available to staff by means of circulars, handbooks and notice boards.

### 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.

### Supplier Payment Policy

Although the Society does not follow a specified code or standard of payment practice, it is our policy to agree terms for payment with suppliers in advance of the supply of goods or services and to make payment within those terms. As a general rule payment is made within 30 days of receipt of invoice. At the end of the year, there was an average of 6 days (2008: 6 days) purchases outstanding within other creditors.

### Charitable and Political Donations

Charitable donations made by the Society in the UK during 2009 amounted to £1,735 (2008: £2,053). There were no donations for political purposes.

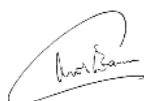
### Disclosure of Information to Auditors

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Society's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Society's auditors are aware of that information.

## Auditors

Our auditors, KPMG Audit Plc, have indicated their willingness to continue in office. In accordance with Section 485 of the Companies Act 2006, a resolution for their re-appointment is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board of Marine and General Mutual Life Assurance Society

A handwritten signature in black ink, appearing to read "Chris Evans", enclosed within a large, loopy, handwritten flourish that loops back to the start.

**Chris Evans**

Chief Executive

24 March 2010

## Statement of directors' responsibilities

### Statement of directors' responsibilities in respect of the Directors' report and financial statements

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Auditor's report

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

We have audited the financial statements of Marine and General Mutual Life Assurance Society for the year ended 31 December 2009 set out on pages 33 to 76. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 30, the directors are 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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

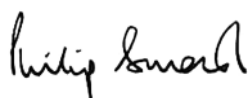
### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



**Philip Smart**

(Senior Statutory Auditor)

For and on behalf of KPMG Audit plc, Statutory Auditor

Chartered Accountants

8 Salisbury Square

London

EC4Y 8BB

24 March 2010

## Group profit and loss account

Technical account - long-term business

For the year ended 31 December 2009

	Notes	2009 £'000	2009 £'000	2008 £'000
<b>Earned premiums, net of reinsurance</b>				
Gross premiums written	2	206,014		84,036
Outward reinsurance premiums		(96,162)		(20,928)
		109,852		63,108
<b>Investment income</b>				
	3	9,797		39,700
<b>Unrealised gains on investments</b>				
		140,762		-
<b>Other technical income, net of reinsurance</b>				
	4	1,148		1,827
			261,559	104,635
<b>Claims incurred, net of reinsurance</b>				
Claims paid				
Gross amount		102,561		122,992
Less: Reassurers' share		(23,761)		(7,733)
		78,800		115,259
Change in provision for claims	18	(2,626)		2,152
			76,174	117,411
			185,385	(12,776)
<b>Change in other technical provisions, net of reinsurance</b>				
Long-term business provision, net of reinsurance				
Gross amount		154,660		(80,206)
Less: Reassurers' share		(94,414)		(6,265)
		60,246		(86,471)
Technical provisions for linked liabilities, net of reinsurance		10,267		(32,776)
			70,513	(119,247)
			114,872	106,471
<b>Change in value of investment contracts</b>				
	18	44,360		(72,771)
			44,360	(72,771)
			70,512	179,242
Net operating expenses				
	5	22,045		24,135
Impairment of IT assets		-		5,193
<b>Operating expenses</b>				
	5	22,045		29,328
<b>Investment expenses and charges</b>				
	6	5,324		7,014
<b>Unrealised losses on investments</b>				
		-		202,957
<b>Tax attributable to the long term business</b>				
	7	1,390		(10,219)
			28,759	229,080
			41,753	(49,838)
<b>Transfer (to)/from the fund for future appropriations</b>				
	18		(41,753)	49,838
			-	-

All of the Group's activities arose from continuing operations.

In accordance with amendments to Financial Reporting Standard 3 (FRS 3) - "Reporting financial performance" published in June 1999, no note of historical costs profit has been prepared as the Society's only material gains and losses relate to the holding and disposal of investments.

## Group statement of total recognised gains and losses

For the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
34			
<b>FRS 17 - Retirement benefits</b>			
Actuarial (loss)	23	(16,055)	(526)
Deferred tax credit arising from pension gains and losses appearing in this statement	7	1,124 <u>(14,931)</u>	47 <u>(479)</u>
<b>FRS 23 - The effects of changes in foreign exchange rates</b>			
Foreign exchange difference on consolidation of foreign operation <sup>1</sup>		(360)	1,221
<b>Total recognised gains and (losses) relating to the year</b>		<u>(15,291)</u>	<u>742</u>
Prior year adjustment <sup>2</sup>		-	(1,362)
<b>Total gains and (losses) recognised since last annual report</b>		<u><b>(15,291)</b></u>	<u><b>(620)</b></u>

1 In accordance with Financial Reporting Standard 23 - (FRS 23) - "The effects of changes in foreign exchange rates", the exchange difference arising on consolidation of a foreign operation is required to be recognised in this statement.

2 The adoption of "Amendment to FRS17" in 2008 led to an impact on the opening Fund for Future Appropriations (FFA) in that year.

## Balance sheets

As at 31 December 2009

		<b>Group</b>	<b>Group</b>	<b>Society</b>	<b>Society</b>
	<b>Notes</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Assets</b>					
<b>Investments</b>					
Land and buildings	11	3,645	3,645	3,645	3,645
Investments in group undertakings	12	-	-	3,966	4,731
<b>Other financial investments:</b>					
Shares, other variable yield securities and units in OEICs and unit trusts		95,391	202,541	71,341	180,772
Debt securities and other fixed income securities		811,887	539,775	790,652	519,787
Participation in investment pools		10,268	14,398	10,268	14,398
Other loans		148	222	148	222
Deposits with credit institutions		55,735	41,001	54,352	37,163
	14	<u>973,429</u>	<u>797,937</u>	<u>926,761</u>	<u>752,342</u>
<b>Assets held to cover linked liabilities:</b>					
Other financial investments	14	462,929	433,404	462,929	433,404
<b>Reassurers' share of long-term business provision</b>					
		170,626	76,212	170,626	76,212
<b>Debtors</b>					
Arising out of direct insurance operations:					
Policyholders		93	157	93	157
Intermediaries		202	130	202	130
Other debtors	15	3,169	5,603	3,696	6,318
Deferred taxation	19	4,636	4,794	4,636	4,794
		<u>8,100</u>	<u>10,684</u>	<u>8,627</u>	<u>11,399</u>
<b>Other assets</b>					
Tangible assets	16	5,568	4,612	5,563	4,599
Cash at bank and in hand		17,849	33,012	17,669	32,380
		<u>23,417</u>	<u>37,624</u>	<u>23,232</u>	<u>36,979</u>
<b>Prepayments and accrued income</b>					
Accrued interest		18,981	12,942	18,500	12,501
Deferred acquisition costs	17	3,370	4,250	3,370	4,250
Other prepayments and accrued income		781	951	747	911
		<u>23,132</u>	<u>18,143</u>	<u>22,617</u>	<u>17,662</u>
<b>Total assets</b>		<u><b>1,665,278</b></u>	<u><b>1,377,649</b></u>	<u><b>1,622,403</b></u>	<u><b>1,336,374</b></u>

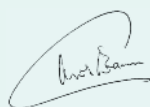
## Balance sheets continued

As at 31 December 2009

36

		<b>Group</b>	<b>Group</b>	<b>Society</b>	<b>Society</b>
		<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Liabilities</b>					
<b>Fund for future appropriations</b>	18	114,470	88,008	114,470	88,008
<b>Technical provisions</b>					
Long-term business provision - With Profits	18	368,625	414,882	326,250	374,418
Long-term business provision - non-profit	18	521,470	323,526	521,470	323,526
Claims outstanding - gross and net	18	5,063	7,689	5,063	7,689
		<u>895,158</u>	<u>746,097</u>	<u>852,783</u>	<u>705,633</u>
<b>Technical provisions for linked liabilities</b>	18	147,747	137,480	147,747	137,480
<b>Financial liabilities</b>					
Investment contract liabilities	18	313,492	301,455	313,492	301,455
<b>Deposits received from reinsurers</b>	20	156,013	75,645	156,013	75,645
<b>Creditors</b>					
Arising out of direct insurance operations		5,339	10,607	5,339	10,382
Other creditors including taxation and social security	21	9,569	5,828	9,545	5,678
		<u>14,908</u>	<u>16,435</u>	<u>14,884</u>	<u>16,060</u>
<b>Accruals and deferred income</b>	22	7,671	6,749	7,195	6,313
<b>Pension scheme liability</b>	23	15,819	5,780	15,819	5,780
<b>Total liabilities</b>		<u><b>1,665,278</b></u>	<u><b>1,377,649</b></u>	<u><b>1,622,403</b></u>	<u><b>1,336,374</b></u>

The financial statements were approved by the Directors on 24 March 2010 and were signed on their behalf by:



**Chris Evans**

Chief Executive

Marine and General Mutual Life Assurance Society

Registered no. 00000006

The notes on pages 37 to 76 form part of the Financial Statements.

## Notes to the financial statements

### 1. Accounting policies

#### (a) Basis of preparation

The Group financial statements, which consolidate the financial statements of the Society and its wholly owned subsidiary undertakings, have been prepared in accordance with the provisions of section 404 of the Companies Act 2006 and under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups, except as noted below under land and buildings. The financial statements have been prepared in accordance with applicable accounting standards and the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ('the ABI SORP') in December 2005 and as amended in December 2006. A summary of the Group accounting policies is set out below.

The directors monitor the capital position on a continuous basis and have taken actions to improve it, as noted in the Chief Executive's statement. This, in conjunction with market improvements, has resulted in a stronger capital position than last year, as set out in note 24 – Capital position statement. Therefore, the directors are satisfied that it is appropriate to prepare these accounts on a going concern basis.

#### (b) Cash flow statement

Under Financial Reporting Standard 1 (FRS 1) the Society is exempt from the requirement to prepare a cash flow statement.

#### (c) Contract classification

The group's contracts are classified for accounting purposes as either insurance contracts (participating and non-participating) or investment contracts (participating and non-participating). Insurance contracts are contracts which transfer significant insurance risk at the inception of the contract. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. Investment contracts are those that do not transfer significant insurance risk as classified from the 1st January 2007. Both insurance and investment contracts may contain a discretionary participating feature (DPF) which is defined as a contractual right to receive additional benefits as a supplement to guaranteed benefits. Participating contracts consist of With Profits contracts. Certain hybrid contract types, containing both participating and non-participating characteristics, that is insurance and deposit components, have been treated as insurance contracts.

#### (d) Long term business

##### **Premium income**

Premiums that relate to insurance contracts and those investment contracts with DPF are recognised as revenue when the liabilities arising from them are created. Premiums that relate to investment contracts without DPF are not included in the profit and loss account but are reported as contributions to investment contract liabilities and are deposit accounted in the balance sheet. Premium income in relation to outstanding premiums is recognised when due for insurance contracts and only when invested in the relevant fund for contracts classified as investment or unit-linked contracts. Outward reinsurance premiums relate to contracts which are classified as insurance and are therefore recognised as a deduction to insurance contract revenue.

##### **Revenue from non-participating investment contracts**

Fees are charged to policyholders for investment management services which are recognised as revenue in the period in which they are collected unless they relate to services to be provided in future periods. These fees are presented within other technical income in the profit and loss account. To the extent that initial fees relate to the provision of future services they are deferred and amortised over the anticipated period in which services will be provided.

##### **Claims**

For insurance contracts and those investment contracts with DPF, death claims are recognised on notification of death. Similarly critical illness claims are accounted for when admitted. All other claims and surrenders are accounted for when payment is due. For investment contracts without DPF, claims are deducted from investment contract liabilities and are deposit accounted in the balance sheet. Reinsurance recoveries are classified as insurance contracts and are recognised as deductions to claims charged when admitted.

##### **Long term business provision, technical provision for linked liabilities on insurance contracts and participating investment contract liabilities**

The long term business provision is calculated by the Society's reporting actuary following annual investigation of the long-term business, and approved by the Board. Further details of the methodology and the principal assumptions used are given in note 27 to the financial statements.

For non-profit plans the long-term business provision is based on a gross premium valuation. For With Profits plans, the long-term business provision is the amount of the realistic value of liabilities calculated under the FSA's realistic capital regime. To ensure consistency, the present value of future profits of non-participating contracts written in the With Profits fund is deducted from the amount of the realistic value of liabilities. This deduction also includes any residual profits or losses expected to emerge on non-participating investment contracts after allowing for the values already held in the balance sheet for such non-participating investment contracts. The provision for linked liabilities represents the value of the underlying net assets which are held to meet those liabilities.

**Non-participating investment contract liabilities**

The Society's non-participating investment contract liabilities are unit-linked. Amortised cost for unit-linked non-participating investment contract liabilities is determined as the amount payable to the policyholder which reflects the value of the underlying net assets which are held to meet those liabilities, as the investor has the right to demand payment at any time.

**(e) Land and buildings**

Land and buildings are stated at their current value at the balance sheet date. Land and buildings are valued on an open market basis by independent Chartered Surveyors.

In accordance with Statement of Standard Accounting Practice 19 (Accounting for Investment Properties), no depreciation is provided in respect of freehold investment properties or amortisation in respect of leasehold properties with over 20 years to expire. This is a departure from the requirements of the Companies Act 2006, which requires all properties to be depreciated. The directors consider that to depreciate or amortise the investment properties would not give a true and fair view. Depreciation or amortisation is only one of the factors reflected in the annual valuations of properties, and the amounts which might otherwise have been shown cannot reasonably be separately identified or quantified.

**(f) Shares in group undertakings**

Investments in subsidiary undertakings are valued at current value.

### (g) Recognition and derecognition of financial instruments

A financial instrument is recognised if the Society becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Society's contractual rights to the cash flows from the financial assets expire or if the Society transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Purchases and sales of financial assets are accounted for at trade date, that is, the date that the Society commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Society's obligations specified in the contract expire or are discharged or cancelled.

### (h) Financial investments

#### **Fair value through profit or loss**

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is held for trading if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are designated at fair value through profit or loss upon initial recognition. The Society has designated financial investments at fair value through profit or loss where the Society's strategy is to manage those financial investments on a fair value basis. Internal reporting and performance measurement of these assets are on a fair value basis. Note 14 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss.

Financial investments at fair value through profit or loss are initially recognised and subsequently measured at fair value in the balance sheet with transaction costs taken directly to the profit or loss account. All changes in fair value are recognised in profit or loss as described in the 'Investment income' accounting policy. The methodology for determining the fair value for financial assets is as follows:

- listed and other quoted investments are carried at stock exchange bid values at the balance sheet date;
- linked investments, including redeemable debt and other fixed income securities, and listed and other quoted investments, are stated at bid prices;
- unlisted investments are carried at fair value; and
- investments in private equity funds are carried at fair value.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Society does not intend to sell immediately or in the near future.

Loans and receivables are initially recognised at fair value plus incremental direct transaction costs, and are subsequently measured at their amortised cost using the effective interest rate method, except where the Society chooses to carry the loans and receivables at fair value through profit or loss as described above.

**(i) Investment income and realised and unrealised gains and losses on investments****Investment income**

Investment income comprises:

- interest and dividend income from financial assets;
- interest income on loans and receivables;
- net gains / (losses) on loans and receivables; and
- dividend income from shares in group undertakings.

Interest income is recognised in the profit and loss account on an accruals basis. Dividends are included as investment income on the date that the shares become quoted ex-dividend, exclusive of any attributable tax credits.

**Realised gains and losses on investments**

Realised gains and losses on investments are calculated by reference to their original purchase price.

**Unrealised gains and losses**

Unrealised gains and losses comprise:

- gains or losses arising from changes in the fair value of financial assets at fair value through profit and loss;
- gains or losses arising from changes in the current value of land and buildings; and

Unrealised gains and losses on financial assets represent the difference between the valuation of the financial assets at the balance sheet date and their purchase price or, if they have been previously valued, their valuation at the last balance sheet date.

Unrealised gains or losses on financial assets included in the Profit and Loss Account: Technical account – long-term business also includes adjustments in respect of unrealised investment gains and losses recorded in prior years that were realised in the current year and included as realised gains. All unrealised gains and losses are included in the Profit and Loss Account: Technical account – long-term business.

### (j) Foreign currency translation

Foreign currency transactions are translated into the Society's functional currency, sterling, at the foreign exchange rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the statement of total recognised gains and losses. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate ruling at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the foreign exchange rate ruling at the date when the fair value was determined.

### (k) Tangible assets

Tangible assets are capitalised. Depreciation is provided by the group to write off the cost of tangible assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	4 years
Fixtures and fittings	10 years
Computer hardware and software	3 years
Policy administration software systems	8 years

### (l) Fund for future appropriations (FFA)

The balance on this account represents funds, the allocation of which to individual policyholders, both current and future, has not been determined by the end of the financial year. When the allocation of funds is determined, appropriate transfers are made out of this fund.

### (m) Investment expenses and charges

Investment expenses and charges are recognised on an accruals basis as incurred and include fund manager fees, bank loan interest and transaction costs on financial assets.

## (n) Taxation and deferred taxation

### Long term insurance business

Current tax is the amount estimated to be payable or recoverable as a result of the application of the rules for the taxation of life insurance companies to the items included in the long-term business technical account together with any necessary prior period adjustments.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by Financial Reporting Standard 19 - Deferred Tax (FRS 19).

### (o) Post retirement benefits

During the year the Society operated a defined contribution Group personal pension scheme. Employer's contributions in respect of eligible employees are charged to the Technical account (Operating expenses) based upon a fixed percentage of pensionable remuneration.

The Society also operates a final pensionable salary scheme, which is closed to new entrants and due to be closed to further accrual from 1st May 2010. Current service costs of the final pensionable salary scheme are charged to the Technical account (Operating expenses). The scheme provides benefits for staff which will be based upon final pensionable earnings at 1st May 2010. From this date benefits will be deferred until retirement. The assets of this scheme are measured at fair value, and the liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus, to the extent it is recoverable, or deficit is recognised in full. The scheme surplus or deficit is moved by current service costs, finance income (being the difference between interest costs and the expected return on assets as recognised in the profit and loss account) and actuarial gains and losses (as recognised in the statement of total recognised gains and losses).

Current service costs - the increase in the present value of the scheme liabilities expected to arise from employee service in the current period.  
Interest costs - the increase in the present value of the scheme liabilities as the benefits are one period closer to settlement.  
Expected return on assets - the expected long-term rate of return on the actual assets held in the scheme at the beginning of the accounting period.

Actuarial gains and losses – changes in actuarial surpluses or deficits that arise because of changes in assumptions or experience differing to actuarial assumptions made at the last valuation.

#### (p) Leases

The rental costs relating to operating leases are charged to the Profit and Loss Account: Technical account – long-term business on a straight line basis over the life of the lease.

#### (q) Deferred acquisition costs

Deferred acquisition costs represent the capitalisation of incremental costs attributable to securing investment management contracts. Deferred acquisition costs are amortised as services are provided.

#### (r) Long Term Incentive Plan

The Society's Long Term Incentive Plan invites a number of employees to participate in a cash settlement award plan. Awards are based on performance measured by increases in Group working capital, as reported in note 24 and are subject to the achievement of set targets. The fair value of awards granted are recognised as an expense with a corresponding increase in other creditors. The fair value is measured at grant date and spread over the vesting period during which the participants become entitled to the award. The liability under this scheme is revalued at each balance sheet date, with any changes to the fair value being recognised in the profit and loss account.

Refer to note 31 for more details of the plan and note 24 for the Group working capital value.

## 2. Gross premiums

Gross premiums written, all of which relate to direct business, are analysed as follows:

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Periodic premiums	29,114	34,636
Single premiums	187,691	64,257
	<u>216,805</u>	<u>98,893</u>
Included in the above:		
Investment contract premiums deposit accounted under FRS 26	(10,578)	(14,583)
Fee income on investment contracts included in other technical income under FRS 26	(213)	(274)
	<u>206,014</u>	<u>84,036</u>
Premiums from:		
Non-participating contracts	188,759	49,656
Participating contracts	4,994	20,544
Investment linked contracts	12,261	13,836
	<u><b>206,014</b></u>	<u><b>84,036</b></u>

All premiums are written in the UK and Ireland. Of the total £216.8m gross premiums written, £1.1m (2008: £14.6m) are attributable to MGM International Assurance Limited.

National Insurance Contribution Office (NICO) rebates are considered to be recurrent single premiums.

The net reinsurance balance of premiums payable, claims recoverable, and movements in the reinsurer's share of the long-term business provision for the year amounted to a net credit in the Profit and Loss Account: Technical Account - long-term business of £22.0m (2008: debit balance of £6.9m).

During 2009, the Society wrote the following new premiums (after deduction of reinsurance), including new business premiums on non-participating investment contracts:

	<b>Group</b>		<b>Group</b>	
	<b>2009</b>		<b>2008</b>	
	<b>Annual</b>	<b>Single</b>	<b>Annual</b>	<b>Single</b>
	<b>Premium</b>	<b>Premium</b>	<b>Premium</b>	<b>Premium</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Life - non-linked	23	2,041	11	16,071
Life - unit-linked	-	82	16	2,113
Pensions - non-linked	14	99,819	-	23,182
Pensions - unit-linked	202	2,130	220	2,891
NICO rebates	-	2,444	-	3,658
PHI	1	-	4	-
	<u><b>240</b></u>	<u><b>106,516</b></u>	<u><b>251</b></u>	<u><b>47,915</b></u>

## 2. Gross premiums continued

Gross premiums written, all of which relate to direct business, are analysed as follows:

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Annual</b>		
Life - non-linked	27	14
Less: Reassurance	(4)	(3)
	<u>23</u>	<u>11</u>
Life - unit-linked	-	16
Pensions - non-linked	14	-
Pensions - unit-linked	202	220
Permanent health insurance	1	4
	<u>240</u>	<u>251</u>
<b>Single</b>		
Life - non-linked	2,041	16,071
Pensions - non-linked	180,994	38,348
Less: Reassurance	(81,175)	(15,166)
	<u>99,819</u>	<u>23,182</u>
Life - unit-linked	82	2,113
Pensions - unit-linked	2,130	2,891
	<u>104,072</u>	<u>44,257</u>
NICO rebates	<u>2,444</u>	<u>3,658</u>
<b>Total net new premium income</b>	<b><u>106,756</u></b>	<b><u>48,166</u></b>
<b>Summary</b>		
New premium income (gross)	187,935	63,335
Less: Reassurance	(81,179)	(15,169)
<b>Total net new premium income</b>	<b><u>106,756</u></b>	<b><u>48,166</u></b>

The Group profit and loss account: Technical account - long-term business shows the result for the year.

Of the above £106.8m new business premiums, £1.1m (2008:£14.6m) are attributable to MGM International Assurance Limited.

### 3. Investment income

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Assets measured as fair value through profit and loss:</b>		
Shares and other variable yield securities and units in unit trusts	11,569	18,550
Debt securities and other fixed income securities	40,747	32,340
Participation in investment pools	209	81
Net (losses)/gains on realisation of investments	(44,063)	(17,084)
	<u>8,462</u>	<u>33,887</u>
<b>Assets measured as loans and receivables:</b>		
Interest receivable	1,335	5,813
	<u><b>9,797</b></u>	<u><b>39,700</b></u>

### 4. Other technical income, net of reinsurance

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Other income relating to subsidiaries	40	126
Fee income	664	824
Deferred income liability provision	444	877
	<u><b>1,148</b></u>	<u><b>1,827</b></u>

## 5. Operating expenses

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Acquisition costs	12,288	7,550
Administration expenses	8,877	15,745
Change in deferred acquisition costs	880	840
	<b><u>22,045</u></b>	<b><u>24,135</u></b>
Included within net operating expenses are:		
Operating leases:		
Land and property	56	55
Plant and machinery	853	912
Commissions	3,909	1,930
Remuneration of the auditor and its associates (exclusive of VAT):		
Statutory audit	182	201
Regulatory audits	44	44
Other services	76	120
Depreciation	926	947
Redundancy costs	512	917

Acquisition and administration expenses include expenditure for projects which are of a non-recurring nature.

Subsidiary costs have also been included in acquisition and administration costs.

Deferred acquisition costs represent capitalisation of incremental costs (primarily commission payable) attributable to securing an investment management contract and amortising the asset as services are provided as a result of the adoption of FRS 26.

## 6. Investment expenses and charges

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Investment management expenses	4,669	5,928
Buying and selling expenses on trades	655	1,086
	<b>5,324</b>	<b>7,014</b>

## 7. Taxation

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
The charge for taxation has been computed on the basis applicable to life assurance and annuity business and is made up as follows:		
UK Corporation Tax		
Current tax on income for the period	-	109
Adjustments in respect of prior periods	586	(4,079)
	586	(3,970)
Foreign tax		
Current tax on income for the period	141	152
Total current taxation	<b>727</b>	<b>(3,818)</b>
Deferred tax		
Gains arising on deemed disposals	(1,101)	(4,159)
Unrealised gains on investment	(45)	(4,499)
Deferred acquisition expenses	1,873	1,969
Accelerated capital allowances	(569)	89
Pension deficit	(619)	152
Total deferred taxation	<b>(461)</b>	<b>(6,448)</b>
Total tax charge / (credit)	<b>266</b>	<b>(10,266)</b>
The above tax charge / (credit) is presented as:		
Profit and Loss Account charge / (credit)	1,390	(10,219)
Statement of Total Recognised Gains and Losses (credit)	(1,124)	(47)
	<b>266</b>	<b>(10,266)</b>

The corporation tax rate used in arriving at the above charge was 20%.

## 8. Employee costs

	Group	
	2009	2008
The average number of persons employed in the year, including directors, was:		
Sales	11	6
Administration	123	149
	<b>134</b>	<b>155</b>

	Group	
	£'000	£'000
The aggregate remuneration to employees, excluding directors, amounted to:		
Wages and salaries	6,181	5,897
Social security costs	558	638
Other pension costs	632	787
	<b>7,371</b>	<b>7,322</b>

## 9. Remuneration of directors

	Group	
	2009	2008
	£	£
The remuneration of the directors was as follows:		
For services as directors:		
Fees	<b>261,250</b>	<b>299,577</b>
For management services:		
Other emoluments	791,107	1,202,785
Pension contributions	140,989	112,247
	<b>932,096</b>	<b>1,315,032</b>

Retirement benefits are accruing to 3 (2008: 5) directors under the group defined benefits plan, and to 1 (2008: 0) director under the group defined contribution plan.

	£	£
The emoluments of the highest paid director are as follows:		
Emoluments	320,585	478,342
Pension contributions	58,823	11,672
	<b>379,408</b>	<b>490,014</b>

Fees are paid to the Chairman and non executive directors only.

The remuneration of each executive director is determined by the Remuneration & Nominations Committee of the Board.

## 10. Parent company profit and loss account

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
The Society has taken advantage of the exemptions under Section 408(4) of the Companies Act 2006 not to include a parent company profit and loss account. The Society is a mutual Society and consequently the result for the year is eliminated after a transfer to or from the fund for future appropriations. The Group consolidated profit and loss account and the Group statement of total recognised gains and losses include the following amounts dealt within the financial statements of the parent company.		
Transfer (to) / from the fund for future appropriations	<b><u>(26,463)</u></b>	<b><u>49,096</u></b>

## 11. Investments in land and buildings

	<b>Group and</b>	<b>Group and</b>
	<b>Society</b>	<b>Society</b>
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Freehold land and buildings occupied by the Society or the group for its own activities	<b><u>3,645</u></b>	<b><u>3,645</u></b>

The purchase price of properties occupied by the Society for its own activities amounts to £3.0m (2008: £3.0m).

As stated in the accounting policies note, depreciation is not provided in respect of freehold investment properties.

## 12. Investments in group undertakings

	<b>Shares in group undertakings £'000</b>	<b>Society Loans to group undertakings £'000</b>	<b>Total £'000</b>
Current Value			
At 1 January 2009	4,731	-	4,731
Reclassified from other debtors	1	-	1
Impairment	(766)	-	(766)
At 31 December 2009	<u>3,966</u>	<u>-</u>	<u>3,966</u>
Cost			
At 1 January 2009	12,114	740	12,854
Reclassified from other debtors	1	-	1
At 31 December 2009	<u>12,115</u>	<u>740</u>	<u>12,855</u>

## 13. Subsidiary undertakings

The following are particulars of the Society's principal subsidiary undertakings, all of which are wholly owned and included within the group's consolidated financial statements:

<b>Name</b>	<b>Place of Incorporation</b>	<b>Principal Activities</b>
MGM International Assurance Limited	Ireland	Ceased trading to new business 5th February 2009. Focused on servicing the current book of long term life assurance business and will be liquidated in 2010.
MGM Assurance (Trustees) Limited	United Kingdom	Trustee, administrator and nominee for pension schemes and other trusts.
MGM Home Finance PLC	United Kingdom	Ceased trading and will be struck off in 2010.

## 14. Other financial investments

Total	Group Fair Value		Group Cost	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Financial investments designated as:				
(a) Financial investments at fair value	1,344,478	1,140,796	1,334,208	1,275,866
(b) Loans and receivables	91,880	90,545	91,879	90,545
Total financial investments	<b>1,436,358</b>	<b>1,231,341</b>	<b>1,426,087</b>	<b>1,366,411</b>

**Non-linked assets**

(a) Financial investments designated at fair value:

Shares, other variable yield securities and units in OEICs and unit trusts	95,391	202,433	105,658	238,742
Derivative assets	598	10,937	-	-
Debt securities and other fixed income securities	811,289	528,946	798,120	570,133
Participation in investment pools	10,268	14,398	13,233	15,072
	<u>917,546</u>	<u>756,714</u>	<u>917,011</u>	<u>823,947</u>

(b) Loans and receivables:

Other loans	148	222	148	222
Deposits with other credit institutions	55,735	41,001	55,735	41,001
	<u>55,883</u>	<u>41,223</u>	<u>55,883</u>	<u>41,223</u>
	<b>973,429</b>	<b>797,937</b>	<b>972,894</b>	<b>865,170</b>

Other loans consist of loans to policyholders for which the policy is the main security.

Included in the above investments were:

Property Investment Trusts (OEICs)	25,641	34,961	34,808	40,675
Listed	837,138	630,394	825,575	680,178
Unit trusts	44,499	76,961	43,395	88,022
Unlisted	10,268	14,398	13,233	15,072
	<u>917,546</u>	<u>756,714</u>	<u>917,011</u>	<u>823,947</u>

**Linked assets**

(a) Financial investments designated at fair value:

Property Investment Trusts (OEICs)	12,814	18,888	22,452	25,038
Derivative assets / (liabilities)	614	(254)	-	-
Shares, other variable yield securities and units in OEICs and unit trusts	325,735	306,732	307,891	362,314
Debt securities and other fixed income securities	87,769	58,716	86,854	64,567
	<u>426,932</u>	<u>384,082</u>	<u>417,197</u>	<u>451,919</u>

(b) Loans and receivables:

Deposits with credit institutions	40,758	48,588	40,757	48,588
Other assets	(4,761)	734	(4,761)	734
	<u>35,997</u>	<u>49,322</u>	<u>35,996</u>	<u>49,322</u>
	<b>462,929</b>	<b>433,404</b>	<b>453,193</b>	<b>501,241</b>

There are no unlisted investments included within linked investments.

**14. Other financial investments** continued

<b>Total</b>	<b>Society Fair Value</b>		<b>Society Cost</b>	
	<b>2009 £'000</b>	<b>2008 £'000</b>	<b>2009 £'000</b>	<b>2008 £'000</b>
Financial investments designated as:				
(a) Financial investments at fair value	1,299,193	1,099,039	1,287,001	1,222,131
(b) Loans and receivables	90,497	86,707	90,496	86,707
<b>Total financial investments</b>	<b><u>1,389,690</u></b>	<b><u>1,185,746</u></b>	<b><u>1,377,497</u></b>	<b><u>1,308,838</u></b>
<b>Non-linked assets</b>				
(a) Financial investments designated at fair value:				
Shares, other variable yield securities and units in OEICs and unit trusts	71,341	180,664	79,487	204,373
Derivative assets	598	10,937	-	-
Debt securities and other fixed income securities	790,054	508,958	777,084	550,767
Participation in investment pools	10,268	14,398	13,233	15,072
	<u>872,261</u>	<u>714,957</u>	<u>869,804</u>	<u>770,212</u>
(b) Loans and receivables:				
Other loans	148	222	148	222
Deposits with other credit institutions	54,352	37,163	54,352	37,163
	<u>54,500</u>	<u>37,385</u>	<u>54,500</u>	<u>37,385</u>
	<b><u>926,761</u></b>	<b><u>752,342</u></b>	<b><u>924,304</u></b>	<b><u>807,597</u></b>
Other loans consist of loans to policyholders for which the policy is the main security.				
Included in the above investments were:				
Property Investment Trusts (OEICs)	25,160	34,526	33,562	39,007
Listed	792,334	589,072	779,614	628,111
Unit trusts	44,499	76,961	43,395	88,022
Unlisted	10,268	14,398	13,233	15,072
	<u>872,261</u>	<u>714,957</u>	<u>869,804</u>	<u>770,212</u>
<b>Linked assets</b>				
(a) Financial investments designated at fair value:				
Property Investment Trusts (OEICs)	12,814	18,888	22,452	25,038
Derivative assets / (liabilities)	614	(254)	-	-
Shares, other variable yield securities and units in OEICs and unit trusts	325,735	306,732	307,891	362,314
Debt securities and other fixed income securities	87,769	58,716	86,854	64,567
	<u>426,932</u>	<u>384,082</u>	<u>417,197</u>	<u>451,919</u>
(b) Loans and receivables:				
Deposits with credit institutions	40,758	48,588	40,757	48,588
Other assets	(4,761)	734	(4,761)	734
	<u>35,997</u>	<u>49,322</u>	<u>35,996</u>	<u>49,322</u>
	<b><u>462,929</u></b>	<b><u>433,404</u></b>	<b><u>453,193</u></b>	<b><u>501,241</u></b>

There are no unlisted investments included within linked investments.

## 14. Other financial investments continued

### Derivatives

Non-linked derivative liabilities are included in other creditors, see note 21. All derivatives are valued in direct reference to published price quotations in an active market.

### Futures Margins

At the year end the group held 688 lots of short futures contracts and 504 lots of long futures contracts designed to assist with managing exposure to Global Bond positions denominated in local and foreign currency. The fair value of these derivatives at the year end is summarised as:

	<b>£'000</b>
Net margin posted	55
Fair value of futures contracts at 31.12.09	984
	<u>1,039</u>

The futures contracts all mature in March 2010

### Forward foreign exchange contracts

The group holds forward foreign exchange contracts which protect against foreign exchange translation exposure on the group's investments. Gains or losses arising from movements in spot exchange rates are recognised in the profit and loss account. The futures contracts are summarised as follows:

Fund	Long	Short	Maturity	Fair Value at 31.12.09 £'000
MGM Fixed Interest Fund	GBP	USD/EUR	03.03.2010	37
MGM DFR Sub Fund A	GBP	USD/EUR	03.03.2010	37
MGM Global Bond Portfolio	GBP/EUR/JPY	GBP/EUR/USD	28.01.2010	98
				<u>172</u>

### Equity Hedge

The group entered into two zero cost European Collars on 11.09.2009. The fair value of these derivatives was £(426)k at the year end. The derivatives are designed to manage estate exposure to market fluctuations in UK and Global equities simultaneously. Both derivatives mature on 07.05.2010.

### Interest rate swap

The group entered into a trade position in April 2007 in order to hedge the interest rate risk arising from guaranteed annuity options on its book of conventional With Profits pensions business.

At 31 December 2009 the group held a portfolio consisting of 31 interest rate swap derivatives, one for each calendar year from 2009 to 2040 inclusive, with each swap to be cash settled on its start date. The fair value of the derivative contracts at the year end was £(1.2)m - (Notional contract value: £115.2m).

## 15. Other debtors

	Group		Society	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Amounts owed by subsidiary undertakings	-	-	527	715
Investments sold for subsequent settlements	1,434	802	1,434	802
Other debtors	1,735	4,801	1,735	4,801
	<u>3,169</u>	<u>5,603</u>	<u>3,696</u>	<u>6,318</u>

All of the above are in respect of amounts falling due within one year.

## 16. Tangible assets

<b>(a) Group</b>	<b>Motor vehicles £'000</b>	<b>Fixtures and fittings £'000</b>	<b>Computer hardware and software £'000</b>	<b>Total £'000</b>
Cost				
At 1 January 2009	53	2,105	19,945	22,103
Additions in year	-	-	1,882	1,882
Disposals in year	(47)	(4)	(81)	(132)
At 31 December 2009	<u>6</u>	<u>2,101</u>	<u>21,746</u>	<u>23,853</u>
Accumulated depreciation				
At 1 January 2009	48	1,863	15,580	17,491
Charge for year	2	83	841	926
Released on disposal	(47)	(4)	(81)	(132)
At 31 December 2009	<u>3</u>	<u>1,942</u>	<u>16,340</u>	<u>18,285</u>
Carrying amount				
At 31 December 2009	<u><b>3</b></u>	<u><b>159</b></u>	<u><b>5,406</b></u>	<u><b>5,568</b></u>
At 31 December 2008	<u>5</u>	<u>242</u>	<u>4,365</u>	<u>4,612</u>
<b>(b) Society</b>				
Cost				
At 1 January 2009	53	2,100	19,846	21,999
Additions in year	-	-	1,880	1,880
Disposals in year	(47)	-	-	(47)
At 31 December 2009	<u>6</u>	<u>2,100</u>	<u>21,726</u>	<u>23,832</u>
Accumulated depreciation				
At 1 January 2009	48	1,860	15,492	17,400
Charge for year	2	81	833	916
Released on disposal	(47)	-	-	(47)
At 31 December 2009	<u>3</u>	<u>1,941</u>	<u>16,325</u>	<u>18,269</u>
Carrying amount				
At 31 December 2009	<u><b>3</b></u>	<u><b>159</b></u>	<u><b>5,401</b></u>	<u><b>5,563</b></u>
At 31 December 2008	<u>5</u>	<u>240</u>	<u>4,354</u>	<u>4,599</u>

## 17. Deferred acquisition costs

	<b>Group and Society</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Investment contract deferred acquisition costs	3,370	4,250
Balance at 1 January	4,250	5,090
Net (amortisation) of cost	(880)	(840)
Balance at 31 December	<b>3,370</b>	<b>4,250</b>

## 18. Reserves, provisions and financial liabilities

	<b>Fund for future appropriations</b>	<b>Long term business provision</b>	<b>Claims outstanding</b>	<b>Technical provisions for linked liabilities</b>	<b>Investment contract liabilities</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>(a) Group</b>					
Balance at 1 January 2009	88,008	738,408	7,689	137,480	301,455
Transfers arising as a result of FRS 26:					
(1) Deposit account for premiums on investment contracts					10,578
(2) Deposit account for claims on investment contracts					(42,449)
(3) Unit cancellation charges on investment contracts					(452)
Profit and Loss Account movements:					
Change in claims provision			(2,626)		
Change in technical provisions		154,660		10,267	
Change in value of investment contracts					44,360
Transfer from the technical account, long-term business	41,753				
Statement of Total Recognised Gains and Losses movements:					
Transfer (to) the technical account, long-term business	(15,291)				-
Other transfer:					
Foreign exchange translation difference on revenue movement in long-term business provision of foreign subsidiary		(2,973)			
Balance at 31 December 2009	<b>114,470</b>	<b>890,095</b>	<b>5,063</b>	<b>147,747</b>	<b>313,492</b>

## 18. Reserves, provisions and financial liabilities continued

	Fund for future appropriations £'000	Long term business provision £'000	Claims outstanding £'000	Technical provisions for linked liabilities £'000	Investment contract liabilities £'000
<b>(b) Society</b>					
Balance at 1 January 2009	88,008	697,944	7,689	137,480	301,455
Transfers arising as a result of FRS 26:					
(1) Deposit account for premiums on investment contracts					10,578
(2) Deposit account for claims on investment contracts					(42,449)
(3) Unit cancellation charges on investment contracts					(452)
Profit and Loss Account movements:					
Change in claims provision			(2,626)		
Change in technical provisions		149,776		10,267	
Change in value of investment contracts					44,360
Transfer from the technical account, long-term business	41,393				
Statement of Total Recognised Gains and Losses movements:					-
Transfer (to) the technical account, long-term business	(14,931)				
Balance at 31 December 2009	<u>114,470</u>	<u>847,720</u>	<u>5,063</u>	<u>147,747</u>	<u>313,492</u>

Investment contracts are unit-linked and there are no investment contracts with Discretionary Participating Features (DPF) within the classification of the liability.

## 19. Deferred taxation

Deferred taxation is provided on timing differences, the individual components of which are detailed below:

	<b>Group and Society</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Gains arising on unit trust and OEIC fund deemed disposals	1,101	-
Unrealised gains on investment	45	-
Deferred acquisition costs	2,820	4,693
Accelerated capital allowances	670	101
Deferred tax asset / (liability)	<b>4,636</b>	<b>4,794</b>

Deferred tax provided on deferred acquisition costs comprises that arising on unrelieved excess acquisition expense carried forward and also that arising on incremental costs attributable to securing investment management contracts.

	<b>Group and Society</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Deferred tax asset/(liability) at beginning of year	4,794	(1,806)
Movement during the year (see note 7)	461	6,448
Transfer of related deferred tax asset to pension deficit	(619)	152
Deferred tax asset / (liability) at end of year	<b>4,636</b>	<b>4,794</b>

The following deferred tax assets have not been recognised in these financial statements:

	<b>Group and Society</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Equity, unit trust and OEIC fund losses carried forward	1,101	5,373
Loan relationship income and gains losses carried forward	-	240
Allowable capital losses carried forward	1,960	1,341
Excess expense carried forward	-	4,079
PHI business losses	61	-
	<b>3,122</b>	<b>11,033</b>

The above deferred tax assets have not been recognised. The generation of chargeable gains against which to offset unit trust deemed disposal and capital losses carried forward is unlikely, due to the changed profile of investments held by the Society and prevailing uncertain market conditions.

## 20. Deposits received from reinsurers

In respect of a geo-socio-economic annuity product written in the past by the Society, 75% (2008: 75%) of premiums receivable were ceded to a reinsurer in return for the transfer of 75% of the risk associated with the product. The annuity product is closed for new business.

In respect of an enhanced annuity product written by the Society, 48% (2008: 54%) of premiums receivable are ceded to the same reinsurer in return for the transfer of 50% (2008: 50%) of the mortality risk associated with the product.

In accordance with both Reinsurance Treaties, the reinsurer is responsible for maintaining a deposit with the Society to act as collateral security for its liabilities and obligations under the contract.

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Collateral deposits for:		
Enhanced annuity	99,725	13,583
Geo-socio-economic annuity	56,288	62,062
	<b>156,013</b>	<b>75,645</b>

## 21. Other creditors including taxation and social security

	<b>Group</b>		<b>Society</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Investments purchased for subsequent settlement	4,957	1,928	4,957	1,928
Taxation	164	226	164	226
Social security	16	4	16	4
Derivative liabilities	1,601	1,044	1,601	1,044
Other	2,831	2,626	2,807	2,476
	<b>9,569</b>	<b>5,828</b>	<b>9,545</b>	<b>5,678</b>

## 22. Accruals and deferred income

	<b>Group</b>		<b>Society</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Deferred income liabilities:				
Released within 12 months	113	132	113	132
Released after 12 months	1,381	1,807	1,381	1,807
	1,494	1,939	1,494	1,939
Other accruals	6,177	4,810	5,701	4,374
	<b>7,671</b>	<b>6,749</b>	<b>7,195</b>	<b>6,313</b>

## 23. Pension arrangements

The Society operates a defined contribution pension plan. It is intended that members of the closing defined benefit pension plan (see below) will be offered membership of a version of this plan. In addition the Society operates a defined benefit final salary pension plan in the UK. A full actuarial valuation was carried out as at 31 December 2007. The results of that valuation have been projected to 31 December 2009 by a qualified independent actuary. The contributions made to the plan, by the Society, in the accounting period were £3.4m. The Society expects to contribute 27.5% of pensionable salary in respect of future accrual until 30 April 2010, the effective date of the plan closure to future accrual. In addition, the Society expects to contribute £5m to the plan during the year ending 31 December 2010, as part of the recovery plan.

The major assumptions used by the actuary were (in nominal terms):

	<b>At 31 Dec 2009</b>	<b>At 31 Dec 2008</b>
Rate of increase in salaries	0.0%	4.0%
Rate of increase in pensions in payment (non-GMP)	3.7%	3.0%
Discount rate	5.8%	6.5%
Inflation assumption	3.7%	3.0%

Assumed life expectancies on retirement at age 65 are:

Retiring today	Males	23.4	23.2
	Females	25.2	25.1
Retiring in 20 years time	Males	26.4	26.2
	Females	28.1	28.0

The assumptions used in determining the overall expected return of the scheme have been set with reference to yields available on government bonds and appropriate risk margins.

## 23. Pension arrangements continued

	Long-term rate of return 2009	Fair Value 2009 £'000	Long-term rate of return 2008	Fair Value 2008 £'000
Equities and property	7.5%	13,804	7.0%	28,821
Bonds	5.8%	22,987	6.5%	12,893
Gilts	4.5%	10,370	-	-
Cash	0.5%	551	2.0%	721
Fair value of plan assets		<u>47,712</u>		<u>42,435</u>

The plan has no investment in the company or in property occupied by the company

Actual return on assets over the period	<u>4,298</u>	<u>(8,015)</u>
---	--------------	----------------

The amounts recognised in the balance sheet are as follows:

Present value of scheme liabilities	(64,722)	(48,787)
Fair value of scheme assets	<u>47,712</u>	<u>42,435</u>
Net pension liability recognised before tax	(17,010)	(6,352)
Related deferred tax asset	1,191	572
Net pension liability	<u>(15,819)</u>	<u>(5,780)</u>

## 23. Pension arrangements continued

**Reconciliation of opening and closing balances of the present value of the scheme liabilities**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Liabilities at beginning of year	(48,787)	(57,848)
Current service cost	(768)	(820)
Interest cost	(3,115)	(3,366)
Contributions by scheme participants	(150)	(188)
Actuarial (loss) / gain	(17,424)	10,843
Benefits paid	2,605	2,592
Curtailment	2,917	-
Liabilities at end of year	<b><u>(64,722)</u></b>	<b><u>(48,787)</u></b>

**Reconciliation of opening and closing balances of the fair value of the scheme assets**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Fair value of scheme assets at beginning of year	42,435	49,810
Expected return on pension scheme assets	2,929	3,354
Actuarial gain/(loss)	1,369	(11,369)
Contribution by employers	3,434	3,044
Contributions by plan participants	150	188
Benefits paid	(2,605)	(2,592)
Fair value of scheme assets at end of year	<b><u>47,712</u></b>	<b><u>42,435</u></b>

**Analysis of the amounts recognised in the Statement of Total Recognised Gains and Losses (STRGL)**

	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Actuarial loss	(16,055)	(526)
Total	<b><u>(16,055)</u></b>	<b><u>(526)</u></b>

## 23. Pension arrangements continued

**History of scheme assets, obligations and experience adjustments**

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Present value of scheme liabilities	(64,722)	(48,787)	(57,848)	(54,860)	(51,955)
Fair value of scheme assets	47,712	42,435	49,810	45,029	39,530
Deficit in the scheme	<b>(17,010)</b>	<b>(6,352)</b>	<b>(8,038)</b>	<b>(9,831)</b>	<b>(12,425)</b>
Experience adjustments arising on scheme liabilities	809	409	(681)	50	(780)
Experience items as a percentage of scheme liabilities	1%	1%	(1%)	0%	(2%)
Experience adjustments arising on scheme assets	1,369	(11,369)	(92)	2,000	3,600
Experience items as a percentage of scheme assets	3%	(27%)	(0%)	4%	9%
Actuarial (losses) / gains reported in the STRGL	<b>(16,055)</b>	<b>(526)</b>	<b>(503)</b>	<b>2,080</b>	<b>(5,440)</b>

**Analysis of the amount credited to operating profit**

	<b>2009</b>
	<b>£'000</b>
Current service cost	768
Curtailment	(2,917)
Total operating (credit)	<b>(2,149)</b>

**Analysis of the amount credited to other finance income**

	<b>2009</b>
	<b>£'000</b>
Expected return on pension scheme assets	2,929
Interest on pension scheme liabilities	(3,115)
Net return	<b>(186)</b>

## 24. Capital position statement

The Society calculates solvency on both the realistic and the regulatory bases, and is required to maintain a solvent position on each.

The regulatory and realistic positions are summarised below.

	2009		2008	
	Regulatory £m	Realistic £m	Regulatory £m	Realistic £m
Working capital	98.4	105.4	60.9	83.6
Capital requirement	(33.8)	(10.5)	(30.8)	(28.1)
Excess capital	<u>64.6</u>	<u>94.9</u>	<u>30.1</u>	<u>55.5</u>

The Capital position statement on page 66 has been prepared on the realistic basis and is consistent with the requirements of FRS 27.

<b>Movement in realistic working capital for UK With Profits fund</b>	<b>£'000</b>
Realistic working capital at 1 January 2009	83,650
Realistic value of assets available to the fund	62,518
With Profits benefit reserve	16,155
Future policy related benefits	31,264
Realistic current liabilities	(88,161)
Realistic working capital at 31 December 2009	<u>105,426</u>

There are no material constraints affecting the movement of capital between the parent and its subsidiaries.

### Notes to the table on Page 66

With Profits Liabilities:

The With Profits liabilities in the balance sheet have been calculated in accordance with the realistic basis regulations prescribed by the FSA. The principal assumptions used are set out in note 27.

Risk capital margin:

The risk capital margin represents the additional technical provisions required in the event of specified adverse events relating to market falls, increased credit spreads and lower interest rates.

Intra-group arrangements:

Capital provided for the subsidiaries is shown in note 12.

## 24. Capital position statement continued

	2009					2008				
	UK With Profits £'000	Ireland With Profits £'000	Total Life Business £'000	Consolidation Adjustments £'000	Group Total £'000	UK With Profits £'000	Ireland With Profits £'000	Total Life Business £'000	Consolidation Adjustments £'000	Group Total £'000
Fund for future appropriations	114,470	-	114,470	-	114,470	88,008	-	88,008	-	88,008
Shareholders funds	-	3,618	3,618	(3,618)	-	-	4,381	(4,381)	-	-
Adjustments to restate on to a regulatory basis:										
Regulatory inadmissible assets	(9,044)	-	(9,044)	-	(9,044)	(3,353)	-	(3,353)	-	(3,353)
Inadmissible assets reserved for in technical provisions	-	-	-	-	-	(1,005)	-	(1,005)	-	(1,005)
Working capital	105,426	3,618	109,044	(3,618)	105,426	83,650	4,381	88,031	(4,381)	83,650
Risk capital margin	(10,562)	(3,110)	(13,672)	3,110	(10,562)	(28,137)	(3,068)	(31,205)	3,068	(28,137)
<b>Realistic excess capital</b>	<b>94,864</b>	<b>508</b>	<b>95,372</b>	<b>(508)</b>	<b>94,864</b>	<b>55,513</b>	<b>1,313</b>	<b>56,826</b>	<b>(1,313)</b>	<b>55,513</b>
With Profits liabilities on realistic basis:										
Options and guarantees	44,348	-	44,348	-	44,348	74,601	-	74,601	-	74,601
Other policyholder obligations	281,902	42,375	324,277	-	324,277	299,067	40,464	339,531	-	339,531
<b>Total With Profits liabilities</b>	<b>326,250</b>	<b>42,375</b>	<b>368,625</b>	-	<b>368,625</b>	<b>373,668</b>	<b>40,464</b>	<b>414,132</b>	-	<b>414,132</b>
Unit linked	147,747	-	147,747	-	147,747	137,480	-	137,480	-	137,480
Non participating life assurance	547,919	-	547,919	-	547,919	364,592	-	364,592	-	364,592
Present value of future profits of in-force business	(26,449)	-	(26,449)	-	(26,449)	(40,316)	-	(40,316)	-	(40,316)
Reassurer's share of long-term business provision	(170,626)	-	(170,626)	-	(170,626)	(76,212)	-	(76,212)	-	(76,212)
Insurance contracts	824,841	42,375	867,216	-	867,216	759,212	40,464	799,676	-	799,676
Investment contract liabilities	313,492	-	313,492	-	313,492	301,455	-	301,455	-	301,455
<b>Technical provisions in balance sheets</b>	<b>1,138,333</b>	<b>42,375</b>	<b>1,180,708</b>	-	<b>1,180,708</b>	<b>1,060,667</b>	<b>40,464</b>	<b>1,101,131</b>	-	<b>1,101,131</b>

## 24. Capital position statement continued

Options and Guarantees:

The calculations for the cost of options and guarantees have been performed using a proprietary stochastic model. Liabilities have been calculated on a best estimate basis.

The key assumptions are interest rates and volatility and these have been calibrated to market values at the reporting date. Other assumptions are best estimates and have been derived using data from investigations of the Society's own experience.

The material options and guarantees provided for are as follows;

- For conventional With Profits policies the sum assured together with reversionary bonuses already declared are guaranteed at maturity date (and for life policies, on death) irrespective of the assets supporting this business;
- For unitised With Profits policies there are guarantees not to apply a market value reduction (MVR) to the value of units on death or maturity. There are also MVR-free guarantees on regular withdrawals from most series of investment bonds of up to 7.5% of the original premium;
- Conventional pensions contracts have options whereby the policyholder may elect to convert the cash benefit at retirement into an annuity on specified terms.

### Capital resources

In these financial statements, the Fund for Future Appropriations (FFA) is the financial resource not directly attributable to either policyholders or other financial liabilities. From a regulatory perspective, the available capital resources are determined by subjecting the FFA to two further reductions, the Risk Capital Margin (RCM) and assets which are inadmissible. These requirements, which set aside capital, broadly serve to further protect policyholders and other third parties against the risks that the group faces.

Working capital targets are set to cover regulatory capital requirements, risks arising from the in-force business and also to leave further amounts available to the group to support and take advantage of business development initiatives. A formal report on risk and capital management processes, the Individual Capital Assessment (ICA), is prepared in June each year. The ICA is sometimes referred to as 'economic' capital which is used to assist with the management of the business.

## 25. Realistic balance sheet

	<b>Society 2009 £'000</b>	<b>Society 2008 £'000</b>
Total net assets	1,434,726	1,243,761
Less: Long Term Provision for non-profit business	(853,730)	(746,737)
<b>Total regulatory assets</b>	<b>580,996</b>	<b>497,024</b>
Additional assets arising on realistic basis	43,206	64,660
<b>Total assets</b>	<b>624,202</b>	<b>561,684</b>
Policyholder liabilities:		
Other policy obligations (asset shares)	281,902	299,067
Financial guarantees (net of charges)	19,654	37,884
Options (guaranteed annuities)	24,694	36,718
Other liabilities	192,526	104,365
<b>Total liabilities</b>	<b>518,776</b>	<b>478,034</b>
<b>Excess assets over liabilities</b>	<b>105,426</b>	<b>83,650</b>

The amount of realistic assets available to the Society's With Profits fund at 31 December 2009 was £624.2m (2008: £561.7m) and the amount of realistic liabilities amounted to £518.8m (2008: £478.0m). This results in an excess of realistic assets over realistic liabilities of £105.4m (2008: £83.6m) - see also note 24.

Premiums received to date together with the investment return earned less expenses and charges comprise the main element of the asset shares of the realistic With Profits business. Asset shares move in alignment with the underlying assets backing the policyholder liability.

Policyholder liabilities including options and guarantees are valued using a market consistent stochastic model. Further details are shown in note 24.

Included in other liabilities are provisions for specific items such as mortgage endowment complaints and other fund liabilities. Realistic liability valuations also allow credit to be taken for the PVFP (Present Value of Future Profits of in force business) of non-profit business written in the With Profits fund in accordance with FRS 27.

## 26. Risk management and control

A formal risk framework has been developed which is monitored by the Head of Compliance and Risk. This is reviewed by the Risk Steering Group, the Audit Committee and the Board. The Society uses the Individual Capital Assessment (ICA) process (see note 24) to embed sound risk management practices across the organisation. This covers an analysis of market, credit, insurance, operational, liquidity and group risks. The Society uses the ICA to identify and implement improvements to its risk management practices and hence to seek opportunities to optimise the capital position.

The Society is exposed to risk in the following categories:

- **market risk** - the risk that as a result of market movements or changes in volatilities - principally of interest rates, asset values or calculated liabilities may change;
- **credit risk** - the risk of loss if another party fails to perform its financial obligations to the Society;
- **insurance risk** - the risk arising from fluctuations in the timing, frequency and severity of insured events, relative to the expectations of the Society at the time of underwriting;
- **operational risk** - the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events. In practical terms, this definition has been extended to include the monitoring of regulatory, legal, reputation and strategic risks;
- **liquidity risk** - the risk that the Society, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost;
- **group risk** - the risk arising from intra-group transactions.

For each of the above risks, the Society considers where the focus of future management activity should be to ensure that the Society's capital requirement is consistent with its risk appetite, including the setting of its investment strategy. A summary of risk mitigation is set out below.

### Market risk

The Society manages market risk to provide a return in line with the expectations of policyholders, including:

- for non-profit policyholders, matching the duration and profile of assets against corresponding policyholder liabilities;

## 26. Risk management and control continued

- for With Profits policies, the Society remains exposed to the risk that With Profit guarantee costs will increase due to an equity market fall. This can be partly offset by taking action to reduce reversionary bonus rates.

The key mitigations that the Society undertakes to limit market risk include limiting investment in any one business, spreading equity investments across a number of independent fund managers, and investing equities and fixed interest funds across several countries' markets. There are also derivative contracts in place to mitigate some of these risks. In addition, the Society takes action to manage interest rate, equity price and currency risks:

### (a) Interest rate risk

The group is exposed to interest rate risk on its fixed interest assets to the extent that these are not matched by movements in policyholder liabilities. No interest rate risk arises from non-participating investment contract liabilities, nor from other unit linked contracts, as these reflect the value of the underlying net assets.

Of the £802m of conventional fixed interest assets, a total of £715m is held to match with profits asset share liabilities or annuity liabilities. Interest rate risk is managed by matching fixed interest assets of suitable durations to expected annuity outgoings.

The impact of a change in interest rates of the remaining fixed interest assets would be less than that on the remaining policyholder liabilities, principally guaranteed annuity options.

For those contracts with guaranteed annuity options, 21% have contractual maturity dates falling within the next 5 years, a further 27% within years 6 to 10, 29% within years 11 to 15, and 23% in years 16 onwards.

The Society holds a portfolio of interest rate swap derivatives (see note 14) to protect free assets against changes in interest rates which could adversely impact the guaranteed annuity options liabilities. The market value of these derivatives broadly changes in line with the value of the guaranteed annuity option liabilities.

The impact on the Fund for Future Appropriations (FFA) for the year if interest rates were to increase or decrease by 50 basis points in interest rate yields would result in a decrease or increase in the FFA for the period of £3.9m (2008: £0.2m).

### (b) Equity price risk

The group is exposed to equity price risk as a result of its holdings in equity investments. Exposures to unit trust funds, individual companies and to equity shares in aggregate are monitored to ensure compliance with solvency requirements.

Due to changes in the Society's investment strategy over 2009, an equity market movement of 10% in either direction would change the FFA by less than £1m. (As at year end 2008, a 10% equity market fall would have reduced the FFA by £12.5m.)

## 26. Risk management and control continued

### (c) Currency Risk

Foreign exchange risk arises when assets and liabilities are denominated in a currency other than the Society's functional currency, most significantly to the Euro and to the US Dollar.

The liabilities of the Society to policyholders are denominated in Sterling. The assets and liabilities of the group's Irish subsidiary - MGM International Assurance Limited (MGMI) are denominated in Euro, therefore the group is only exposed to foreign currency translation risk in relation to the net assets of the subsidiary. The exchange gain/loss on translation of MGMI for the year and prior year is reported in the Group Statement of Total Recognised Gains and Losses.

A sensitivity analysis determined that the FFA is not significantly affected by reasonable movements in currency exchange rates at the year end.

### Credit risk

Credit risk is incurred whenever the Society is exposed to loss if a counterparty fails to perform its financial obligations to the group, including failing to perform them in a timely manner.

To mitigate credit risk:

- Investment mandates prescribe a maximum percentage of the funds below BBB grade;
- A wide spread of bonds are invested in with exposure limits and restrictions applied to investments to a single counterparty;
- Several different reinsurers have treaties with the group;
- Reinsurers that have a credit rating of A- or above only are used;
- Collateral is held in respect of significant reinsurance and derivative exposures.

The principal non-linked assets of the Group bearing credit risk are summarised below, together with an analysis by credit rating. The current value of the non-linked interest rate swap derivative (see note 14) is not considered to be of significant credit risk, as an equivalent value in Gilts is posted as collateral by the counterparty whenever the derivative is in the money.

Equivalent unit-linked assets are not included in this analysis as any such exposure is covered by policyholder liabilities which the assets underlie.

## 26. Risk management and control continued

	<b>Group</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
Derivative financial instruments less collateral held	(577)	(1,044)
Debt securities	811,289	528,944
Loans and receivables	148	222
Assets arising from reinsurance contracts less collateral held	14,613	567
Deposits with credit institutions	<u>55,735</u>	<u>41,001</u>
	<b><u>881,208</u></b>	<b><u>569,690</u></b>
<b>Debt and other assets rated as:</b>		
UK Government	134,838	34,193
AAA	112,853	142,453
AA	93,020	96,832
A	286,846	179,002
BBB	181,036	72,065
BB	8,900	3,166
Below BB or not rated	7,981	979
<b>Deposits with credit institutions rated as:</b>		
A-1+	18,874	14,303
A-1	35,478	26,697
A-2	<u>1,382</u>	<u>-</u>
	<b><u>881,208</u></b>	<b><u>569,690</u></b>

No credit limits were exceeded during the year. No assets were past due or impaired at the year end. The group expects no significant losses from non-performance by these counterparties. The group also reviews derivative positions by both amount and term. The amount subject to credit risk at any one time is limited to the current fair value of derivative financial assets.

**Insurance risk**

Insurance risk arises in relation to policy cash flows, the primary risks being mortality and morbidity risk. Mortality risk is the risk of loss arising due to policyholder deaths experience varying from expectations; or for annuities, the risk of the annuitant living longer than expected. Morbidity risk exists due to policyholder health experience being different from expectations.

## 26. Risk management and control continued

The group has reinsurance quota share treaties, for both term assurance and “Select” annuity portfolios and a mortality swap arrangement for standard annuities. The group uses a claims management service to ensure regular payments, for example, income protection, are only paid to the appropriate claimants. Furthermore an underwriting review of all claims takes place.

### Operational risk

The Society’s risk management process includes the monitoring of regulatory, legal, reputation and strategic risks by the Risk Steering Group, the Audit Committee and the Board. The various key elements of strategic risk have been identified by senior management and risk categories determined accordingly.

These bodies identify new emerging risks, the status of their mitigating controls and the trends in crystallising risks. Combinations of risks are monitored on a scenario basis and continuing appropriateness of these scenarios is reviewed regularly. The key scenarios are incorporated into the operational risk assessments for the ICA process.

### Liquidity risk

For policyholder funds, liquidity risk arises from a number of potential areas including a short-term mismatch between assets and liabilities and potentially to an unexpectedly high level of lapses/surrenders.

Liquidity risk for ICA purposes is the management of risk arising from short-term cash flows. Except for around £28m of long-term assets (consisting of the embedded value of non-profit business, private equity and direct property holdings) all assets are considered to be highly liquid, as they are quoted stock or cash. The Society does not therefore consider that it has any significant liquidity exposure.

### Group risk

The relatively simple structure of the MGM group means that there are no significant risks believed to arise from group risk, with an adequate administrative and accounting systems operating across the group and the application of adequate management and monitoring around intra-group transactions.

## 27. Long term business provision

- (a) The principal assumptions used in the calculation of the long term business provision for non-profit business are:

### Rates of interest:

Enhanced annuities	5.25%	(2008: 5.7%)
Standard annuities	5.35%	(2008: 5.7%)

### Mortality:

Enhanced annuities:	90% of pricing basis (for pricing, annuitants are individually underwritten)
Standard lives:	No longer material following implementation of reinsurance treaty as described in note 26.

- (b) Assumptions in determining the present value of future profits:

### Rates of discount:

Enhanced annuities	6.47%	(2008: 6.90%)
Standard annuities	6.57%	(2008: 6.90%)
Non-annuity business	4.20%	(2008: 3.75%)

### Rates of return on assets:

Matching enhanced annuities	5.72%	(2008: 6.15%)
Matching standard annuities	5.82%	(2008: 6.15%)
Other assets	3.45%	(2008: 3.00%)
Expense inflation	4.3%	(2008: 2.80%)

### Mortality:

Enhanced annuities:	100% of pricing basis (for pricing, annuitants are individually underwritten)
Standard lives:	No longer material following implementation of reinsurance treaty as described in note 26.

## 28. Long term fund assets

As at 31 December 2009, the total assets of the long term fund of the Society was £1,138.4m (2008:£1,060.4m), valued in accordance with Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

## 29. Contingency reserves

A provision of £24.7m (2008: £36.7m) is included in technical provisions and represents Guaranteed Annuity Option costs which have been calculated as described in note 25.

The Society has a contingent liability for any levy in relation to Independent Financial Advisers under the Investors Compensation Scheme. There is no basis at the present time for assessing the likely level of any such levy.

The provisions for mis-selling and complaint redress costs are calculated based on anticipated expenditure. Some of the expenditure will be incurred in future periods. Whilst the directors consider these provisions to be reasonable on the basis of the information currently available to them, including current regulations and legislation, subsequent events may result in significant adjustments to the amounts provided.

### 30. Commitments

	<b>Group and Society</b>	
	<b>2009</b>	<b>2008</b>
	<b>£'000</b>	<b>£'000</b>
<b>Operating leases</b>		
The amount payable within the next 12 months:		
On plant and machinery leases expiring		
Within one year	7	9
Between two and five years	29	36
On land and property leases expiring		
Within one year	<u>-</u>	<u>49</u>
	<b><u>36</u></b>	<b><u>94</u></b>

#### **Finance leases**

There are no finance leases payable within the next 12 months.

### 31. Long Term Incentive Plan

The Long Term Incentive Plan (LTIP) was approved at the Society's 2008 Annual General Meeting and provides for awards to be made at the end of each three year performance period starting from 1st January 2008. Such awards are subject to the achievement of set targets, linked to the increase in working capital, which has been identified as a key performance indicator representing the creation of value, sustainability and the delivery of strategy.

The current LTIP does not result in any award until a working capital trigger of £133m has been exceeded. The value of working capital as reported in note 24 at 31st December 2009 is £105.4m and so the fair value of liabilities under the LTIP at 31st December 2009 is £nil (2008: £nil). A separate resolution regarding some amendments to the LTIP rules is being presented to the Society's Members as part of the 2010 AGM.

## Notice of meeting

### **Notice of meeting of Marine and General Mutual Life Assurance Society.**

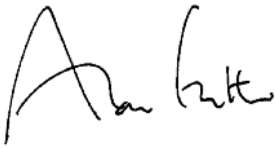
77

Notice is hereby given to Members that the 158th Annual General Meeting of the Society will be held at the Goodwood Park Hotel, Goodwood, Chichester, West Sussex, PO18 0QB at 12.30pm on Wednesday 26 May 2010.

A formal notice of the meeting, together with full details of the matters to be considered, will be sent to every member at least 28 days beforehand.

Each member may attend and vote in person or by proxy at meetings of the Society. A proxy need not be a member of the Society.

By Order of the Board



**Alan J Futter**

Company Secretary  
24 March 2010

## How to contact us

78

To become a customer of **MGM Advantage**, or to find out more about the products and services we have to offer, please contact the Customer Centre at the following address:

MGM Advantage  
MGM House  
Heene Road  
Worthing  
West Sussex  
BN11 3AT

Telephone +44 (0)1903 836067

Website: [www.mgmadvantage.com](http://www.mgmadvantage.com)

Email: [customercentre@mgmadvantage.com](mailto:customercentre@mgmadvantage.com)





INVESTOR IN PEOPLE

Telephone calls may be recorded for training and quality monitoring purposes. **MGM Advantage Marketing Group, Marine and General Mutual Life Assurance Society\*** Registered no.00000006 is authorised and regulated by the Financial Services Authority. **MGM Assurance (Trustees) Limited\*** Registered no.01279948. **MGM Advantage** and the **MGM** logo are Trade Marks of **Marine and General Mutual Life Assurance Society**. All companies registered in England and Wales. \*Registered office MGM House, Heene Road, Worthing, West Sussex, BN11 3AT.