onefamily
modern family finance

Annual Report and Consolidated Financial Statements 2019

Contents

Welcome to the OneFamily annual report

As a member of our Group you are also an owner, so this annual report is for you. Read on to discover how we've performed in 2019 and what challenges and opportunities we've encountered. Also see how we are embracing the future and leading the Group, on your behalf, in 2020 and beyond.

£7.5b
of our families' money cared for

2.6m
customers

93%
Customer call centre satisfaction

221%
Capital coverage ratio
In our Non-Profit fund

£84m
Capital surplus
In our Non-Profit fund

£157.5m
Retained earnings

Strategic report

This Strategic report on pages 6 to 43 incorporates the following sections:

- Chairman's review
- Chief Executive Officer's report
- Group performance highlights
- Chief Finance Officer's report
- Our strategy
- Risk management report
- Corporate social responsibility report
- OneFamily Foundation report

We have tried to use plain English throughout this annual report to make it as understandable as possible to all our stakeholders. However, due to the nature of our business some of the terms are quite technical and may not be commonly understood. To help the reader a glossary is provided on page 146.

Chairman's review
Christina McComb

Welcome to our 2019 Report and Financial Statements. In the report, you will learn about the activities and performance of OneFamily over the past year. But as I write this review, I need first to address the dominant issue which affects all of us currently and likely will continue to impact all aspects of our lives during 2020 – the Coronavirus pandemic.

Firstly, I would like to convey the overarching commitment of OneFamily – the Board, our management team and all of our dedicated staff – to support all our members and customers in these challenging times. Our website (www.onefamily.com) will contain regular updates and details of how to contact us.

I would also like to reassure you that OneFamily remains strong and financially resilient against the backdrop of fluctuating markets. You will read more in the CEO report about how we are responding to COVID-19 to maintain a robust business which is able to honour our commitments to all our customers and policyholders.

£7.5b
customers' money cared for by OneFamily

Our purpose continues to be to create and protect value for members whilst ensuring that the business is sustainable over the long term. To help deliver this in 2019, we have focussed on improving how we deliver value to our customers and ensuring that our operations are structured as efficiently as possible. More about the work undertaken in these areas in 2019 and plans for 2020 and beyond can be found in both the Chief Executive Officer's report and the section on 'Our Strategy'.

2019 has shown the world the powerful voice of the people by way of climate change activism; this is in tune with feedback we received from you, our members, at the 2019 Annual General Meeting. We are actively looking at the Environmental Social Governance (ESG) investments we can offer to current and future customers and also how as a business we can reduce the environmental impact of our operations. Please see the Chief Executive Officer's report, Chief Finance Officer's report and the Corporate Social Responsibility report to read more about how we are achieving this.

The economic environment

2019 saw the UK economy deal with the continued political uncertainty over Brexit, finally reaching a head with a general election in December and the clarity of an exit date from the EU of 31 January 2020. The political turbulence had a knock-on impact on the UK's economic growth in 2019 and consumers showed greater hesitancy in their investment decisions and house purchasing. We still expect to see this economic uncertainty continue throughout 2020 as the full impact of the UK's exit from the EU emerges. This is compounded and overshadowed, of course, by COVID-19.

During 2019 the Bank of England maintained the base rate at 0.75%, good news for those with mortgages or other borrowings, but a challenging environment for those looking to save in cash deposits. From a wider economic viewpoint, returns on government bonds or 'gilts' dropped significantly in 2019 to a low point in August. Although returns recovered slightly in the last few months of the year, this had an impact on our results for the year.

Customer service, member benefits and the OneFamily Foundation

2020 is a key year for OneFamily as Child Trust Fund (CTF) policies start to mature in September. We are committed to delivering a simple and efficient process to these maturing CTF policyholders, whether they wish to withdraw their funds or reinvest with OneFamily. We are currently developing attractive opportunities for these policyholders to reinvest in, including funds focussed on climate change and the environment.

We are also continuing to explore how we can extend benefits to our members. We have launched a pilot membership programme, which will run throughout 2020, focussing on our CTF policyholders. We will monitor the impact of this pilot and hope to rollout to our wider member base in the future. This is in addition to the existing member benefit of the provision of free independent advice on the lifetime mortgage market to members, their families and friends.

Our Foundation has continued to support deserving causes during the year. In 2019, we expanded our offering and added Young Person's Education Grants to our initiatives. So far, we have helped 102 young people through the purchase of items such as textbooks and laptops. In addition, we provided 365 Personal Grants of up to £500 for those in financial hardship and awarded funding of up to £5,000 to 40 good causes as part of our Community Grant programme. This good work will continue in 2020 and 2021 with further funding of £1 million already committed by the Society. For more detail on the work of the Foundation please see page 40.

Board and governance

2019 saw a significant change in the leadership of the Society with the departure of Simon Markey as Chief Executive Officer (CEO) at the end of the year. Simon had been with us for seven years and was instrumental in building the success of the Group over that time, primarily through the merger with Engage Mutual in 2015 leading to the creation of OneFamily. I would like to take this opportunity to thank Simon both personally and on behalf of the Board for his dedication and drive during his time with us. The Board are pleased to announce that Teddy Nyahasha has been appointed to succeed Simon. Teddy brings considerable depth of experience in insurance business and knows OneFamily well, having been our Chief Finance Officer (CFO) for the past three years. I look forward to the fresh insights that Teddy will bring to OneFamily as CEO.

2.6m
customers

Turning to the Board, I welcome three new additions in 2020. They are Jim Islam, who succeeds Teddy Nyahasha as CFO and Nici Audhlam-Gardiner who, as the Group's Chief Commercial Officer, joins the Board as a new executive director. In addition, we welcome Jackie Noakes as a new non-executive director. Jackie's experience as Chief Operating Officer at Bank of Ireland and previously at Legal & General Assurance Society will make a valuable contribution to the Board. You can read more about the backgrounds of all our directors in the biography profiles on pages 46 to 47. I look forward to working with such a strong diverse team in the future.

Finally, I would like to thank all OneFamily colleagues for their continued contributions and commitment during the year.

Christina McComb
Chairman

Chief Executive Officer's report Teddy Nyahasha

Welcome to my first report as Chief Executive Officer (CEO) of OneFamily in which I will take you through the achievements and challenges of 2019.

I would like to take this opportunity to set the scene for what you should expect of me in my new role. However, first of all I would like to thank my predecessor, Simon Markey, for handing over the mantle of such a dynamic modern mutual and also the Board for their continued support.

In the three and a half years that I've been with OneFamily as Chief Finance Officer I have seen that you, our members, are truly at the heart of everything that we do. I, like you and the rest of the members of your Board, am a member and therefore part owner of the Group and am personally committed to ensuring that this business thrives. Our overall purpose, as mentioned by the Chair, remains the same – to create and protect value for our members – with a focus on developing our current product range and improving the efficiency of our organisation.

£112m
Income levels

Moving forward, I want us to make the most of our heritage as a mutual organisation and draw strength and inspiration from our roots; including giving greater focus to our green agenda and our move towards more Environmental Social Governance (ESG) investing, particularly with our first Child Trust Fund (CTF) maturities just around the corner.

I won't be doing this alone though and look forward to working with fellow colleagues to build on our solid foundations in establishing the Group as a strong, sustainable mutual business for years to come.

2019 Performance

From a capital perspective the Society continues to be extremely strong. Within our non-profit fund, we continue to have Solvency II capital in excess of requirements of £84 million and a Solvency II capital coverage ratio of 221%.

2019 has seen us maintain income levels at £112 million, compared to £109 million in 2018, aided by increased sales of lifetime mortgages. As indicated in last year's Annual Report, in 2019 we planned to invest in optimising our business. This led to restructuring of our operations and a transformation programme to reduce costs in the long-term. Despite the costs incurred in undertaking this, our operating expenses have seen a 6% decrease from £75 million to £71 million in the year and we expect to see further efficiency savings in the future.

On the down side, given the nature of our investments, the fall in interest rates on government bonds affects the results of our business in an unfavourable way. This adverse movement has more than eliminated the positive returns seen on income and operating expenses and, as a result of this market movement, we are reporting a loss for the year on a statutory basis.

Strategic context

Our focus in 2019, has been to ensure that our business is efficient, based on solid foundations and that we continue to offer excellent customer service. Our focus in these areas can be considered from four perspectives:

Our customers

We pride ourselves on the level of customer service provided by our Brighton based call centre. I am pleased to report that we have, once again, maintained our very high standards with general customer satisfaction in relation to our call centre averaging 93%.

We have also continued to engage with our members, through OneFamily Voice, an online customer research panel for adults, and we also launched Smart Money our online panel for teens. We are encouraged by the levels of engagement we are experiencing with these panels on a large variety of topics including research for our CTF maturity engagement and proposition plan, later life financial planning and ethical investments.

A key focus into 2020 is the journey that maturing CTF policyholders will experience from September 2020, when these policies start to mature. We are the largest CTF provider in the UK with 1.6 million young people having accounts managed by OneFamily. We appreciate that this generation will expect a smooth digital process and we have been working hard to achieve this, whether they are looking to cash in their accounts or reinvest them with us in a Lifetime ISA (LISA) or ISA product. We have been listening to the demand from these and other customers in relation to environmental and social issues and I have outlined how we are looking to address this in the next section.

But what have we delivered to you in relation to investment returns? Our main CTF fund, the Family Investment Child Trust Fund, saw gains of 18.5% in 2019; an impressive performance – outstripping the total return on the FTSE 100 index of 17.2%. Obviously, past performance is not an indicator of future performance. For more information on the performance of our main funds and commentary on how markets have performed in 2019 please see the Chief Finance Officer's Report.

Our products

Our lifetime mortgage businesses continue to develop in a market sector which, while steady year on year, continues to present us with a growth opportunity. This market meets an increasing need, for those aged 55 and over, to release equity to support their retirement or family needs.

In 2019, we launched our Super LTV product range – tapping into an unmet customer need for greater income, delivering record numbers of applications for us in the months post launch.

Our lifetime mortgage advice business – OneFamily Advice – which launched in May 2018 – showed very strong growth. The number of mortgages the business advised on increased by 218% in the second half of 2019 vs the same period in 2018.

93%
Customer call centre satisfaction

We have also been working closely with intermediaries in respect of our Over 50s life product, which is mainly sold through financial advisers, and we intend to develop the product further in 2020 to ensure it continues to meet customer needs in a simple way.

As mentioned by the Chairman in her review, 2019 saw a clear message given to politicians and businesses that we all need to do more on environmental issues. Similar feedback was received from members at the 2019 Annual General Meeting. We have responded by actively sourcing climate change investment funds, as part of our broader ESG strategy. These will first be available for ISA and LISA customers including our maturing CTF policyholders who reinvest with us. More on this can be found in the Chief Finance Officer's report.

Our people

People are our greatest asset within OneFamily and are key for us to be successful in driving our business forward. During 2019 we had to take some tough decisions to review the structure of the organisation to ensure that it was well positioned for the future. As a result, and following a consultation process and reassignment into other available roles wherever possible, a number of colleagues left the business. I commend the professionalism of my colleagues at all levels through this process.

221%
Capital Coverage in our non-profit fund

During 2019 our management team continued to work on areas identified for improvement evidenced from our extensive staff survey undertaken at the end of 2018. This has resulted in improved employee engagement during 2019. However, I believe we can do more to create a great working environment with a more collaborative and forward-thinking culture.

Technology

We outlined in the 2018 Annual Report that, in order to ensure that we remain a modern mutual we recognise that we need to invest further in the infrastructure of the business. This work started in earnest in 2019 and we are pleased with progress to date. During 2020 we will look to complete the details of planning with delivery in stages through to 2024. This will be a significant investment for the business and members should expect to see higher operational costs, as we ensure that the business has a sustainable IT infrastructure on which to operate in the future.

Outlook

As I write this, the outbreak of the COVID-19 virus has reached a pandemic scale and had a significant impact on our day to day lives, our ways of working, the global financial markets and the broader economy.

Our focus through these difficult times is to continue to support our customers and deliver on our services while also ensuring the well-being of our colleagues and our partners. I want to reassure customers that our strong capital base under Solvency II and significant reinsurance for our life insurance related exposures adds to our resilience through these turbulent times. We will continue to serve all of our customers in a rapidly changing environment at the same time as adjusting working practices and maintaining effective controls to help ensure the safety of colleagues.

Teddy Nyahasha
Chief Executive Officer

Our products

We understand that modern families come in all shapes and sizes. Whether yours is connected by blood, love or circumstance, we're stronger when we make decisions together. Which is why we provide products and services that help modern families thrive.

Savings for children

Junior ISA
Five-time award winning Junior ISA provider.

Junior Bond
Tax-efficient investments for a child.

Child Trust Fund
We're the UK's largest CTF provider and have been looking after child savings accounts for over 17 years.

Savings for adults

Family Bond
Invest up to £25 a month from 10 to 25 years and receive a tax-free lump sum.

Lifetime ISA
Invest towards your first home or retirement with a 25% government bonus.

Ethical Equity ISA
An ethical, tax-efficient way to invest.

Other products

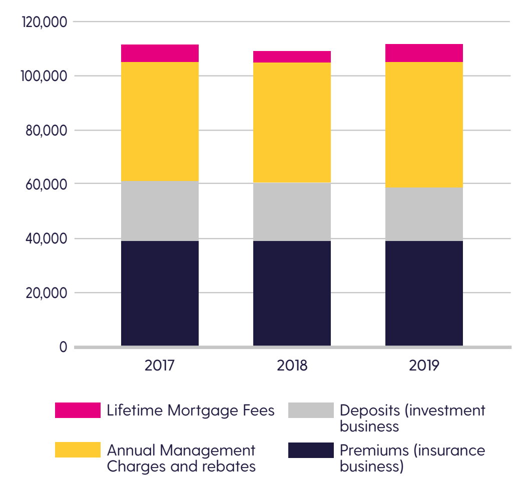
Over 50s Life Cover
5* Defaqto rating. The highest rating you can get for OneFamily affordable life cover.

Lifetime Mortgages
Allows you to release a one-off cash lump sum, without the need to move.

OneFamily Advice
Independent whole-of-market lifetime mortgage advice.

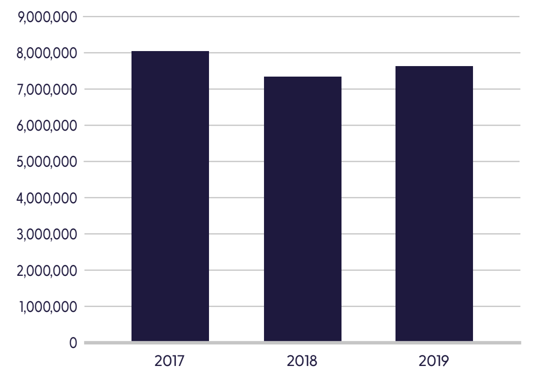
Group performance highlights

Income (£'000)



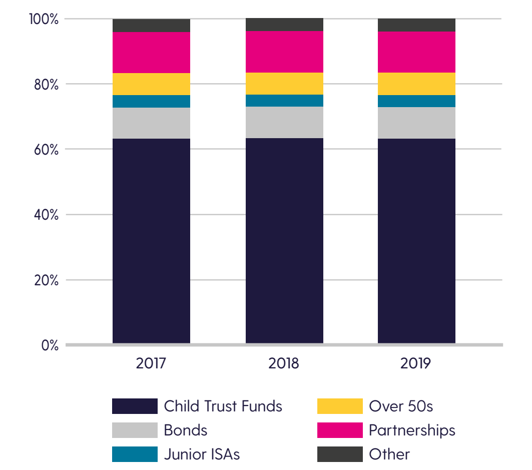
Income received through insurance premiums, investment deposits and annual management charges and rebates remains strong. The increase experienced in the Annual Management Charges reflects the growth in stock markets and the impact of taking over management of a Unit Trust in 2019.

Customers' Funds Under Management (£'000)



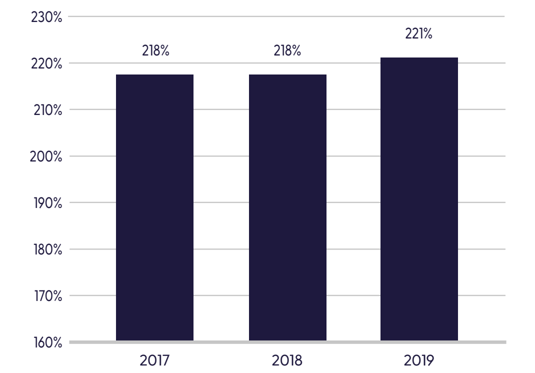
A move towards lower volume but higher value products such as lifetime mortgages (through OneFamily Lifetime Mortgages) and fee based services via OneFamily Advice does not add significantly to our funds under management. However, the growth in stock markets in 2019 has offset the reduction expected through the maturing of policies and shift in the product mix, resulting in an increase in the funds we manage on behalf of our customers by 3%.

Policies in force by product type



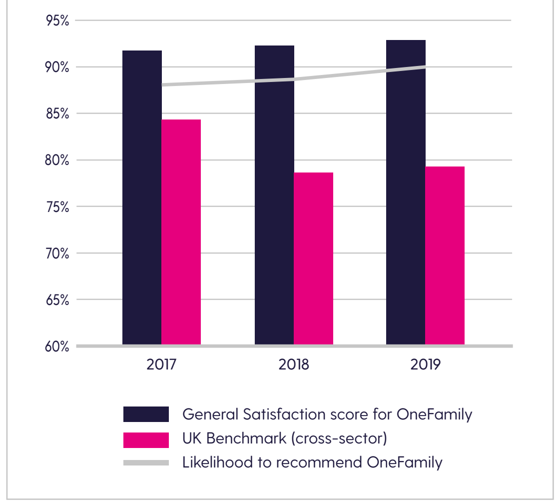
The majority of the Group's policies are Child Trust Funds and a key focus in 2019 is the reinvestment proposition and maturity operations for these policies, which will begin to mature in 2020.

Non-Profit Fund Solvency II Coverage Ratio



The Society continues to have a strong capital position with the capital coverage ratio of the non-profit fund increasing to 221%.

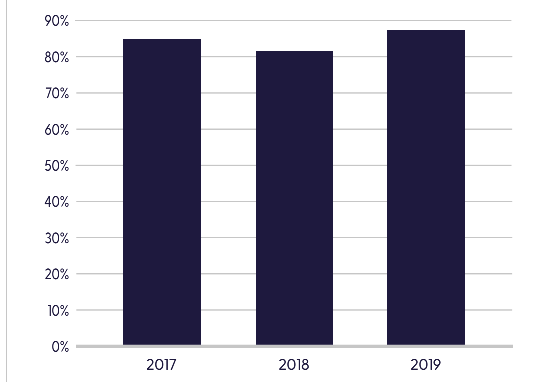
Customer satisfaction scores



The figures above are the average for the year.

OneFamily continues to far exceed the UK benchmark in respect of customer call centre satisfaction and in 2019 an average of 90% of customers would recommend us to friends and family.

Staff completing the staff survey



In 2017 the survey was via a simple questionnaire asking colleagues about the importance of various factors and their satisfaction.

In 2018 and 2019 the Group asked colleagues to complete the Best Companies survey which consists of a number of questions across various topics. This has provided management with more detail on colleagues' perception of what works well and areas for future focus.

2019 saw a participation rate of 87%.

Chief Finance Officer's report
Jim Islam

Overview

Our focus in 2019 has been to deliver organisational efficiencies, invest in our customer proposition and manage our strong capital position, so that we are set up for future success.

Our capital position for our non-profit fund remains resilient, with a capital coverage ratio for Solvency II purposes, of 221% compared to 218% in 2018, well in excess of regulatory requirements; and a capital surplus of £84 million compared to £84 million in 2018.

£84m
Capital surplus in our non-profit fund

Reviewing the underlying fundamentals of the business, compared to 2018, income is up slightly to £112 million, and expenses are down by 6% to £71 million. The reduction in expenses has been achieved despite the investment required to deliver the cost savings in 2019. However, the fall in long-term government bond yields during the year and its impact on the valuation of life insurance business has adversely impacted the Group results, resulting in a loss of £3.5 million.

As a mutual we are not driven by short-term dividend decisions and instead our focus continues to be on the current and long-term needs of both our existing and future customers and members. Therefore, during 2019 we embarked on a programme to modernise our system infrastructure which will ultimately result in reduced running costs, reduced operating risks and deliver efficiencies across the business. This is a long-term initiative and we expect the whole programme to run through to 2024 with delivery in stages.

Financial Performance

Financial Strength

A core foundation of our strategy is to have a strong capital position which is well in excess of the minimum requirement. This enhanced capital position allows us to grow and maintain our business in a sustainable way and is underpinned by an established risk management framework.

We have now been reporting our capital position under the principles of Solvency II for four years and it continues to be strong. Our non-profit fund has capital above the base level requirements of £84 million representing a capital coverage ratio, a measure of financial strength, of 221% compared to 218% at the end of 2018.

Income

We have maintained income levels at £112 million with income from fees charged on lifetime mortgages increasing in the year from £3.5 million to £5.3 million as the mortgage book that we administer on behalf of the lenders continues to grow. Fees earned on the funds we manage on behalf of our unit-linked policyholders have also increased. This is due to the improvements in the stock market through 2019 compared to the previous year, and also because of the transfer of management of a unit trust, in which some of our CTF policyholders invest, from Santander to Family Investment Management Limited, a Group company. The resultant impact of these two factors was an increase in annual management charges from £44.2 million to £48.1 million. These increases were partially offset by a reduction in investment business income.

Operating expenses

Despite the investment made in the year in restructuring our business and in ensuring that we are ready for the first maturities of Child Trust Fund policies, we have seen our operating expenses across the technical account (Society related) and non-technical account (subsidiary related) fall from £75 million to £71 million. This decrease in expense has been achieved through an efficiency programme and the change in our internal structure.

Statutory result

The Group loss as presented in these financial statements is mainly due to the significant fall in long-term government bond interest rates – known as gilt yields – in the year. This is due to the increase in the value of the asset being more than offset by the increase in the long-term business provision (which reflects amounts due to policyholders and is calculated using gilt yields) held within the financial statements.

Investment fund performance

In 2019 we continued to offer our customers a diverse range of investment options in a range of assets. Our funds all saw significant growth in the year, benefitting from the increase in prices across the globe, and reversing the falls experienced in 2018. The performance of our main funds is shown below:

£5.3m
Income on lifetime mortgages

Unit price growth*

Funds**	One Year	Three Years	Five Years
Family Balanced International Fund (FIBI)	16.48%	16.19%	33.75%
Family Investments Child Trust Fund	18.52%	17.08%	39.21%
Family Sovereign Fund	15.60%	16.67%	35.54%
OneFamily Stockmarket 100 Trust (Previously Santander Stock Market 100 Tracker Growth Unit Trust)	15.14%	14.92%	30.13%
Family Charities Ethical Trust	16.68%	18.58%	32.08%
Family Asset Trust	17.30%	18.07%	34.86%

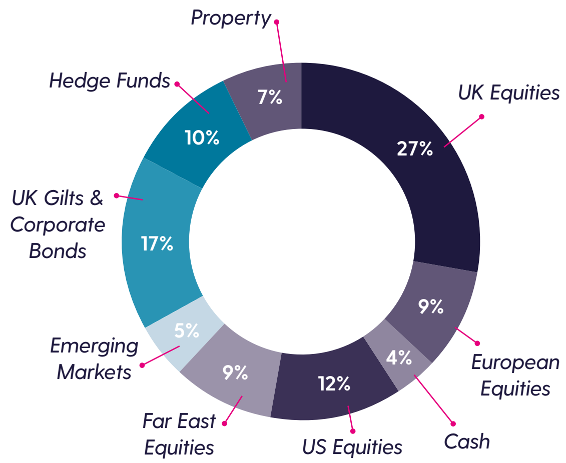
* Past performance should not be seen as an indication of future performance. Investors are reminded that the price of units, and the income from them, is not guaranteed and may go down as well as up. Growth shown is cumulative not annualised.

** The table above shows the performance of the Group's six largest funds. Funds are valued at bid price.

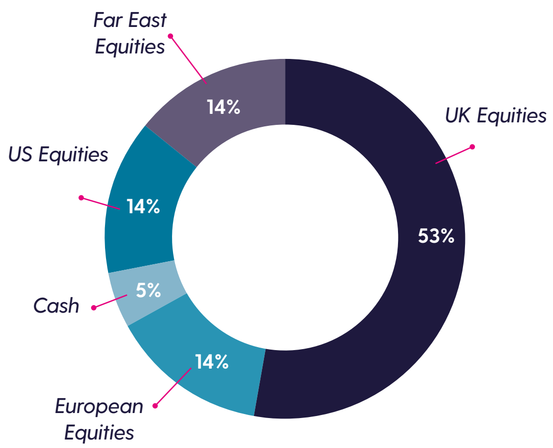
Our two largest funds, in which most of our customers are invested, continue to be the Family Investment Child Trust Fund and the Family Sovereign Fund. Both funds saw an impressive performance in their unit price growth over the year, being 18.5% and 15.6% respectively.

The composition of these two funds as at 31 December 2019 is shown in the charts on the next page.

Family Sovereign Fund



Family Investments Child Trust Fund



18.5%

gains in 2019 for our main CTF fund

Development of ESG (Environmental) fund offerings

OneFamily has carried out a detailed review of Environment, Social and Governance (ESG) investing; researching to understand our customer's expectations and desires; and assess what is currently available. Our customers have a range of views with a significant majority indicating an interest in ESG investing, though not at any price. Based on the existing investments available, OneFamily believes that ESG investing can reduce risks through investing in companies with better governance and social policies whilst providing sustainable investments in the longer-term safeguarding our environment. We believe these benefits are attainable without giving up returns or compromising on value for money.

Whilst ESG investing is still at a relatively early stage, we plan to gradually transform our existing investments to incorporate ESG elements. For new products we will seek to develop market leading propositions where the investment choices will align with customers' interests whilst also delivering competitive returns.

Investment market review

Overall

After a rocky end to the previous year, global equities rebounded strongly in 2019 to deliver some of the best annual returns in a decade. The year was book-ended by double-digit gains in the first quarter as central banks signalled less chance of rate hikes and by healthy returns in the final three months of the year as investors grew more optimistic around issues such as trade, Brexit and economic growth.

UK equities

The FTSE 100 Index returned 17.2% for 2019, a strong if comparatively modest outcome against the backdrop of all things Brexit-related. In a rollercoaster year on the political front the election in December brought about a Conservative Party majority – an outcome to which the market responded positively, with sterling and the stock market making gains. However, the retail sector struggled, and manufacturing activity was weak throughout the year.

Overseas equities

The US stock market ended 2019 just off its record high. As measured by the FTSE World North America Index, the total return for the year was 28.6%. Despite occasional setbacks, optimism that a US-China trade deal would be achieved kept equities tracking broadly higher through the year, with confirmation of a phase one agreement spurring the market to new gains in December.

In Europe, economic growth was lacklustre. Germany narrowly avoided a recession during the year and its massive manufacturing sector struggled as activity shrank throughout the year. However, the French economy, which is less reliant on industry, expanded more robustly than anticipated despite ongoing widespread street protests. Overall, the FTSE World Eurobloc Index recorded a positive total return of 22.0%.

In Asian markets, the FTSE World Japan Index generated a positive total return of 15.5%. Yen weakness in the latter part of 2019 provided a tailwind for this exporter-driven market.

The FTSE World Asia Pacific ex Japan Index recorded a positive total return of 14.8%. Many Asian economies rely heavily on international trade, so the US-China trade war and the potential for it to spread was a worry; however, subsequent progress towards a trade truce boosted sentiment, as did US interest rate cuts and a weaker US dollar.

Bonds

Investors in bonds saw good returns as expectations for central bank rate cuts increased against the uncertain trade and economic backdrop. Government bonds prices (which typically benefit when central bank rates are neither rising nor expected to rise) increased. Indeed, such was the demand for more defensive assets that the yield on a 10-year German bond turned negative in March for the first time since 2016 – effectively, investors were prepared to pay to lend money to the German government for 10 years. UK Gilt returns were also strong. The 10-year Gilt yield (which falls as gilt prices rise and vice-versa) ended December at 0.82% from 1.28% a year earlier, having dropped below 0.50% as recently as early October.

Outlook

In early 2020, concerns over COVID-19 have caused significant falls in equity markets and introduced much uncertainty into global economic outlook and investment performance. However, the Solvency II Pillar 1 capital position of the Society had been resilient in the face of market falls to date in 2020. This resilience is aided by the nature of our liabilities and our investment strategy. We invest heavily in low-risk gilts and cash, which provide a good match to our non-linked liabilities, and which has helped limit the impact of the recent financial volatility. We remain alert to the developing conditions and will continue to prioritise a medium to long term investment strategy for the benefit of our customers. Our focus remains to maintain the capital and financial strength of the Society in these challenging times while delivering on our strategic objectives.

Jim Islam
Chief Finance Officer

16.7%

one year return on the Family Charity Ethical Trust

Our strategy

Our Group strategy sets out the path we intend to take to help deliver our purpose. We can best demonstrate our purpose, vision and how we look to achieve this in the diagram below.

Within our 2018 annual report we said that our focus would be on:

- Retention
- Cost effectiveness & long-term efficiencies
- Growth

Each of these areas will help us to achieve our purpose of creating and protecting member value by maintaining the capital strength of the Group.

Retention

We appreciate that it is not just the offering of new products and services which is key to our strategy, we must also retain and deepen relationships with our existing customers. We aim to achieve this by the provision of good customer service, attractive products and benefits.

During 2019 we have continued to maintain our excellent levels of customer service, with customer satisfaction in relation to our call centre remaining well above the average and a strong Trustpilot rating of 4.3 out of 5. Our products also continue to gain recognition, with our Over 50s Life Cover achieving a 5 star rating by Defaqto in the year.

Being the UK's largest provider of CTFs, we are extremely focussed on the first of these policies maturing in September 2020 as the policyholders reach 18. At this point our customers will have a choice of withdrawing their funds or reinvesting them with us. This will be a significant test of our ability to retain these young adults as customers.

Our focus on achieving this is twofold, firstly ensuring that the customer experience for maturing policyholders is as smooth and seamless as possible and secondly that we offer attractive products and funds in which they can reinvest. We have researched the reinvestment requirements of over 1,000 young adults and parents to ensure we develop investment products which fully meet their needs. We have identified that for young adults and, increasingly our customer base as a whole, environmental and social matters are key. In line with this, we are pleased to be able to offer tailored Environmental Social Governance (ESG) funds to maturing CTF policyholders who invest in our ISA and Lifetime ISA products from Q3 2020. These funds have been carefully sourced and we believe that they provide the type of investment opportunity that environmentally conscious investors are looking for.

Mutuality remains at our core and, as such, we continue to look for ways to enhance the value of being a member of our Group. The provision of free lifetime mortgage advice through OneFamily Advice is one way in which we achieve this, but we are now looking to expand the benefits we can offer to members. Therefore, throughout 2020 we will be operating a pilot study with CTF members. We'll be offering these members benefits that we think will particularly interest them such as cinema and dining discounts. We will review their feedback over the course of the year to see whether this pilot has the potential to be rolled out to a wider membership.

Cost effectiveness and long-term efficiencies

As with all businesses, we must ensure that we operate with optimum efficiency – whilst simplifying and enhancing the service that we offer our customers. This is especially important for us, as a mutual, as we have no opportunity to raise further funds through shareholders. It is also directly linked with our purpose to create and protect value for members.

As mentioned in the Chief Executive's report, during 2019 the organisational structure of the Group was reviewed. In conjunction with this, processes throughout the business have been simplified. This has resulted in more streamlined operations and reduced staffing costs in 2020 and beyond.

Other third-party costs within the organisation have also been assessed, leading to a programme of rationalisation and a review of service providers. 2020 will see the continuation of process simplification and third-party cost reviews.

In addition, significant focus in 2019 has been on assessing our IT strategy with a view to reducing running costs, reducing operational risk and realising wider efficiencies across the business. Work is underway for the selection of a technology partner to simplify and modernise our IT platform. Benefits from this programme will begin to be delivered across 2020 to 2024 but it should be noted that in the short-term we will need to increase our investment in IT.

Growth

Our focus is on growing in areas in which we are already operating, such as the origination of lifetime mortgages and advice, over 50s life cover and investment products.

Early in 2019, we secured a new funding partner for lifetime mortgages, which allowed the launch of a new higher 'loan to value' product in the first half of 2019. This product proved popular in meeting customer needs to release larger loans from their property, so we are looking at further funding opportunities that will allow us to continue with this offer into the future. We're also developing other new lifetime mortgage products, including drawdown, and plan to launch these over the next year.

The provision of independent whole of market lifetime mortgage advice has been available since 2018 through OneFamily Advice. This service is aimed at the large number of those aged 55 and over who are looking to release capital tied up in their home for a variety of reasons, such as to supplement their retirement income or help younger family members get on the property ladder. As expected, this advice service continued to grow in popularity through 2019 largely due to its competitive fixed fee pricing and ease of access to our in-house advisers via telephone, video and online. Additionally, this service is provided at no cost to members, their family and friends.

We have been working with intermediaries who sell our Over 50s Life Cover to ensure that the offering we have is attractive to consumers and straightforward for advisers to sell. Feedback from both intermediaries and customers shows improvements in their levels of satisfaction this year.

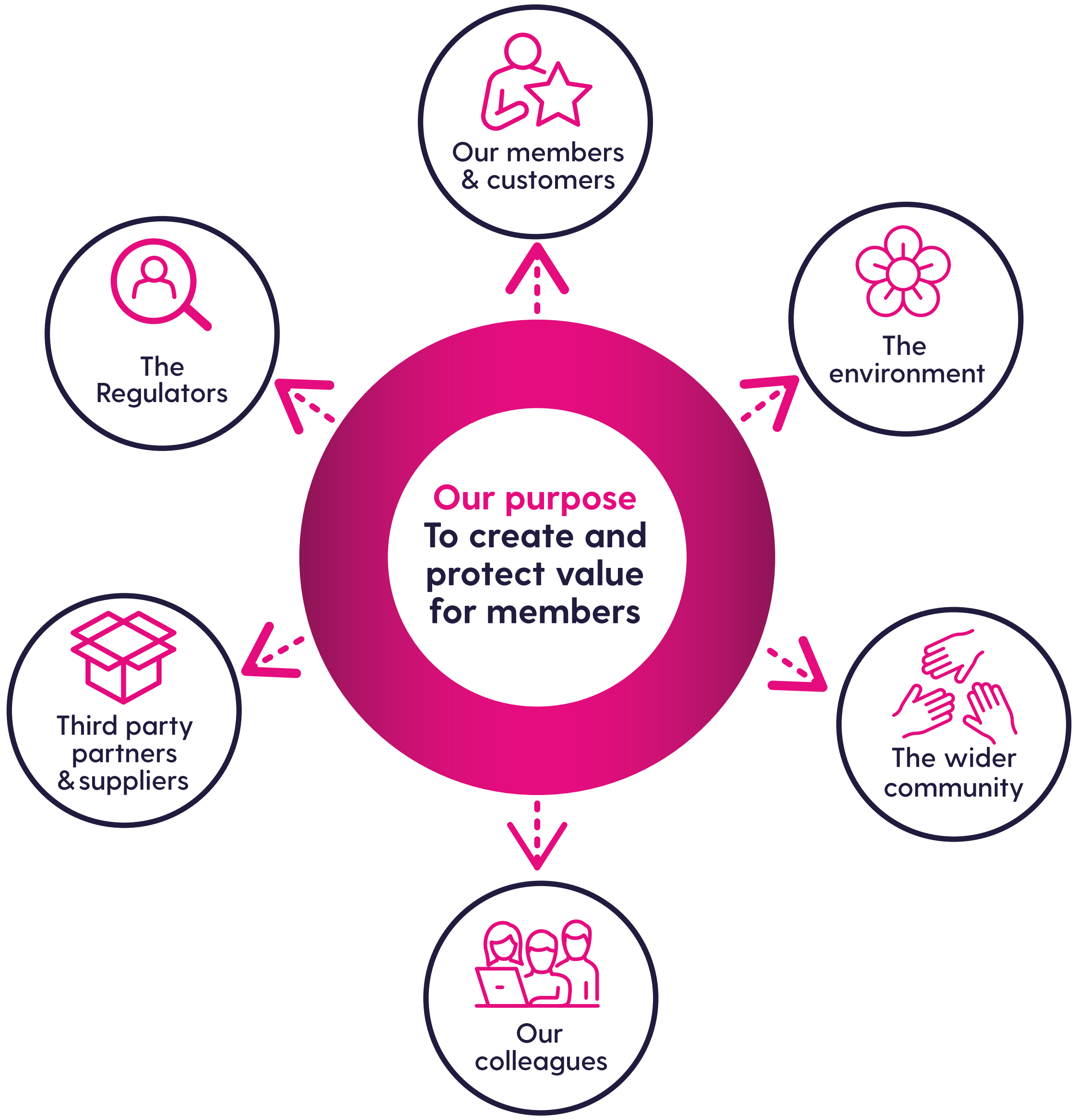
We launched into the Lifetime ISA market in 2018, however, this product has been slow to gain traction. This reflects a number of factors, including the continued competing offering of the Help to Buy ISA until November 2019. We believe that Lifetime ISA sales will be more successful following this change. This product will also be a key part of our offering for our Child Trust Fund (CTF) customers, who we want to offer investment product choices when their CTF policies mature, as well as having growth potential in its own right.

2020 and beyond

2020 will see the three themes detailed above to continue to be our key areas of focus. It is the Board and management team's view that these areas are essential to ensure that we continue to achieve our vision and purpose in future years.

How we engage with our stakeholders

The Board cannot deliver on the Group's purpose and vision alone. The Board depends on a range of different resources to succeed and needs to work with and listen to the views of its various stakeholders to achieve this. Six key stakeholder groups have been identified:



Our interaction with each of our stakeholders requires different means of communication and each group is extremely important in informing the Board and management of what matters to them. The tables below show how the Board has engaged with, and considered the views of, key stakeholder groups in its decision making throughout 2019.

More detail on how we address our stakeholders concerns can be found elsewhere in this Annual Report. For example, details of the support we provide to communities can be found in the Foundation report on page 40 and details of how we, as a business, look to minimise our environmental impact can be found in the Corporate social responsibility report on page 32.

Members & Customers | Colleagues | The Regulators

How we engage

Members & Customers
- AGM
- Customer satisfaction surveys
- OneFamily Voice (online community)
- Smart Money (online community of externally sourced young consumers)
- Other customer research including online surveys, interviews and focus groups

Colleagues
- 'Talking Family' colleague engagement forum with elected individuals
- 'Straight talk' sessions with the CEO
- All colleague survey
- Weekly email newsletter
- Intranet
- Team, departmental and all company meetings

The Regulators
- Regular meetings with Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA)
- Communication of Board discussions and decisions
- Participation (where relevant) in thematic surveys
- Open communication with HMRC
- Triennial HMRC Business Risk Review

What they care about

Members & Customers
- Good service
- Fairly priced products
- Clear strategy
- Environmental and social issues
- Security
- Creation and protection of value
- How we distribute member value through the Foundation

Colleagues
- Knowing their voice is heard
- Fair treatment for all colleagues
- Environmental and social issues
- Ensuring Health and Safety is taken seriously, including mental health
- Personal growth and career development

The Regulators
- That the Group has a sustainable business model and remains solvent
- That the Group is operated in line with regulations and in the interest of customers and members
- That the Group is applying tax legislation appropriately both as a business and for policyholders
- That the correct level of tax is paid to HMRC
- Good governance and culture

The influence on our actions in 2019

Members & Customers
- Development of member benefit strategy and pilot
- Free OneFamily advice for members
- Design of CTF maturity customer journey
- Selection of post maturity offerings for CTF customers
- Increased focus on environmental and social items including sourcing ESG investment funds
- Distribution of personal and community grants through customer nominations
- Increased Board diversity

Colleagues
- Ensured all colleagues are paid the Real Living Wage or higher
- Designated Non-Executive Director for colleague engagement
- Green Champions
- Consultation over proposed redundancies
- Allocation of responsibility to address lower scoring colleague survey results
- Completion of a leadership development programme
- Participation in Best Companies survey to assess engagement and highlight areas for development
- Achievement of Best Companies 'One to Watch'

The Regulators
- Regular meetings between business leaders and our regulators to keep them informed of business activities
- Regular meetings between the compliance function and other business areas to ensure upcoming changes in regulation are acted upon
- Continued open communication with HMRC including in relation to the provision of member benefits and CTF rules

Third party partners & suppliers | Communities | The Environment

How we engage

Third party partners & suppliers
- Through allocated relationship managers
- Intermediary satisfaction research

Communities
- Colleague volunteering days
- Through the Foundation
- Through charities close to our Brighton office

Parties influencing our actions

The Environment
- Members and customers
- Colleagues
- The Regulators
- The wider community

What they care about

Third party partners & suppliers
- Being paid on time
- Trusted partnerships
- Collaborative relationships

Communities
- Local people and places
- Support of people in need

The Environment
- The OneFamily Group's impact on the environment
- The provision of ESG funds for customer investment
- The identification and measurement of financial risks associated with climate change

The influence on our actions in 2019

Third party partners & suppliers
- Training on supplier management for relationship managers
- Relationship meetings with relevant business personnel for larger suppliers/outsource partners
- Improved workflow for approval of orders and invoices

Communities
- Supporting charities through partnerships
- Community grants
- Personal grants to customers, friends or family
- Christmas event with Age UK in our Brighton office
- Sponsoring Brighton Pride festival

The Environment
- Increased recycling facilities within our office
- Support of Cool Earth, a non-profit organisation who work alongside rainforest communities to halt deforestation and its impact on climate change.
- Motion sensor lighting
- No waste goes to landfill
- Consideration of environmental risk
- Internal Green Champions to identify and promote initiatives
- Active drive to reduce printing internally
- Sourcing of ESG funds for investment
- Disclosure of the approach to managing financial risks associated with climate change within this annual report

Risk management report

Effective risk management is essential in enabling us to create and protect value for members. In our normal business activities, we are exposed to a variety of risks inherent in our business lines of lifetime mortgages, savings, investments and protection. The Board-approved risk appetite and risk management framework articulate the strategies for managing current and emerging risks to our objectives. Our culture and values, as set by the Board, underpin a prudent approach to risk in line with the Board's risk appetite.

Looking forward, these risks may be magnified or dampened by current and emerging external trends which may impact upon our current and long-term profitability and viability. This includes the risk of failing to adapt our business model to take advantage of these trends. The table of principal risks and uncertainties in this section describes these risks, and trends, and how these are managed.

Risk culture and governance

The day-to-day operation of the business naturally exposes OneFamily to risk. To limit the level of risk faced in the normal course of business, the Board has established a risk appetite which it reviews, at least annually, in the context of the current economic conditions. This covers areas such as capital, liquidity and operational risk.

Central to operating within this appetite is a culture which promotes awareness of actual and potential risk exposures and an understanding of the impact should they occur. The Board-established culture and values shape how we prioritise risk management behaviours and practices. A balanced scorecard, which demonstrates achievements against objectives, is overseen by the Board and also used by the Remuneration Sub-Committee to measure performance and guide remuneration. The scorecard includes cultural factors such as adherence to risk and control requirements, adequacy of governance and conduct risk.

To enable appropriate focus on risk matters, the Board has delegated oversight of risk management to the Risk Sub-Committee although ultimate accountability for risk management continues to reside with the Board. The Risk Sub-Committee also monitors the impact of regulatory change and receives reports on regulatory compliance. The internal control framework is overseen by the Audit Sub-Committee.

We operate a three lines of defence model for risk management. The first line comprises management and colleagues in our business and shared functions who are responsible for identifying, managing and reporting risks in their areas. The second line is the Risk and Compliance teams who advise, challenge, monitor and support the first line on dealing with their risk exposures. The second line produces independent reports on its opinions for the Board and executive team. The third line is the Internal Audit team which provides assurance as to the effectiveness of control frameworks operated by both first and second lines of defence.

Risk management framework

OneFamily's risk management framework sets out the principles, policies, minimum standards and requirements which are designed to manage risk within the Board's risk appetite.

Within this, a risk and control assessment process identifies, measures, manages, monitors and reports on risks to the Board. The risk management framework is underpinned by the system of internal control, which includes:

- The controls identified through the assessment process

- A framework of delegated authorities
- Board and executive committee governance
- Accounting procedures
- The Compliance team

Own Risk and Solvency Assessment (ORSA)

We define the ORSA process as a series of inter-related activities by which OneFamily establishes:

- The quantity and quality of the risks which we seek to assume or to which we are exposed
- The level of capital required to support those risks
- The actions we will take to achieve and maintain the desired levels of risk and capital

The assessment considers both the current position and the positions that may arise during the planning period (typically the next five years). It covers the whole of the business written, including the risks arising from non-insurance subsidiaries. It looks at both the expected outcome and the result of applying a range of stress and scenario tests, which explore conditions where the plan assumptions may not materialise as expected.

The ORSA process supports the Board in considering the impact of business plans on its financial strength, and risk profile, over the medium-term. The assessment of how much risk to accept and how much capital to hold are inextricably linked. In some situations, it may be desirable to increase the amount of risk taken or retained to make the most efficient use of capital available. In other situations, if the risks borne could give rise to a capital requirement greater than the capital immediately available to support those risks, it may be necessary either to reduce the risk exposure or to take other capital management actions.

The assessment consists of a range of specific activities and decisions carried out at different times of the year as part of an annual cycle. This cycle is supplemented, as necessary, by ad-hoc assessments of the impact of external events and developments and internal business changes.

A key part of the ORSA process is the monitoring of triggers linked to the risk and capital management frameworks. These are monitored on a regular basis to establish whether an ad-hoc ORSA process would be required. The result of any ad-hoc ORSA process may generate potential management actions.

Papers are presented to the Board throughout the year dealing with individual elements that make up the ORSA. The information contained in those papers and the associated decisions taken are summarised in an annual ORSA report, which is submitted to the regulators as part of the normal supervisory process.

Principal risks and uncertainties

Our current principal risks and uncertainties, with their corresponding actions to manage and mitigate these risks, are summarised in the following table. These include risks to the sustainability of the business model, risks to solvency and liquidity, and risks to customer outcomes.

Risk	Description	Management and Mitigation
Strategy risk	The risk that strategic goals are not met due to the actions of competitors, commercial partners, or other marketplace developments such as changes to government or regulatory policy. It includes the failure to devise and deliver initiatives to retain assets and develop growth of the business as well as failure to manage the in-force books of business in a capital efficient manner. In implementing a sustainable business strategy these are the greatest risks to the achievement of our business plans.	The Board leads an annual strategy and five-year planning process which considers our performance, competitor positioning and strategic opportunities. The business plan and major strategic initiatives are approved by the Board and progress is closely monitored. We identify and manage emerging risks using established governance processes. Stress testing reflects the impact of strategy risks on business plan, capital and risk.
Equity risk	This principally relates to falls in fund values reducing the value of income from annual management and other fund related charges. With-profits funds also invest in equities and are thus exposed to market falls. Some of the Society's surplus assets are invested in equities and are therefore also exposed to market falls.	Investment policies are in place to manage equity, currency and other market risks, supplemented by our investment management principles of operation. Stress testing includes the impact of equity and other market falls. A hedging programme is in place to reduce exposure of our main policyholder funds to certain key currency movements, with a view to reducing risk to investors.
Currency risk	A rise in the value of sterling will reduce the value of overseas assets and hence fund values and the value of future charges. With-profits funds will also be exposed to falls in overseas assets they hold.	
Interest rate risk	In general, there is exposure to falling bond yields which amongst other things, increases the present value of expense, future claims less premiums on protection business and pension liabilities.	Falls in bond yields would boost bond values and unit-linked charge income, largely offsetting these impacts. Staff pension schemes use swaps to hedge interest rate risk.

Risk	Description	Management and Mitigation
Credit risk	Rising bond spreads, downgrades and defaults will reduce fund values and our annual management charge related income and will also have an adverse effect on OneFamily's small annuity book. There is also modest counterparty exposure to reinsurers, to whom most mortality and morbidity risk is transferred; to banks where we deposit money; and to insurance intermediaries in respect of unearned commission payments.	OneFamily generally holds investment grade bonds through exchange traded funds. Counterparty credit risk including bank and investment related counterparties are managed through a system of limits with exposure monitoring. Exposure to insurance intermediaries is monitored to help maintain intermediary advances within risk appetite. Mitigating controls include ongoing due diligence, complaint and lapse level monitoring, and for larger intermediaries, regular meetings with principals.
Lapse risk	The risk of higher than expected lapses will reduce the value of business in-force. This is a key risk for OneFamily, and therefore is a key focus for management.	Lapse experience is closely monitored, with regular investigations to ensure lapse assumptions are appropriate. Stress testing includes the impact of economic downturns on lapses.
Expense risk	This relates to higher than expected expenses, not just in-period but going forward in terms of reduced future profits emerging.	Expenses are managed against budgets, with regular expense analyses performed to ensure long-term expense assumptions are appropriate.
Mortality and morbidity risk	This principally relates to higher than expected death and critical illness claims on Over 50s life cover.	Mortality and morbidity risks are substantially reinsured; residual mortality risk acts as a natural hedge against longevity risk.
Longevity risk	OneFamily has a small annuity portfolio which is vulnerable to the effect of annuitants living longer than expected (longevity risk). There is also longevity risk in respect of pension schemes and the structure of the reinsurance contract for Over 50s life cover.	These risks will be partially offset by mortality risk exposure on Over 50s life cover with longer life expectancy associated with lower death claims.

Risk	Description	Management and Mitigation
Staff pension scheme risk	The risk of balance sheet strains; and/or higher contributions from adverse movements in the assets and liabilities of defined benefit staff pension schemes. This will encompass equity, currency, interest rate and credit risks above, as well as longevity risk in respect of scheme members living longer than expected.	While investment policy is a matter for the trustees of the schemes, OneFamily monitors pension scheme funding; gets advice on the investment policy of schemes; and makes its views on investment policy and risk known to the trustees. In March 2019 the trustees purchased a buy-in annuity policy which mitigates investment and longevity risks relating to the members in payment as at the purchase date.
Liquidity risk	Relating to the risk of being unable to meet our financial obligations as they fall due or only at an excessive cost.	Liquidity is monitored on a daily basis and the Group holds liquid assets to meet outgoings in stress conditions. The Risk Sub-Committee receives quarterly liquidity reports including liquid assets by fund.
Operational risk	This includes project risk, IT security/cyber risk, outsourcing risk and more generally other risks from failed internal processes, personnel or systems, or from external events.	Extensive policies and controls are in place to mitigate operational losses. These are supplemented by buildings and other insurance to cover losses from fire and other perils. Scenario analysis is carried out to identify operational risk exposures.
Conduct risk	This is a subset of operational risk and relates to the failure of OneFamily to conduct its business fairly and properly in relation to customers and other stakeholders. This overlaps with (and is considered in conjunction with) risk of failure to comply with regulations.	Conduct risks are actively monitored with regular conduct risk reports produced for the Risk Sub-Committee. The risk assessment of new products and initiatives has regard to conduct risks.
Cyber risk	Cyber risk is the exposure to harm or loss resulting from data breaches or cyber attacks on information systems, information technology and information security.	We recognise that this risk is continually evolving and as such we remain vigilant and are continuing to invest further in this area, particularly in our IT systems and staff training.

Emerging risks

The ongoing identification and reporting of emerging risk is part of the risk management framework. During 2019 the Risk Sub-Committee reviewed an assessment of emerging risk undertaken by the Risk function. This assessment identified some of the key emerging risks that could impact the Group's business model, future performance, solvency and liquidity over the next five years and considered their potential impact and likelihood. These included Brexit, trade tensions, operational resilience, cyber threats, regulatory developments, adverse market factors such as equities volatility and housing market downturns, demographic changes and legacy technology. Possible actions to mitigate the impact of these risks were either confirmed against activity already included in the business plan or considered for potential future business plans. The Risk Sub-Committee also reviewed the possible financial risk that could be presented by climate change, which is covered in the section on Climate-related financial disclosure below.

COVID-19

At the time of the approval of this Annual Report and as referenced in the CEO report we have all been affected by the rapid developments in the COVID-19 outbreak. This illustrates the importance of ongoing measures to ensure financial and operational resilience. This risk continues to evolve and we will be developing our risk management approach as needed to respond to the changing outlook.

The scenario testing undertaken as part of the ORSA means we regularly test our resilience to large movements in financial markets and changing business volumes. In 2020, additional meetings of a management Capital Management Committee have been held to oversee the capital and solvency impact of market volatility. The output from these meetings has been communicated to the Board.

We also regularly test our ability to continue to service our customers in the event that systems and our colleagues are unavailable.

When the nature of the crisis became apparent, we implemented an Executive Crisis Management Committee and an Incident Management Team to work through the detailed operational requirements of the business. We have also monitored the guidance and instructions provided by Public Health England and the Government to help control the spread of the virus. We equipped many more colleagues who could work from home with laptops and software in expectation that this would be required for the majority. This ensured that they could undertake most of their work from home and also keep in regular contact with their manager and colleagues. Communication is key to reduce the risk of isolation of colleagues working from home and maintain their wellbeing. A few colleagues who are key workers continue to attend our office in Brighton, on a rota basis where this is possible. We have adjusted our working practices for these colleagues to enable us to provide them with a safe working environment in the light of advice from Public Health England. We continue to keep our plans and operational processes under review, given that the uncertainties of this crisis may require us to adapt to such factors as elevated levels of staff sickness, a prolonged crisis and additional government measures.

Risk Developments in 2019

Risk management framework

Oversight of the continued embedding and enhancement of the OneFamily risk management framework is a core accountability of the Board and is delegated to the Risk Sub-Committee. During 2019 we enhanced the policy ownership and implementation processes and the governance over material risks in each Executive's area.

IT security/cyber framework

During 2019 there were a number of high-profile cyber security incidents and data breaches for corporates in the UK and elsewhere. This is expected to increase as cyber criminals and rogue states become ever more sophisticated and digital automation in business strategy grows. We have made a significant investment in our IT security and cyber capabilities since 2017. This has introduced improved controls to protect our data and to detect and prevent cyber-attacks. Colleagues have undertaken cyber awareness training; which includes phishing and data related risks.

Brexit

Brexit is unlikely to have a significant operational impact on OneFamily due to the UK focus of our business activities. The changed UK political landscape following the December election provides certainty on the early stages of Brexit and the passage of the Withdrawal Bill. However, there remains a level of uncertainty over the nature of the trading relationship between the UK and the EU, with potentially increased market volatility over the coming months. We will continue to monitor this risk as part of our oversight and stress testing of market risk (including equity, currency and interest rate risk). The Board has also considered the impact of Brexit on consumer outcomes; our priority is to avoid any customer detriment arising, and the position is being closely monitored given the continued uncertainty.

Conduct risk

The successful management of conduct risks throughout OneFamily is driven by our corporate culture and mutual values. We are continually challenging our performance against key customer outcome measures and our conduct risk appetite. In particular, over the last year we have improved the way we handle vulnerable customers, how we re-establish contact with customers who we have lost touch with and made our claims processing more efficient.

Operational resilience

Recent years have seen a number of high profile technology related business outages among corporates in the UK, and the regulators increasing their focus on resilience. Against this background, we have continued to improve our resilience capability with a programme of investment over the last year for enhanced technical recovery. The Risk Sub-Committee monitored plans to improve the resilience of our key business systems and received updates on the results of our testing programme during 2019. The Risk function has led the development of the plan into 2020 for further improvements to our most important business services. This involves identifying the key people, processes, technology, facilities, third parties and information that support these services, setting impact tolerances and testing the ability to remain within impact tolerance through a range of severe but plausible disruption scenarios.

Climate-related financial disclosure

Our business is likely to be impacted over the long-term by the effects of climate change. This section broadly follows the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), published in June 2017. We are evolving our governance, risk management, measurement and target-setting as we take a strategic approach that recognises the increasing impact of climate-related changes. We set out below the progress made and plans for future development.

Governance

The Risk Sub-Committee of the Board is accountable for overseeing all aspects of risk management, including climate-related risks. Climate change is classified as an emerging risk and is assessed for its proximity and significance as part of our emerging risk process. The Chief Risk Officer and Chief Finance Officer have been allocated responsibilities in relation to the financial risks of climate change.

In September 2019, a climate related risk assessment and action plan was reviewed by the Risk Sub-Committee which considered the enterprise wide risks, including financial, together with a view of the total asset exposure to sectors exposed to financial risk as a result of climate change. As part of our business planning and strategic product development, during 2019 the Board have reviewed proposals to develop products with higher environmental, social and governance (ESG) credentials aimed at our maturing Child Trust Fund (CTF) customers.

Through our colleague engagement initiatives, and in support of our corporate and social responsibility aims, we have developed an Environmental Statement which articulates the steps we've taken to reduce our impact on the environment. For 2019 this included an expansion of the scope of recycling, responsible sourcing using recycled materials where possible and participation in ESOS (Energy Savings Opportunity Scheme).
During 2020 we plan to embed financial risks relating to climate change within our existing governance framework, this will include the use of climate change related stress and scenario testing and consideration of climate change related risks in the ORSA and business planning.

Strategy

Our approach is focussed on the key climate-related risks and opportunities (e.g. physical and transition) described in the Prudential Regulation Authority (PRA) 2015 report[2]. The materiality and horizon over which these risks and opportunities impact our business vary depending on the type of products and the nature of the risk. These risks are summarised as below, together with actions being taken or considered to mitigate these risks:

No.	Risk	Mitigation
1.	Shift in customer sentiment, demand and expectations for "greener" products, that we may not be able to fulfil	Development of an ESG proposition for our maturing CTF customers Assessment of other products, with potential removal of non ESG investments
2.	Re-assessment of the value of property assets, given their exposure to climate change, or the lack of affordable property insurance in high risk areas negatively impacts property values and investor sentiment for domestic mortgages	Monitor investor sentiment Adjust underwriting criteria as appropriate
3.	Financial losses from investments due to direct effect of climate change, for example in sectors related to infrastructure, energy, utilities, agriculture, forestry and automotive	Integrate climate change considerations as part of a broader ESG strategy into investment decisions Consider divestment where necessary
4.	Financial losses from investments from the costs of adjustment to a carbon-neutral economy and the costs of reducing emissions, e.g. automotive industries converting to electric, power generation	Integrate climate change considerations as part of a broader ESG strategy into investment decisions Consider divestment where necessary
5.	Operational risk losses for example from failures of interdependent power, transport networks, water supply impacts from sewer flooding or heavy rainfall and drought	Resilience reviews and testing covering full and partial disaster recovery
6.	Business disruption from supply chain and distribution network outages	Resilience reviews on key business processes identifying third party/distribution dependencies, workarounds and potential substitutions

Risk management

We consider climate change to be a material long-term risk to our business with its impact already being felt in the wider environment. We are taking an appropriately strategic approach to determining the actions required to mitigate and manage the impacts of climate change in line with this long-term risk. The aim is to build resilience to climate-related transition, physical and liability risks.

The risk assessment is informed by regulatory, international and governmental sources including "The Committee on Climate Change"[1], PRA[2], the "Intergovernmental Panel on Climate Change (IPCC)"[3], The United Nations[4] and the Financial Conduct Authority (FCA)[5]. It is further informed by the size, complexity, composition and exposure of specific product lines and operational considerations.

As part of the Risk Sub-Committee approved plan, the stress and scenario programme will be expanded to include the IPCC climate scenarios which have underpinned regulatory stress testing in relation to climate change. These will be subsequently included within the ORSA and future business planning processes.

Metrics and targets

We have sought to assess the likely scale and potential timeframes of the main climate related risks facing OneFamily. Also, we have undertaken a sector-based assessment of the proportions of OneFamily and customers' assets which are exposed to sectors with potentially higher physical and/or transition risk.

As part of the development of the risk framework, and as industry practices mature, we intend to develop new metrics to assess material financial risks and opportunities in relation to climate change. Areas of focus include, among others, use of greenhouse gas emissions metrics, results of stress and scenario testing, further guidance on detailed definitions of carbon-related assets from the TCFD, potential standardised methods for the calculation and presentation of financial exposure to carbon-related assets; further maturity and potential convergence of ESG models and other suitable risk management metrics.

1 "UK Climate Change Risk Assessment 2017" – The Committee on Climate Change

2 "Transition in thinking: The Impact of Climate change on the UK Banking Sector", PRA September 2018, "Enhancing banks' and insurers' approaches to managing the financial risks from climate change", PRA Supervisory statement S3/19, April 15, 2019

3 "The IPCC's Fifth Assessment Report (AR5)", Intergovernmental Panel on Climate Change 2014

4 UN PRI (2018); The inevitable policy response: act now. Forcing the climate transition. UNEP Finance Initiative. United Nations Global Compact

5 "Climate Change and Green Finance", DP18/8, FCA October 2018

Corporate social responsibility report

To achieve our purpose of creating and protecting value for our members we aim to do the right thing by our customers; our stakeholders and suppliers with whom we do business; our colleagues who work for us; consider the environment; and support our local community.

87%

employee engagement in Best Companies survey

Vulnerable customers

The way we treat customers forms a very important part of how we meet our responsibilities and provide appropriate levels of care to any potentially vulnerable customers. Customer facing colleagues take part in ongoing training to understand and deal with vulnerable customers, and we take every customer's individual circumstances into consideration when responding to queries or complaints. In 2019 we worked with Age UK to deliver a programme for engaging sensitively our customers with dementia, and we worked with the Samaritans to increase awareness of mental health issues.

Suppliers

An important consideration when evaluating potential new suppliers to OneFamily is that they share our values and ethos, including our stance on corporate and social responsibility.

As part of the supplier due diligence, we require appropriate policies on human rights, anti-slavery and environmental protection.

Where possible, we use local suppliers to support the local economy and reduce the environmental impact of travel.

Our culture and colleague engagement

Having a supportive performance culture is fundamental to our success, and in 2019 we invested a great deal of time and effort to ensure that OneFamily is a great place to work and that our colleagues are engaged with the goals of the business.

Following on from the Best Companies employee engagement survey undertaken in October 2018 we established a network of engagement champions throughout the business who have worked with the management team to identify actions to be taken in areas that were highlighted for improvement.

In November 2019 we took part in the Best Companies employee engagement survey for the second time. We had an 87% participation rate, an increase on 2018, which is extremely high for this type of survey and were delighted to achieve a 'One To Watch' accreditation from Best Companies. This achievement demonstrated the positive reaction by colleagues to the actions taken in 2019. Factors that achieved high scoring included 'Giving Something Back', which measures our social conscience and how we support good causes and disadvantaged individuals; 'My Manager', demonstrating strong colleague satisfaction with their day-to-day line manager; and 'My Team', where colleagues tell us about how they feel about working with their own team within the department. The survey has given us a great deal of insight into colleague views on what works well at OneFamily and areas for focus in 2020.

Areas identified for improvement in the October 2018 survey included the items listed below. Also shown are the actions that management took to address these throughout 2019.

Fair pay

Action taken: Management undertook a review to ensure that everyone in OneFamily received pay above the Real Living Wage. We also reviewed all salaries against national and local benchmarks to ensure that we were competitive and took action where we were not.

Decreasing our carbon footprint

Action taken: We have started to calculate our carbon footprint and investigate ways to benchmark and improve it. We are working on providing evidence and fulfilling requirements for phase two of the Energy Savings Opportunity Scheme, which helps companies better understand what they are good at environmentally, and areas they can further improve on.

Building on this, to help bring together ideas and launch initiatives, we now have Green Champion volunteers across the business.

Increasing organisational clarity

Action taken: Our executive team communicated our Group Strategy and the rationale behind the change in organisational structure to all colleagues.

We share quarterly business updates with all colleagues and also hold frequent meetings for our senior management team to discuss current issues for cascade within their business areas.

Improving leadership collaboration and communication

Action taken: During 2018 and 2019 a Leadership Development Programme was launched for our senior managers. To follow on from this, a Management Development Programme for our key people managers will commence in 2020. These programmes cover topics such as commerciality, strategy, people management, leadership, self-awareness and communication.

We have also taken actions to improve executive and senior management visibility both within their own areas of responsibility, and in the wider business.

During 2019, Graham Lindsay, was designated as a non-executive director for colleague engagement.

Promoting personal development and fulfilment

Action taken: We have ensured that all colleagues have a performance plan in place that measures performance against specific objectives and assesses where each individual is against the expected behavioural competencies.

A key part of this performance plan is the personal development plan which tracks a need for development which can be formal training, coaching or mentoring, or simply arranging conversations with individuals across the business to improve understanding of the organisation. Managers have also identified talent in their teams with the view to creating plans to develop and retain.

Our values

We ask and expect that all our colleagues in OneFamily adhere to our five values at work which are:

1. Better Together
We work collaboratively in pursuit of our goals, sharing our knowledge, giving feedback, supporting our colleagues and creating a great place to work

2. Being Your Best
We set our standards high, and are committed to helping ourselves and each other to achieve our full potential

3. Being Innovative
We seek creative solutions to problems and opportunities for smarter ways of working

4. Champion the Customer's Needs
We always put our customers at the heart of what we do

5. Doing What's Right
We act with integrity and take personal responsibility for delivering on our promises

Awards programme
To further embed our values, we have an ongoing awards programme – the Values Awards – which allows colleagues to nominate those who have demonstrated real commitment to our values. In 2019 we recognised 59 colleagues through the scheme.

Community investment

Through the work of the OneFamily Foundation we help our customers and the good causes that matter the most to them, but our investment in the community doesn't stop there.

£20k
raised for Prostate Cancer UK by colleagues cycling the South Downs

We are very proud to support the LGBTQi+ community both locally, and within OneFamily. During 2019, for the fourth year running, we partnered with Brighton and Hove Pride as one of the key supporters. We opened our office on the day of the parade, and invited employees and family members to enjoy watching the parade.

In July we partnered with Young Enterprise to deliver a financial excellence programme at a local secondary school. OneFamily volunteers helped teachers to run this interactive programme for 11 to 15 year olds, so we are delighted that the school has now been recognised as a Centre of Excellence for financial education.

For a number of years, we have invited users of Brighton and Hove Age UK's services to a Christmas event at our offices and in 2019 we were pleased to be able to increase the number of people attending.

Volunteering and charity matching

We actively encourage our colleagues to get involved in the local community and during 2019 we continued to run a programme of volunteering across Sussex. This programme allows each colleague to undertake one day of voluntary work per year. Through the initiative over 100 colleagues volunteered for charities including Raystede Animal Welfare Centre, RSPCA, Chestnut Tree House and the Martlets Hospice, helping with activities such as gardening and painting. In total our colleagues gave almost 800 hours of voluntary support.

In June a team of OneFamily colleagues and Board members took part in a bike ride covering up to 50 miles on and off road across the South Downs, raising over £20,000 for Prostate Cancer UK. In September a team of 15 colleagues abseiled from the i360 in Brighton, which stands at 453 feet high, raising over £5,000 for Samaritans.

Finally, because we know that our colleagues are passionate about good causes personally, we match individual colleague fundraising up to £500 per employee.

We actively encourage our colleagues to get involved in the local community

Employee wellbeing

Our colleagues' physical and psychological wellbeing is very important at OneFamily. Our approach focuses on promoting a work-life balance and providing knowledge, activities, support and resources directly to colleagues and via line managers.

Following the success of two wellbeing events in 2018, we ran a programme of wellbeing activity throughout 2019 which was open to all colleagues. Activities included mental health workshops; external speakers; yoga classes; on-site massage; free fruit; health checks and flu jabs; which we will build on and continue in 2020. We also offer colleagues access to a range of free benefits including a confidential employee assistance programme, if they need professional and confidential support.

50%
of our board will be female as of April 2020, a rare achievement in financial services

We are forward thinking and know that we don't need our people sitting at their desks Monday to Friday, nine to five, for them to do a good job of looking after our customers and running our business. We currently employ just over 10% of our workforce in a part-time capacity, and we offer a range of flexible working options for our full-time colleagues, including compressed hours and home-working.

Equality, Diversity and Inclusion

We believe our culture welcomes diversity and we treat all colleagues equally, regardless of their sex, race, ethnic origin, religion, age, sexual orientation, or disability.

We want people within our business to be able to thrive regardless of their background, identity or circumstance and embracing diversity is at the core of our colleague proposition. In 2020 we are continuing to explore inclusion and what it means to work at OneFamily with an aim of actively encouraging our colleagues to be themselves at work, respect different views and value colleagues' opinions.

Our ambition is to be an employer of choice, and to achieve this we know that embracing peoples' differences and making OneFamily a great place to work for all colleagues is vital.

Gender equality and pay

Our 2019 gender pay gap report can be found on our website at www.onefamily.com. This is a Government initiative launched in 2017 and applies to all organisations with over 250 employees. It encourages organisations to ensure they are promoting the right practices and culture in the workplace.

OneFamily's current gender pay gap is a mean of 18.4%, compared to our 2018 gender pay gap of 18.3%. Our gap remains lower than many other financial services organisations, in some cases by a significant amount. The gender pay gap report illustrates the difference between the average and median pay of all men and women in a workforce expressed as a percentage of men's pay.

The gender pay gap reflects that OneFamily, like most financial services organisations, currently has more men in senior leadership roles. Financial services, as a whole, has a larger gender pay gap than many industries and we will continue to develop initiatives to address and drive down our gap at OneFamily. Specific initiatives underway currently include:

- Identifying our female talent at an earlier career stage through performance management and talent initiatives
- Developing a more open and transparent approach to career progression to better articulate career pathways for colleagues at all levels
- Reviewing current return to work initiatives with the aim of improving retention rates of female colleagues returning from maternity leave
- Requiring recruitment partners to provide an appropriate balance of male and female candidates for advertised vacancies

As at the end of 2019 our Board comprised 29% female and 71% male directors, however changes in early 2020 will improve this. Three new directors have been appointed to the Board in early 2020, Jim Islam our new Chief Finance Officer (CFO) and Nici Audhlam-Gardiner our Chief Commercial Director both join the Board in January 2020 and Jackie Noakes joins the Board as a new Non-Executive Director on 1 April 2020. Simon Markey, our Chief Executive Officer (CEO) stepped down at the end of 2019, succeeded by Teddy Nyahasha our former CFO; and Ian Buckley, previously our Vice Chair, stepped down in April 2020. Following these changes our board will be 50% female and 50% male which is a rare achievement in Financial Services.

At the senior management level, we now have 35% females and 65% males, and we will continue to improve the ratio of males and females across the team. To support our continuing commitment to gender equality we have signed up to the Women in Finance Charter as part of our initiatives to recruit, develop and retain a diverse workforce.

Talent management

At OneFamily we believe investing in our people and their future is not just a tick box exercise. We want to help our colleagues progress in their careers by learning new skills, and we have a comprehensive learning and development programme supported by a dedicated team of colleagues. Over the course of 2019, over 80% of colleagues took part in career enhancing training involving 700 courses, with the business investing 1,184 hours in the programme.

During 2019 we completed the comprehensive Leadership Development Programme for our senior managers. In 2020 we will roll out a Management Development Programme for our middle management within the business.

Talking Family

Talking Family is our colleague communications forum, its role is to provide impartial representation, support and guidance to all colleagues at OneFamily on a wide variety of issues and act as a voice between colleagues and the Company. The forum is made up of a group of colleagues who have been peer-elected to represent the wider workforce and who meet approximately 6 times a year to be updated on a variety of corporate activities and so they can discuss issues raised by their colleagues.

Key duties include:

- Ensuring there is a structured forum for communication regarding corporate issues that are likely to affect colleagues
- Representing colleagues through collective and individual consultation processes when required
- Supporting and accompanying colleagues through the disciplinary or grievance processes
- Contributing to colleague wellbeing through participating in health and safety, and equality and diversity activity

During 2019 Talking Family held a number of activities including:

- Supported the Transformation Programme as a formal ECF (employee consultation forum)
- Conducted two Mental Health First Aid workshops and supported wellbeing activities throughout the year
- Held monthly colleague 'drop-in' sessions
- Organised three Talking Family events with colleague raffles
- Provided regular updates for the independent non-executive designated colleague representative, CEO and HR Director

700
training courses for our colleagues during 2019

Talking Family is sponsored by the HR Director and has the full support of the Board and executive team, working across OneFamily to assist the CEO and executive team in understanding our colleagues' views. Our Vice Chair, Graham Lindsay, co-sponsors Talking Family and has regular updates on colleague views, issues and engagement.

COVID-19 – Coronavirus

COVID-19 has had a significant impact on the day-to-day lives of both our customers and colleagues in 2020. For our customers we appreciate that it is a difficult time for everyone right now, and we understand that you might feel anxious about the impact Coronavirus could have on so many different aspects of your life. However, we'd like to reassure you that this doesn't need to include your OneFamily account.

Payments to us

If you think that you might struggle to make a scheduled payment to us, please call our customer service team straight away so that we can find a way to help you. The number to call is **0344 8920 920**.

Payments to you

Whilst this is a period of uncertainty for the UK and world-wide markets, we would like to reassure you that this will not affect your regular pension or annuity payments. OneFamily is absolutely committed to ensuring that all payments will be made to you on time as usual.

Our environment

At OneFamily we want to reduce our harmful impact on the environment. We are committed to continually improving our environmental performance and we regularly review our practices. During the year we set up a network of Green Champions amongst our colleagues who have identified many areas of opportunity to achieve our environmental objectives. Initiatives in place include:

Recycling

A recycling initiative with a centralised collection point on all floors to encourage and enable efficient recycling. No waste goes to landfill.

Conserving energy

A cycle-to-work scheme to encourage colleagues to reduce their carbon footprint and promote well-being. Bicycle racks and pumps are provided in our secure car park to encourage colleagues to cycle to work.

Motion sensor lighting to all areas of the building to reduce electricity consumption and the use of LED lighting. Motion sensors also on vending machines to cut down on power consumption when offices are not occupied.

The heating and cooling systems are only operated when the office is occupied, shutting down during weekends and evenings.

Regular orders such as stationery, are placed in bulk to reduce the number of deliveries made and therefore reduce CO_2 emissions. Our colleagues are also encouraged to re-use and re-purpose stationery items.

Where possible, we purchase products made from recycled materials. An example is that we purchase copier paper that is 100% recycled and FSC sourced. Our printing process allows for print jobs to be cancelled and managed better before eventually printing, which reduces unnecessary printing and wasted paper. We use default settings of black and white copies and print on both sides of the page.

Green energy

Cool Earth initiative

As a result of switching to a new energy specialist, we are participating in an environmental initiative which benefits a non-profit organisation called Cool Earth.

They work alongside rainforest communities to halt deforestation and its impact on climate change through education, livelihood support and generating an economy that is not dependent on timber trade.

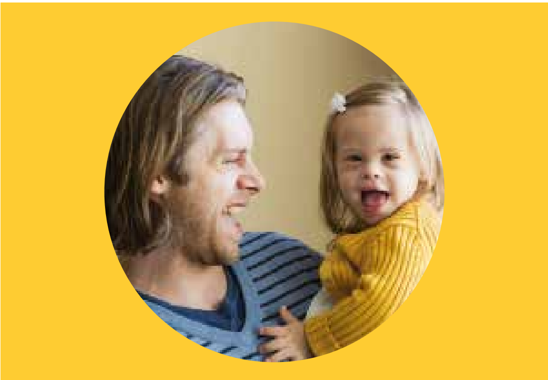
Energy Savings Opportunity Scheme

We comply with the Energy Savings Opportunity Scheme (ESOS) where we assess our energy use and identify savings. OneFamily will consider all opportunities to improve energy performance and energy efficiency, provided the return on investment is reasonable. This is a clear and effective route to compliance as details are reported to the Environment Agency.

OneFamily Foundation report

Through the OneFamily Foundation we offer help to our customers and their families, as well as giving them the opportunity to do something special for the causes that matter most to them.

How we supported our customers in 2019:



Personal Grants

For our customers and their families in times of financial hardship.

Since 2015 we've given over £3.5 million of awards and grants to our customers and their communities, benefiting over 375,000 people across the UK through a range of funding initiatives.

Young Person's Education Grants

Customers can apply on behalf of a young person to help with the cost of further education.

Community Grants

Supporting local charities and good causes nominated by our customers.

New for 2019 Young Person's Education Grants

In March 2019 we launched a new grant giving customers the opportunity to apply on behalf of a young person in their life. Young Person's Education Grants were introduced to give help towards meeting the expense of education and training for young people aged 15-19. We recognise how costs associated with apprenticeships, work experience and further education can be a barrier for many young people and their families, and our grants can help to reduce the financial strain when this isn't affordable.

We've awarded a total of £47,393 since they were launched, helping 102 young people.

Customers can apply for up to £500 at any time throughout the year. **We've awarded a total of £47,393 since they were launched, helping 102 young people.** Common requests are for laptops, text books, cost of travel to a work placement and essential equipment for apprenticeship schemes.

"Sending our daughter to college is a struggle, but we have wanted to support her dream and ambitions. It is not easy financially, and the help we have received from OneFamily has been a godsend. We are all so very grateful, huge thank you to you all".

Sara, Brighton

"Feel extremely grateful for the grant. My son is over the moon with his tools and can't wait to start work! It has also taken the pressure of us to find the funds to start him off, knowing that it's not just an apprenticeship, but the start of his career and his future. Thank you!"

Victoria, Southampton

Personal Grants

Alongside our Young Person's Education Grants we've continued to run our Personal Grants initiative, giving our customers the opportunity to apply for up to £500 to help in times of financial hardship. From essential household items to specialist disability equipment, Personal Grants can offer a lifeline in times of need for our customers and their families.

This year we've awarded over £185,517 to 365 customers, making life a little bit easier.

"OneFamily's grant has helped our family and we are more than grateful and thankful. I would highly recommend others to apply. I genuinely believe that OneFamily wants to support families so that they can thrive to their full potential".

Reba, London

Community Grants

We ran two rounds of Community Grants in 2019, awarding a total of £200,000 to 40 good causes and community projects across the UK. Customers were invited to nominate groups to receive funding of up to £5,000 each, allowing them to continue to make a positive difference within their community. Whether personally involved with the group, or perhaps a friend or family member has benefitted from the services they provide, our Community Grants are an excellent way for our customers to give to the causes that they're passionate about.

A wide range of organisations have benefitted from our funding this year, including support groups, bereavement charities, schools, community centres and scout groups.

UK Customers were invited to nominate groups to receive funding of up to £5,000 each

Case Study
Headway Hertfordshire

Headway Hertfordshire works with those who have suffered an acquired brain injury - often from stroke or trauma. This is often referred to as a 'hidden disability' due to the cognitive and physical problems not always being obvious. The group helps these survivors rebuild their lives through one-to-one and group support for the patient and their carers. Over 5,000 people in Hertfordshire suffer a brain injury every year, and with increasing survival rates the need for the services the charity provides is growing rapidly.

The £5,000 Community Grant received will help to fund the costs of running their peer-to-peer support groups. These weekly groups are a lifeline for patients, providing opportunities to meet people who empathise with their situation and to share advice and experiences with each other. These groups are led by a Headway Hertfordshire coordinator and supported by volunteers who have themselves either had a brain injury or care for someone who has had one.

"At Headway Hertfordshire we run a variety of support services for those who have suffered a brain injury. The grant from the OneFamily Foundation will allow us to pay for room hire for two peer support groups for 2020, as well as helping to pay for a Support Coordinator to run the groups. We are delighted to be able to continue running these groups, letting us support local people with a brain injury."

Kate Woode, nominating customer

Case Study
Home-Start Elmbridge

Home-Start Elmbridge is an independent support charity who work with vulnerable families. They work alongside parents empowering them to build positive and healthy futures for their young children. They offer their core services through trained volunteers who provide confidential, practical and emotional support to families in their own homes. They also provide specialised carer support to families who are dealing with an illness, disability or diagnosis, a support group for parents, crisis support for 'at risk' families and more recently counselling services.

The charity received a £5,000 Community Grant to go towards training home visiting volunteers and to fund their Crisis Counselling project.

"Thanks to the funding we received from the OneFamily Foundation, we were able to give 13 new volunteers a chance to undertake their preparatory training, beginning their journey as a Home-Start volunteer."

Olive Leach, Development Officer at Home-Start

Case Study
Staffordshire Sight Loss Association

Staffordshire Sight Loss Association provide face to face support for blind and partially sighted people in North Staffordshire. They offer services that help people to deal with the practical and emotional effects of sight loss, including advice and information, peer support and accessible social and leisure activities. They are a community-led charity who are committed to ensuring that people have the right support when and where they need it.

The £5,000 Community Grant that the charity received will go towards the purchase of an accessible minibus. This will provide further support to service users who are struggling to get out and about, allowing them to meet new people and gain new experiences.

"Sight loss can be traumatic and life-changing. This grant will enable us to help people to access peer support by attending groups and meeting people with shared experiences, which can help to reduce isolation and loneliness, build confidence and increase wellbeing. Thank you so much for this generous donation."

Suzanne Roberts, nominating customer

The future

The Foundation will continue to fund good causes across these three initiatives. The Society has already pledged £1 million to support the Foundation's activities in 2020 and beyond.

In response to the COVID-19 pandemic we have created a new Temporary Hardship Grant. Customers can apply for up to £500 to help with essential costs such as rent, bills and food. The recipients of this grant are selected weekly, to allow us to quickly get help to those who need it most in these unprecedented tough times.

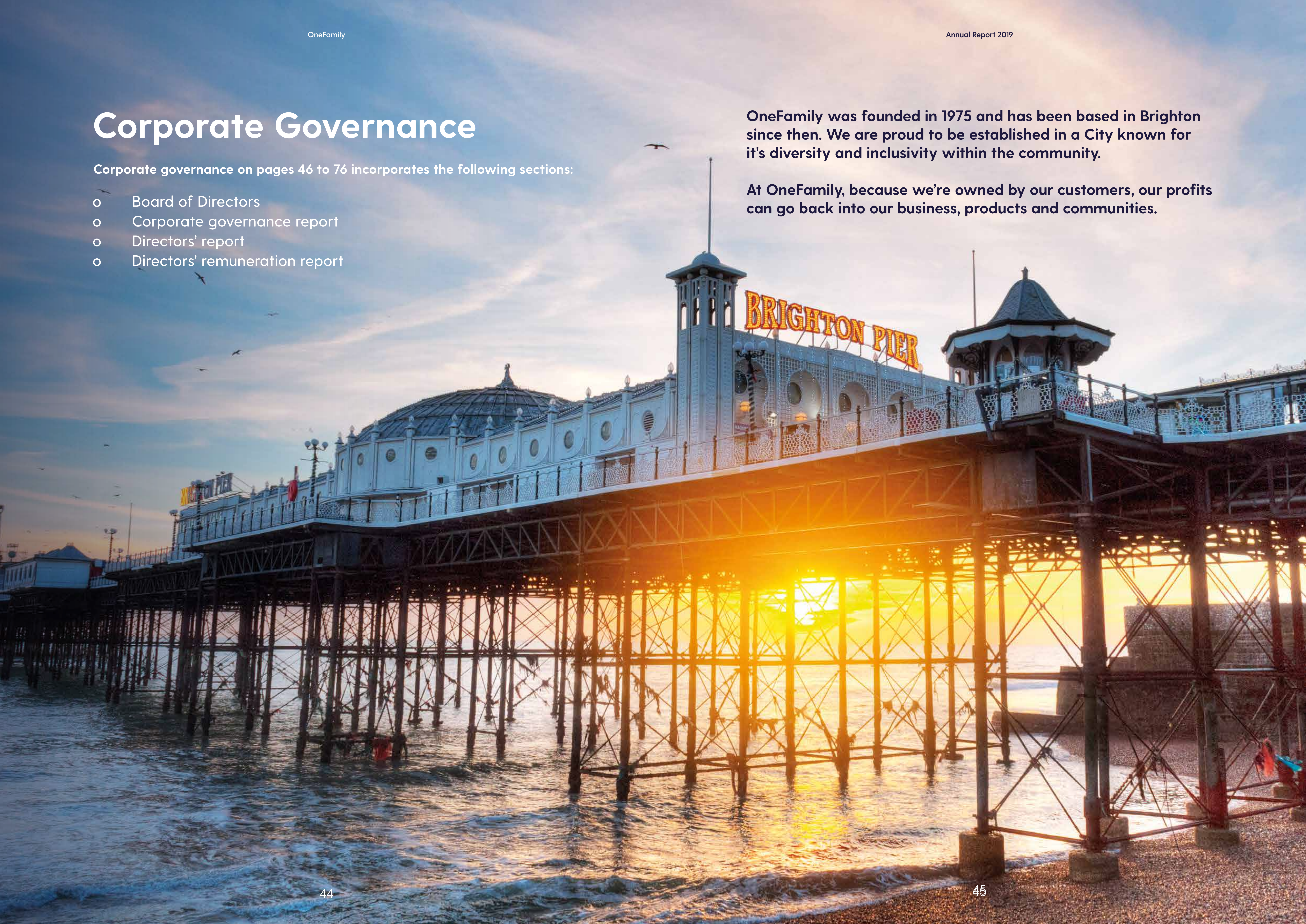
Corporate Governance

Corporate governance on pages 46 to 76 incorporates the following sections:

- Board of Directors
- Corporate governance report
- Directors' report
- Directors' remuneration report

OneFamily was founded in 1975 and has been based in Brighton since then. We are proud to be established in a City known for it's diversity and inclusivity within the community.

At OneFamily, because we're owned by our customers, our profits can go back into our business, products and communities.



Board of Directors

Non-executive directors

Christina McComb OBE Chairman

Christina was appointed as Chairman of the Board in April 2015, having previously served on the Board of Engage Mutual Assurance since May 2005, including as Chairman since April 2014. She is Chairman of the Nominations Sub-Committee and a member of the Remuneration and Member & Customer Sub-Committees.

Christina has held a range of senior private and public sector roles and has a track record in private equity and venture capital investments, having spent 14 years at leading venture capital specialist 3i Group plc. She also has wide ranging experience of advising small and medium-sized businesses.

Christina is currently Chair of Standard Life Private Equity Trust plc, Senior Independent Director at Nexeon Limited, and Big Society Capital Limited. She is also a Trustee and the Chair of the Investment Committee at NESTA (National Endowment for Science, Technology and Arts) and a Trustee of 3i Group Pension Plan. Christina was awarded an OBE in the Queen's Birthday Honours in 2018 for her services to the economy. She has a BA Hons from London School of Economics and an MBA from London Business School.

Graham Lindsay
Non-Executive Director and Vice Chairman

Graham was appointed to the Board in July 2016 and was appointed Vice Chairman from 1 January 2020. He will be appointed as Senior Independent Director later this year, subject to regulatory approval.

He is Chairman of the Member & Customer and Remuneration Sub-Committees, and a member of the Risk, Audit and Nominations Sub-Committees.

Over a 40 year career with Lloyds Banking Group plc, Graham held a number of senior executive roles including responsibility for the Lloyds branch network and Group Director for Corporate Responsibility. He has also held board positions at the Institute of Financial Services and the Chartered Banker Professional Standards Board and is a Fellow of the Institute of Banking and Finance.

Graham is currently Vice Chairman for the Board of Trustees of The Brain Tumour Charity and a non-executive director of Provident Financial plc.

Steve Colsell Non-Executive Director

Steve was appointed to the Board in July 2016. He is Chairman of the Risk and With-Profits Sub-Committees and is a member of the Audit, Remuneration (from 1 January 2020) and Nominations Sub-Committees.

Steve's financial services career has spanned banking, insurance and mortgage lending, notably with Zurich Insurance plc, Lloyds Banking Group plc and Kensington Group Limited. He has also held non-executive directorships at St James' Place and Esure Insurance Limited.

Steve is currently a non-executive director and Chairman of the Risk Committee at Starling Bank Limited.

Steve is a Fellow of the Institute and Faculty of Actuaries and a graduate of Imperial College, London.

Sally Williams Non-Executive Director

Chartered Accountant

Sally was appointed to the Board from 1 January 2019. She is Chairman of the Audit Sub-Committee and is a member of the Risk, Nominations, With-Profits and Member & Customer Sub-Committees.

Sally was Director of Risk and Governance at Marsh Limited from March 2015 to December 2018. She joined Marsh from National Australia Bank (NAB) Group, where she was Head of Risk (London Branch), and a board member of NAB Europe Ltd. Before joining NAB in 2005, she held senior risk roles with Aviva, following a 15-year career with PwC.

Sally is a non-executive director of Lancashire Holdings Limited and Close Brothers Group plc.

Jackie Noakes Non-Executive Director

Jackie was appointed to the Board on 1 April 2020. She brings extensive experience of leading and implementing technology enabled business transformation and has been Chief Operating Officer of Bank of Ireland since October 2018.

Jackie has held a number of other senior positions in the financial services sector, notably during 11 years with Legal & General, including as Group IT & Shared Services Director for Legal & General (UK), Chief Operating Officer for Legal & General Assurance Society and CEO for Mature Savings.

Jackie also spent 13 years with American Express where she was IT Vice President of American Express Bank Business Solution Delivery services, responsible for all aspects of IT.

As a member of the UK's Financial Advice Market Review (FAMR) industry expert panel, Jackie led the FAMR working group response covering Employer Best Practice.

Executive directors

Teddy Nyahasha Chief Executive Officer

Teddy was appointed Chief Executive Officer of OneFamily in January 2020, having previously held the role of Chief Finance Officer since joining the Group in 2016. During his tenure as a member of OneFamily's Executive Team, Teddy has been instrumental in critical strategic decisions which led to greater organisational efficiency, strong performance and a reinforcement of member-focused values.

Prior to his work at OneFamily, Teddy gained his extensive range of experience across a number of organisations, each time bringing a mixture of technical efficiency and leadership values to his roles. He has a strong track record of delivering results within start-ups and global multi-billion-pound organisations including household names Royal London and Aviva. In addition, Teddy has experience in policyholder and customer protection from his work at the former industry regulator the Financial Services Authority. Teddy has led diverse teams across different countries and cultures and has been accountable for multi-million-pound budgets, empowering people to deliver business growth.

Teddy is a qualified Chartered Accountant, a Certified Financial Risk Manager and has an MBA from the London Business School.

Jim Islam Chief Finance Officer

Jim joined OneFamily as Chief Finance Officer designate on 1 October 2019 and was appointed to the Board from 1 January 2020.

A qualified actuary, Jim has over 20 years' leadership experience in the insurance, investment management, savings and pensions sectors. Before joining OneFamily, Jim held senior finance and general management roles at Lloyds of London and Legal & General. In his Finance Director and Managing Director roles in these organisations covering the UK, France and global businesses, Jim transformed financial, capital and operating performance.

Jim is an independent non-executive director at B&CE, the provider of The People's Pensions.

Nici Audhlam-Gardiner Chief Commercial Officer

Nici joined OneFamily in November 2017 and was appointed to the Board from 1 January 2020. Nici leads OneFamily's commercial and customer agenda and product lines including investments, life insurance and lending.

Nici has extensive experience in the financial services sector, joining OneFamily from Saga where she was Managing Director of Money and Investment Services. Prior to this Nici held several senior roles at RBS within the divestment bank, Williams & Glynn, and RBS Commercial Bank. She has also held positions at Santander, Lloyds and McKinsey. She holds an MBA from Harvard Business School.

Corporate governance report

OneFamily is committed to high standards of corporate governance. In previous years we adopted the 2016 UK Corporate Governance Code - as annotated for mutual insurers by the Association of Financial Mutuals ('AFM'). However, following its replacement with a new Governance Code specifically for AFM Members, we have chosen to adopt the principles and relevant provisions of the full 2018 UK Corporate Governance Code (the Code). The Code applies to this Annual Report and Consolidated Financial Statements.

In the sections below we report on our level of compliance with the Code and explain our approach to particular aspects of it. Further information on other aspects of the Code's principles can be found elsewhere in this Annual Report and Consolidated Financial Statements, including details of our strategic approach and how we take into account stakeholder views (see 'Our strategy' section): culture and engagement (see Corporate social responsibility report); and remuneration policies and practices (see Directors' remuneration report).

Compliance with the Code

The Board has set the values and standards for OneFamily and all colleagues, taking account of the Code, and requires senior management to report to the Board on adherence. The Board considers that throughout the period under review it has complied with the spirit of the Code.

The Directors remuneration report and the Remuneration policy on pages 64 to 76 explain how we apply remuneration policies in keeping with the principles of the Code. Whilst our remuneration practices are evolving in response to the Code, we have not adopted all the related reporting provisions. However, consistent with previous years, we have considered reporting requirements contained in the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2013, which apply to listed companies. Whilst, given our mutual status we are not governed by these regulations, we have chosen to apply the spirit of them as we believe greater levels of disclosure and transparency will help members to better understand how our reward strategy supports their interests and the Society's overall business objectives.

The table on page 58 shows the number of Board and standing sub-committee meetings held in 2019 and directors' attendance at those meetings. As a matter of principle, the Society does not disclose the number of meetings and attendance by directors at non-standing Board sub-committees.

Independence of Non-Executive Directors

Other than the Chairman, by virtue of her holding this office only, all the current non-executive directors and those who served on the Board in 2019 are considered to be independent of the Group. As of December 2019, Ian Buckley had served on the Board for over nine years since the date of his first appointment in December 2009. The Board considered Ian Buckley's independence in relation to character and judgment in light of his length of service and concluded that there are no circumstances that prohibited him from being considered independent of the Society. The Chairman was considered independent on appointment.

The role of the Board

The Board is primarily responsible for the strategic direction and governance of OneFamily. It delegates responsibility for the day-to-day running of the business to the executive team and senior management.

Progress on operational matters, governance and key initiatives is reported through Board and sub-committee meetings. All initiatives involving significant expenditure, strategic change, governance policies, significant perceived risk or material departure from agreed budget or strategy require formal Board consideration and approval.

The division of responsibilities between the Chairman and the Chief Executive Officer has been agreed by the Board and documented. The Vice Chairman will also be appointed to the role of Senior Independent Director subject to regulatory approval.

Board diversity

OneFamily recognises the benefits of having a diverse Board and our policy is to ensure that the Board has an appropriate breadth of experience and diversity. Diversity embraces knowledge and understanding of relevant diverse geographies, peoples and their backgrounds including race, disability, gender, sexual orientation, religion, belief and age, as well as culture, personality and workstyle.

Appointments to the Board are made in the context of complementing and expanding the skills, knowledge and experience of the Board as a whole.

The Nominations Sub-Committee reviews and assesses Board composition and recommends the appointment of new directors. It also reviews whether directors' skills and experience continue to meet the needs of the Board. It considers whether non-executive directors continue to be independent. The Sub-Committee also reviews Board succession planning including the need to refresh membership of its sub-committees. In reviewing Board composition, the Sub-Committee will consider the benefits of all aspects of diversity in order to maintain an appropriate range and balance of skills, experience and background on the Board.

In identifying suitable candidates for appointment to the Board, the Sub-Committee will consider candidates against objective criteria with due regard for the benefits of diversity on the Board. At the start of 2020 Jim Islam and Nici Audhlam-Gardiner joined the Board as executive directors, with Teddy Nyahasha succeeding Simon Markey as Chief Executive Officer. In light of the expected retirement from the Board on 1 April 2020 of Ian Buckley, Graham Lindsay was appointed as Vice-Chairman from 1 January 2020.

As part of the annual performance evaluation of the effectiveness of the Board, sub-committees and individual directors, consideration is given to the balance of skills, experience, independence and knowledge of OneFamily on the Board, and the diversity of representation on the Board.

Board performance monitoring and evaluation

Each year the Board sets business objectives for the Group as part of its rolling five-year plan, which are based on the objectives outlined in the Strategic report on pages 6 to 43. The Board monitors performance against these objectives at regular intervals.

In compliance with the Code, the Board conducts a formal evaluation annually. This is done by means of a questionnaire on different aspects of the operation and performance of the Board as a whole and its sub-committees. It is completed anonymously by each director and the Chief Risk Officer who attends each Board meeting. Results are collated by the Company Secretary for review by the Chairman, Board and respective sub-committees, and subsequently any actions for future improvement are documented for implementation. Each director also completes a self-evaluation questionnaire and an evaluation questionnaire on each of the other directors, with results collated anonymously for discussion with the Chairman and identification of any development needs. In addition, the Chairman holds periodic meetings with each executive director and non-executive director to evaluate their performance and development needs; and the Senior Independent Director leads a review of the Chairman, taking into account feedback from other Board members.

In line with the Code, the review of the Board's effectiveness is normally conducted by an external party at least every three years.

The Board effectiveness review also includes assessment of the Risk and Audit Sub-Committees.

Assessing and Monitoring Culture

The Board is developing its approach to assessing and monitoring culture in the organisation, recognising that this is a subjective area. During 2019 all Board members took part in a discussion on culture. This included consideration of culture around the Board table (which was considered to be appropriately challenging and supportive) and the wider organisation, including a review of factors that could be indicative of positive or negative indicators of culture. Insight into the culture in the organisation has been strengthened with Graham Lindsay becoming the designated non-executive director for engagement with colleagues in 2019. He has since been a regular attendee at meetings of Talking Family, the employee consultative committee; providing feedback to the Board on any issues of concern when appropriate. The Board has also reviewed the results of the Best Companies Survey, which all colleagues were encouraged to take part in.

The internal audit programme of work for 2020 includes a review of culture in the organisation. The results and monitoring of any agreed actions in respect of significant findings will be reported to the Board.

Compliance with regulatory and legal requirements

The Board sets the organisation's governance, culture and values and is responsible for the long-term success of the Group. The Board requires that OneFamily complies with all relevant laws and regulations and ensures that it has high standards of internal controls and risk management in place.

Board of Directors

During 2019, and up to the date of signing this Annual Report and Consolidated Financial Statements, the Board of Directors was:

For the Year to 31 December 2019
Non-Executive Directors
Christina McComb (Chairman) Ian Buckley (Vice Chairman and Senior Independent Director) Peter Box (retired 5 June 2019) Steve Colsell Graham Lindsay Sally Williams
Executive Directors
Simon Markey (Chief Executive Officer) (resigned 31 December 2019) Shingirai (Teddy) Nyahasha (Chief Finance Officer)
Secretary
Simon Allford

From 1 January 2020
Non-Executive Directors
Christina McComb (Chairman) Ian Buckley (Senior Independent Director) (resigned 1 April 2020) Steve Colsell Graham Lindsay (Vice Chairman from 1 January 2020) Jackie Noakes (appointed 1 April 2020) Sally Williams
Executive Directors
Shingirai (Teddy) Nyahasha (Chief Executive Officer) Jamshaid (Jim) Islam (Chief Finance Officer) Nici Audhlam-Gardiner (Chief Commercial Officer)
Secretary
Simon Allford

Sub-Committees

The Board of Directors operates the following standing sub-committees (membership shown at the date of approval of the Annual Report and Consolidated Financial Statements). Terms of reference are available at www.onefamily.com.

Nominations Sub-Committee

Christina McComb (Chairman)
Steve Colsell
Graham Lindsay
Jackie Noakes (appointed 1 April 2020)
Sally Williams

Simon Markey and Ian Buckley were also members throughout 2019 until leaving the Board on 31 December 2019 and 1 April 2020 respectively.

Peter Box was also a member until his retirement from the Board on 5 June 2019.
The Nominations Sub-Committee comprises all non-executive directors and (until 31 December 2019) the Chief Executive Officer. The Board appoints its Chairman. It may obtain such outside legal or other independent professional advice as it deems necessary. The Sub-Committee meets at least once a year and at such other times as required.

The purpose of the Sub-Committee is to regularly review the structure, size and composition of the membership of the Board and to examine the skills, knowledge, experience, diversity, independence and effectiveness of the Board.

The Sub-Committee will identify and nominate for the approval of the Board, suitable candidates to fill Board vacancies as and when they arise. In line with the diversity policy, the Sub-Committee recognises the benefits of having a diverse senior management team and views this as an essential element in maintaining an effective Board.

The Sub-Committee ensures that there are appropriate succession plans in place for all directors and other senior management positions, and that all directors devote sufficient time to their duties. It makes recommendations to the Board regarding membership of the Risk, Audit, Remuneration, With-Profits and Member & Customer Sub-Committees. During 2019 the Sub-Committee continued to oversee implementation of succession planning including the recruitment of Jim Islam as Chief Finance Officer in anticipation of Teddy Nyahasha's appointment as Chief Executive Officer from 1 January 2020; in line with his planned succession from Simon Markey. The process for identifying an additional non-executive director candidate in light of Ian Buckley's planned resignation from the Board in 2020 was also undertaken.

A Board competencies matrix is used to monitor whether Board members' skills and experience continue to be appropriate in relation to the development and implementation of the organisation's strategy. Where gaps are identified, consideration is given as to whether they should be addressed through further training and development, or recruitment on to the Board. Any specific skills needs are reflected in role descriptions when recruiting additional directors, with suitable candidates sourced by external search consultants who are briefed to find candidates from as wide and diverse a pool as practicable.

Remuneration Sub-Committee

Graham Lindsay (Chairman)
Chris McComb (from 1 June 2019)
Steve Colsell (from 1 January 2020)

Ian Buckley was a member throughout 2019 and until his retirement from the Board on 1 April 2020. Peter Box was also a member until his retirement from the Board on 5 June 2019.

The primary purpose of the Remuneration Sub-Committee is to recommend to the Board and oversee the implementation of the OneFamily remuneration policy.

The Sub-Committee normally meets at least three times each year. Its remit includes review of remuneration policy for all employees, and the structure of executive remuneration packages, including incentive schemes. It considers and approves fees for the Chairman, makes recommendations to the Board for its approval in respect of the non-executive directors' fees, and reviews and approves remuneration for the executive directors (including the Chief Executive Officer) and senior management. In doing so, the Sub-Committee takes into consideration all factors which it deems necessary including relevant legal and regulatory requirements, the Financial Conduct Authority's Remuneration Code, OneFamily's culture, the UK Corporate Governance Code and associated guidance.

The Sub-Committee ensures that the executive directors' remuneration is designed to promote the long-term success of OneFamily, without paying more than is necessary, having regard to views of members and other stakeholders and also to the risk appetite of OneFamily and its long-term strategic goals.

The Sub-Committee approves the design and targets for performance-related pay schemes operated by OneFamily and approves the total annual payments made under such schemes.

The Sub-Committee is responsible for establishing the selection criteria and for selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Remuneration Sub-Committee.

The Sub-Committee used the services of EY and financial services market data from Willis Towers Watson, who are independent of OneFamily, to benchmark its remuneration arrangements and practices against those of comparative organisations and best practice.

Other areas of consideration of the Sub-Committee during 2019 included:

- Review of gender pay reporting results
- Review of incentive scheme principles and distribution of awards for employees throughout the organisation
- Retention scheme arrangements
- Reviewing the application of guidance provided by the PRA in their letter to all Chairs of Remuneration Committees in respect of the implementation of Solvency II remuneration requirements

Details of the directors' remuneration can be found in the Directors' remuneration report on pages 64 to 76. The Chief Risk Officer has appropriate input into the setting of the remuneration policy and remuneration decisions other than her own.

Further details of the duties of the Sub-Committee are contained in the terms of reference which can be viewed at www.onefamily.com.

Risk Sub-Committee

Steve Colsell (Chairman)
Graham Lindsay
Jackie Noakes (appointed 1 April 2020)
Sally Williams

Ian Buckley was a member throughout 2019 and until his retirement from the Board on 1 April 2020.

Peter Box was also a member in 2019 until his retirement from the Board on 5 June 2019.

The members of the Risk Sub-Committee have been selected with the aim of providing a wide range of financial and commercial expertise. In addition, by invitation, the meetings are attended by the Chief Executive Officer, Chief Finance Officer and the Chief Risk Officer.

The Chief Risk Officer and Company Secretary support the Sub-Committee by assisting the Chairman in planning the Sub-Committee's work and ensuring that it receives accurate and timely information. The Sub-Committee normally meets at least four times a year.

The key duties of the Sub-Committee are to:

- Review and approve the Group's risk management framework including risk assessment of significant strategic initiatives
- Monitor the effectiveness and appropriateness of the resources of the Risk team
- Recommend to the Board the Group's overall risk appetite and strategy
- Recommend to the Board, and oversee, the Group's capital management policy
- Oversee the Own Risk and Solvency Assessment (ORSA) process
- Oversee the development, management and monitoring of conduct risk policies
- Consider and approve the remit of the risk department, its resourcing and its independence

The key activities of the Sub-Committee in 2019 have been focused on:

- GDPR implementation and data protection policies
- Liquidity management
- Risk management capability
- The ongoing performance and further development of the ORSA process, including:
    - Review of the specification and outcomes of stress and scenario testing
    - The current and projected profile of risks over the planning period
    - Review of the methodologies and assumptions for quantifications performed as part of the ORSA process
- The continuing development of the Group's response to IT security threats and end of life technology risks
- The assessment of the impact of legislative and regulatory changes on conduct risk and policyholder outcomes
- Review of the capital management framework and associated risk appetite statement
- Development of risk appetite and identification of emerging risks

The Sub-Committee continually reviews its activities in the light of changes to OneFamily's strategy and the expansion of its activities and changing UK and European regulation.

Audit Sub-Committee

Sally Williams (Chairman from 4 July 2019)
Steve Colsell
Graham Lindsay

Peter Box was a member of this Sub-Committee and its Chairman until his resignation from the Board on 5 June 2019. Ian Buckley was a member throughout 2019 and until his resignation from the Board on 1 April 2020.

Sally is a Chartered Accountant, has held a number of senior executive roles in risk and governance in financial services firms, and is a non-executive director at two other listed financial services firms, as detailed on page 46. Accordingly, the board is satisfied that she has recent and relevant financial services experience. Sally's experience is complemented by the wide range of financial and commercial expertise of the other members of the Sub-Committee.

The main duties and responsibilities of the Sub-Committee are set out in its terms of reference which are available on the OneFamily website and are summarised below:

- Monitor the integrity of the financial statements of the Group
- Ensure the application of appropriate accounting standards, estimates and judgements
- Review the 'Annual report and consolidated financial statements' and advises the Board on whether taken as a whole it is fair, balanced and understandable
- Monitor the integrity of the annual regulatory return, including the Solvency and Financial Condition Report (SFCR) and the Regular Supervisory Report (RSR)
- Monitor on an ongoing basis and review annually the Group's internal financial controls and internal control and risk management systems
- Approve the appointment or termination of appointment of the Head of Internal Audit including performance evaluation and remuneration
- Review and approve the Annual Internal Audit Plan
- Consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of the Group's external auditor
- Review and approve the Annual Compliance Monitoring Plan and resource
- At least annually review and challenge the Client Assets (CASS) Risk Framework

How the Sub-Committee discharged its responsibilities during the year

Area of responsibility	Actions undertaken by the Sub-Committee
Financial reporting	During the year the Sub-Committee: • Considered the suitability of the going concern concept and the long-term viability statement contained within the Annual Report 2019 • Reviewed and challenged the actuarial methodology and assumptions for demographic and economic assumptions proposed by the Chief Actuary for both statutory and regulatory reporting. Recommending them to the Board for approval • Reviewed and challenged areas where significant judgement or assumptions had been applied to the financial statements and Solvency II reporting • Reviewed, challenged and approved (or recommended to the Board for approval) policies relating to materiality and proportionality, reporting and disclosure and non-actuarial Solvency II methodologies • Reviewed and discussed reports from the external auditors on the progress and findings of the external audit process. This included consideration of both adjusted and unadjusted audit differences • Considered new reporting disclosures, including those in respect of directors' duties under S172 of the Companies Act to take into account impacts on different stakeholders when making decisions in the best interests of the organisation • At the 24 March 2020 meeting the committee reviewed the final draft of the 2019 Annual Report and Consolidated Financial Statements together with the external auditor's report. The committee advised the Board that it considers that, taken as a whole the 2019 Annual Report and Consolidated Financial Statements are fair, balanced and understandable and provides the information for members to assess OneFamily's position and performance, business model and strategy

Area of responsibility	Actions undertaken by the Sub-Committee
Internal control and risk management systems	The internal control environment is underpinned by a robust system of governance and risk management framework. The Group operates a three lines of defence model to ensure that its operational controls remain efficient and effective, its financial reporting is reliable and that the organisation remains compliant with applicable laws and regulations. The key activities of the Sub-Committee in the year which supported the three lines of defence model, were: o The review and challenge of the activities of the Compliance team (as second line) and Internal Audit (as third line) o The receipt, review and challenge to management in respect of a report from the external auditors detailing deficiencies in the internal control environment which were identified during their year-end audit work o The review, challenge and recommendation to the board for approval of policies relating to internal controls
Internal Audit	The Sub-Committee assessed the effectiveness of the Internal Audit team throughout the year via the review, challenge and approval (as required) of: o Quarterly reports detailing progress of the audit plan and results of internal audit activity o The internal audit charter setting out the authority and scope of the internal audit o The audit plan and internal audit budget The Sub-Committee also met privately with the Head of Internal Audit during the year.
External Audit	See the section on External Audit below, for how the Sub-Committee discharged its responsibilities in respect of the effectiveness and reappointment of external auditors and the provision of non-audit services. In addition, the Sub-Committee held a private meeting with the external auditor during the year.
Client Assets (CASS)	The Sub-Committee: o Reviewed, challenged and approved the CASS policy and risk framework o Received regular reports in relation to client assets o Reviewed and challenged the findings of the external audit of CASS and monitored progress of the resolution of any issues identified

Significant issues considered by the Sub-Committee in the year

Area of focus	Audit Sub-Committee action in year	Outcome
Valuation of the long-term business provision	The Sub-Committee reviewed and challenged the methodology and assumptions proposed by the Chief Actuary for both demographic and economic assumptions. Particular focus was applied to key areas where judgement had been applied such as prudence margins and expense assumptions. The latter was an area of particular focus given the restructuring within the Group and its impact on future costs. The Sub-Committee also considered the observations from the external auditors before finalising their views. .	The methodology and assumptions papers were recommended to the Board for approval.
Valuation of level three investments	The Sub-Committee reviewed and challenged papers produced by management detailing the valuation process applied to hedge funds and properties. The paper on hedge funds also provided comfort to the Sub-Committee on the impact of liquidity on the valuation versus prices obtained on redemption.	The Sub-Committee concluded that they were comfortable with the valuation methodology and controls.
Effectiveness of internal controls	The Sub-Committee received regular reports regarding the operational effectiveness of controls from both the second line of defence (Compliance) and the third line (Internal Audit). In addition, the Finance department provided details of the control framework applied in the production and review of the financial statements.	The Sub-Committee was satisfied that the controls were effective throughout the period of review.
Efficiency of the year-end process and provision of external audit services	The Sub-Committee reviewed management and external audit arrangements for the smooth running of the year-end audit in the light of the requirement to report to our regulators to a tighter timetable than previously. As detailed below the Sub-Committee discussed the quality of the audit and level of fees and whether there were any drivers to enter into a tender process prior to the mandatory timeline.	The Sub-Committee was satisfied that appropriate changes were made to enable a more efficient and timely year-end process. They also concluded that there were no drivers to enter a tender process early.

Area of focus	Audit Sub-Committee action in year	Outcome
Potential impact of COVID-19 pandemic	The Audit Sub-Committee requested an update on the Group's response to COVID-19 in respect of protecting colleagues and ensuring our ability to continue to serve customers. In addition, the Sub-Committee requested an update on the potential financial impacts, to enable appropriate consideration of this and relevant disclosures in the Annual Report and regulatory returns.	Management prepared a report detailing the assessment of the financial (including solvency and liquidity) and operational impacts of the COVID-19 pandemic. The Sub-Committee noted that the extensive actions taken to protect colleagues, customers and the financial position of the Society. The Sub-Committee noted that the Solvency II Pillar 1 capital position of the Society had been resilient in the face of market falls to date. They also noted that the liquidity position of the Society remains largely unaffected.

External audit

The Sub-Committee is responsible for reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process. This includes the external audit of statutory reporting and of Client Assets (CASS).

The Sub-Committee considered the effectiveness of the external auditor through the reporting it received from the auditors, the engagement at Sub-Committee meetings and feedback from stakeholders involved in the 2019 year-end audit process. Opportunities to enhance the effectiveness of the year-end audit process were discussed during the year with both stakeholders and the auditors and these were incorporated into the 2019 year-end process.

The Sub-Committee approves any change to the External Auditor Services Policy and reviews this at least annually and monitors adherences to the policy. This policy is designed to ensure that the external audit firm is not engaged in other services which could compromise its independence as external auditor.

The Sub-Committee concluded that the external audit was effective for the 2019 year-end.

KPMG was appointed as auditor to the Group in 2015. Their maximum tenure, as set out in UK and EU legislation, before the audit is subject to retender is ten years. The maximum period for which they may serve is 20 years. During the year the Sub-Committee considered the possible drivers for entering a tender process prior to the completion of the maximum ten-year period. It was concluded that the quality of the audit of the Group's statutory and regulatory returns for the year-ended 31 December 2018 was at an acceptable level, and that the level of fees charged for 2019 is reasonable in light of Group structure and number of subsidiaries requiring a statutory audit. The Sub-Committee will continue to review the position, taking into account the capability, independence and appetite of other audit firms, including those outside the traditional 'big four'.

UK & EU legislation define OneFamily, being an insurance group, as a public interest entity. As such there are detailed restrictions of non-audit services that may be provided by external auditors both by type of service and the overall value. The Sub-Committee reviews on an annual basis the Group's policy on engaging external auditors for non-audit services. The Sub-Committee also reviews the nature of work and related fees for any non-audit work. The policy is designed to protect objectivity, independence and compliance with legislation as a public interest entity. The external auditors provided assurance services during the year in relation to Client Assets, however as we are no longer required to have our Solvency II submission audited they did not provide this service for 2019.

With-Profits Sub-Committee

Steve Colsell (Chairman)
Jackie Noakes (appointed 1 April 2020)
Sally Williams (appointed 1 March 2019)

Ian Buckley was a member throughout 2019 and until his resignation from the Board on 1 April 2020

Peter Box was also a member in 2019 until his retirement on 5 June 2019.

The Sub-Committee meets at least twice a year. It comprises at least three independent non-executive directors and meetings are attended, by invitation, by the Chief Executive Officer, the Chief Finance Officer, the Chief Risk Officer, and the With-Profits Actuary.

The key activities of the Sub-Committee focused on overseeing OneFamily's with-profits business in accordance with the relevant principles and practices of financial management (PPFMs) for each with-profits fund, as well as PRA rules. There is particular focus on ensuring that the bonus declaration and surrender and paid up values granted reflect the fair treatment of with-profits policyholders.

The Sub-Committee oversees the performance of the With-Profits Actuary. The Sub-Committee members meet privately with the With-Profits Actuary during the year, or whenever the With-Profits Actuary requests.

During 2019 the Sub-Committee focused on the run-off plans and the investment strategy review for the with-profits funds.

Member & Customer Sub-Committee

Graham Lindsay (Chairman)
Nici Audhlam-Gardiner (appointed 1 June 2019)
Philippa Herz – Chief Risk Officer
Christina McComb
Jackie Noakes (appointed 1 April 2020)
Teddy Nyahasha (appointed 1 March 2020)
Sally Williams (appointed 1 March 2019)

Simon Markey was a member throughout 2019 until his resignation from the Board on 31 December 2019.

The Sub-Committee meets at least four times each year and the objectives of the Member & Customer Sub-Committee are to:

- Receive and review recommendations from the executive team in relation to the Society's membership, customer, Foundation and broader corporate responsibility plans
- Recommend to the Board changes to the Society's membership rules
- Receive and review updates against key indicators for membership, customer and Foundation objectives including treating customers fairly and customer satisfaction reporting
- Ensure that appropriate governance, risk mitigation and controls are in place in relation to Foundation, customer and member experience
- Review and approve the Product and Proposition Framework
- Review any significant changes to existing or new products

During 2019 the Sub-Committee considered the 2019 AGM member engagement, membership strategy, customer satisfaction measures and new product proposals for maturing Child Trust Fund accounts from 1 September 2020.

In addition to the standing sub-committees detailed above, the Board may also convene additional committees depending on business needs. For instance, a Mergers & Acquisitions Sub-Committee may be formed if a proposed corporate transaction needs to be considered in detail.

Investment Sub-Committee (to 5 June 2019)

Ian Buckley (Chairman)
Christina McComb
Steve Colsell
Simon Markey
Teddy Nyahasha

This sub-committee was stood down during the year. Its responsibilities for reviewing and monitoring the activity and performance of investment managers and for recommending the investment strategy and policy to the Board transferred to a newly formed Executive Investment Committee which reports on its activities to the Board.

Governance of subsidiary companies

The Group subsidiary companies each have a board of directors comprising executive directors, with non-executive directors also appointed when appropriate – for example to the boards of start-up companies, or to meet regulatory requirements. OneFamily Advice Limited had non-executive director representation on its Board until 4 December 2019 and Family Investment Management Limited has had non-executive director representation from 27 August 2019.

Attendance at meetings in 2019

The Chairman and non-executive directors have opportunities to meet independently of the executive directors at least four times a year.

The attendance of directors at scheduled Board meetings and standing sub-committee meetings during the year is set out below. The number of meetings that each director could have attended is shown in brackets.

	Board of Directors	Nominations Sub-Committee	Investment Sub-Committee	Remuneration Sub-Committee	Risk Sub-Committee	Audit Sub-Committee	With-Profits Sub-Committee	Member & Customer Sub-Committee
Christina McComb	9 (9)	4 (4)	3 (3)	2 (2)				4 (4)
Peter Box[1]	5 (5)	1 (1)		2 (2)	2 (2)	3 (3)	2 (2)	
Ian Buckley	8 (9)	4 (4)	3 (3)	4 (4)	4 (4)	5 (5)	4 (4)	
Graham Lindsay	9 (9)	4 (4)		4 (4)	4 (4)	4 (5)		4 (4)
Sally Williams	8 (9)	3 (4)			4 (4)	5 (5)	4 (4)	4 (4)
Simon Markey	9 (9)	4 (4)	3 (3)					4 (4)
Teddy Nyahasha	9 (9)		3 (3)					
Steve Colsell	9 (9)	4 (4)	3 (3)		4 (4)	5 (5)	3 (4)	

[1] Peter Box resigned 5 June 2019

Member relations

The Board is committed to maintaining good communications with members, developing its understanding of members' views and providing members with sufficient relevant information to enable them to understand the performance of OneFamily and its products. OneFamily conducts independent research and surveys with our members, including via our online customer community, OneFamily Voice. This provides valuable feedback which enables us to improve our products and services. We hope that members will continue to participate in our research.

The Society's AGM usually takes place in June and provides a forum for members to meet directors and learn more about OneFamily and how it is governed. However, this year due to the current circumstances in respect of COVID-19, we will not be inviting members to attend the meeting in person. We are encouraging members to take part through our proxy voting arrangements, either online or by post. It is our current intention to provide an online facility for members to ask questions in advance and also to stream the meeting online to enable members to view this live from their homes. We will keep the format of the AGM under review in the light of future developments in respect of the pandemic, Public Health England advice and changes in legislation relating to AGMs and ask that you monitor our website for any updates. The Member & Customer Sub-Committee ensures appropriate focus on membership issues, and its remit includes considering arrangements for canvassing members' views. Details of the Group's member relations strategy are available at www.onefamily.com or from the Company Secretary.

Our role as an institutional investor

The UK Stewardship Code was introduced by the Financial Reporting Council with the aim of enhancing the engagement between institutional investors and companies, thereby improving governance in those companies and enhancing shareholder value.

We delegate management of our assets externally to State Street Global Advisors for all our collective investment schemes and some of our unit-linked funds, and the remainder of our unit-linked funds to Santander Asset Management and EdenTree Investment Management. The management of the assets in the with-profits funds is delegated to Legal and General Investment Management and Edentree Investment Management. We are not involved with undertaking stewardship activity on a day-to-day basis and so do not have direct engagement with companies held within the portfolios managed by these third parties. We monitor the stewardship activities of our investment managers through regular meetings and reporting.

As a responsible investor, we take our role seriously as an owner of the companies we are invested in and endorse the UK Stewardship Code. We expect all our third-party investment managers to support and endorse the Code and its underlying principles. As part of its stewardship programme, our main investment manager, State Street Global Advisors, focuses on thematic topics that they believe will have the most material impact on the long-term value of their portfolio of companies. In 2019 these themes were:

- Climate risk and reporting
- Gender diversity
- Corporate culture
- Board accountability
- Human capital

Identifying stewardship priorities allows State Street to plan and actively focus their engagement efforts with companies and voting actions on issues that are important to their clients, including OneFamily.

Longer term viability statement

OneFamily's approach to the assessment

The directors have assessed OneFamily's long-term business prospects in light of the principal risks and uncertainties it faces up until the end of December 2024. A five-year period is appropriate for this viability assessment because the Group's internal strategic planning process also covers this time frame. Our business model and strategy are integral to understanding the Group's future prospects.

OneFamily adopts a prudent approach to strategy, with a focus on delivering value to our members whilst ensuring that we have a sustainable business model.

The Board participates fully in the planning process and performs a thorough review and challenge of the strategy and assumptions used, through stress and scenario testing of key economic, insurance and operational risks.

The assessment process

The assessment looks at the Group's financial performance, capital management, cash flow, and solvency position, as well as the principal risks and uncertainties that could impact on future performance, solvency or liquidity. The process makes use of the full range of planning and forecasting information and tools available internally, which provide an in-depth analysis of the Group's risk profile, liquidity, profit and capital projections.

As part of the annual risk management and business planning cycle, OneFamily produces an Own Risk and Solvency Assessment (ORSA), which also covers the 2020-2024 planning period. The ORSA helps management determine the appropriate level of capital required to meet overall solvency needs for the planning period, taking into account OneFamily's current risk profile, strategy and risk appetite.

The assessment process also considered the Group's financial resilience (including solvency and liquidity) and operational resilience in light of the COVID-19 pandemic. This is a rapidly evolving situation, but the directors have been informed of the sensitivities of the Group's capital strength to further equity, interest rate and credit spread changes. Management's approach to ensure operational resilience has also been communicated to the directors.

Outcome of the assessment process

On the basis of the ORSA and the five-year business plan, the directors are confident that OneFamily's strategy is robust and that the Group has sufficient capital and liquidity to:

- Meet regulatory capital requirements
- Satisfy its capital risk appetite
- Maintain a sustainable business model

As OneFamily has no shareholders and therefore has no requirement to pay dividends, it is less constrained in investing in the business for the future.

The directors are also satisfied that the Group has appropriate risk management and governance procedures in place to manage and mitigate the risks that have been identified over the planning period.

Viability statement

This detailed assessment was made recognising the principal risks and uncertainties that could have an impact on the future performance of the Group as detailed on pages 25 to 28 and its long-term prospects in light of these. In addition, the emerging risk associated with the COVID-19 pandemic was also taken into consideration by the directors. The directors are confident that the Group will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 December 2024. This is considered an appropriate time horizon as it is the period used for business planning.

Christina McComb
Chairman
6 April 2020

Directors' report

The Annual Report and Consolidated Financial Statements including the strategic report have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the Regulations). As at 31 December 2019 a Board of Directors comprising the Chairman, four independent non-executive directors and two executive directors governed the Group. From 1 January 2020 the number of executive directors increased to three with Jim Islam and Nici Audhlam-Gardiner joining the Board, after Simon Markey left it on 31 December 2019.

The Board is led by the Chairman whose role, along with that of the Chief Executive Officer, has been set out and approved by the Board. The Board delegates day to day management of the business to executive and senior management led by the Chief Executive Officer. The Board is satisfied that, having considered the background and current circumstances of each non-executive director, there is no relationship or issue which could affect the independence of their judgement in performing their duties. In making this assessment, the Board gave particular scrutiny to the independence of Ian Buckley, who had served as a director for over nine years, having been appointed in December 2009. The Board concluded that, notwithstanding this factor, he remained fully independent.

Directors' biographies can be found on pages 46 to 47

Statement of responsibilities of the Board of Directors

The Friendly Societies Act 1992 (the Act) requires the Board of Directors to prepare the Annual Report and Consolidated Financial Statements for each financial year which give a true and fair view of the state of the affairs of the Society and of the Group as at the end of the financial year, and of the income and expenditure of the Society and of the Group for that period. Under the Act the directors have elected to prepare the Annual Report and Consolidated Financial Statements in accordance with UK accounting standards and applicable law (UK generally accepted practice).

In preparing the Annual Report and Consolidated Financial Statements, the Board is required to:

- Select suitable accounting policies and then apply them consistently
- Make judgements and estimates that are reasonable and prudent
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts
- Prepare Annual Report and Consolidated Financial Statements on a going concern basis unless it is inappropriate to presume that the Group will continue in business

The Board confirms that it has complied with the above requirements in preparing the accounts and believes they provide a fair, balanced and understandable view of the Society and the Group.

The Annual Report and Consolidated Financial Statements provides the information necessary for members to assess the Society and Group's performance, business model and strategy.

As at 31 December 2019, the Group's margins of solvency comfortably exceeded the minimum requirements, as prescribed by the Prudential Regulation Authority.

The Board is responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of OneFamily and ensuring that the accounts comply with the Act. It is also responsible for safeguarding the assets of OneFamily and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for OneFamily's systems of control and acknowledges that such systems can provide only reasonable and not absolute assurance against material misstatement or loss. The Board conducts, through the Risk and Audit Sub-Committees, an ongoing review of the effectiveness of OneFamily's systems of internal controls and risk management and is satisfied that there are no material shortcomings (see the Risk Sub-Committee and Audit Sub-Committee reports on pages 52 to 56). In accordance with the Act, the Board confirms that all activities carried out during the year by the Society and its subsidiary undertakings are believed to have been carried out within their respective powers.

The Board considers that the skills, independence and experience of the non-executive directors provide an appropriate balance to ensure that the Group is effectively managed and controlled.

Going concern

Directors need to satisfy themselves that it is both reasonable and appropriate for them to conclude that the Annual Report and Consolidated Financial Statements have been prepared on a going concern basis.

The Group's business activities, financial performance and solvency, as well as future outlook, are summarised in the Strategic report on pages 6 to 43.

Principal risks faced by the Group, including liquidity risk, are summarised in the Risk management report on pages 24 to 31. This information helps to explain how we manage going concern and liquidity risks to secure OneFamily's long-term success.

The Board acknowledges that a balanced risk appetite is essential for the long-term success of OneFamily and to manage and mitigate risk it receives regular recommendations and reports from the Risk Sub-Committee.

In assessing going concern and the long-term viability of the Society and the Group, the Board have also taken account of the COVID-19 pandemic in early 2020. The Board have considered the consequences of interest rate and stock market falls, continued stock market volatility experienced in early 2020, potential changes to mortality rates and also the effect on business operations as a result of the pandemic. Further details on the impact of COVID-19 on the business from both a financial and operational perspective can be found in the Risk Management Report on pages 24 to 31.

As a result of the Board's consideration of its long-term viability as set out on pages 59 to 60, the directors are confident that the Group has adequate financial resources to continue in operation as a going concern for the foreseeable future and continue to prepare the financial statements on that basis.

Principal risks and uncertainties

As a result of its normal business activities, OneFamily is exposed to a variety of risks. The Group has established a number of sub-committees and policies to successfully manage these risks. These principal risks and uncertainties are set out in the Risk management report on pages 24 to 31 and in note 1 to the financial statements.

Internal control

The Board has overall responsibility for the Group's systems of internal control and the monitoring of their effectiveness. The systems of control are designed to manage rather than eliminate the risk of failure to achieve our strategic objectives and can only provide reasonable assurance against material misstatement or loss.

For 2019 the Board was able to conclude, with reasonable assurance, that appropriate internal control and risk management systems were maintained throughout the year.

Employees

OneFamily employed an average of 486 full time equivalent employees during 2019 (2018: 514) at a total cost of £31.4 million (2018: £28.9 million). The Board recognises that OneFamily's most valuable resource is its employees and that they are key to its success in implementing its strategy. The Board believes that the continued learning and development of colleagues is essential, in order to ensure effective management of OneFamily, and provision of appropriate service to customers. As at 31 December 2019 the gender mix at management levels is:

	Male		Female	
	2019	2018	2019	2018
Board of Directors	71%	86%	29%	14%
Senior Managers and their direct reports	65%	66%	35%	34%

There is a statement on gender pay on pages 36 to 37 and further information on our approach to diversity and inclusion can also be found on page 36.

Customer complaints

It is OneFamily's policy to investigate and resolve all customer complaints promptly and fairly, but in the event that customers are not satisfied with the response the Financial Ombudsman Service provides a complaints resolution service. Full details can be obtained from the Company Secretary or at www.onefamily.com. In 2019 we resolved 99.4% of complaints within four weeks (2018: 99.5%).

Appointment of auditor

A resolution to re-appoint the external auditor to the Group will be proposed at the 2020 AGM. KPMG was appointed as external auditor to Engage Mutual Assurance in August 2012, and then following the merger between Engage Mutual Assurance and Family Investments, was appointed as external auditor to the Group in May 2015. The appointment was made after a tender process had taken place. The Audit Partner is Ben Priestley, who was appointed in 2017.

Disclosure of information to auditor

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 Group's auditor is unaware; and each director has taken all the steps that they ought to as a director to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Actuarial function

OneFamily outsources its actuarial function to Willis Towers Watson. Paul Whitlock of Willis Towers Watson was Chief Actuary to the Group throughout 2019. Rob Thurston was With-Profits Actuary until his resignation on 31 August 2019, with Michael Green succeeding him.

Charitable and political donations

Outside of the OneFamily Foundation, during the year the Group made charitable donations of £15,923 (2018: £11,093), primarily through matching donations raised by staff for charities of their choice. No political donations were made (2018: nil).

Directors' interests

None of the directors had any interests in the Group or its subsidiary companies, other than those interests in respect of fees or salaries paid to them as directors, those interests in respect of the policies which they hold with the Group under standard terms and conditions and those interests specifically disclosed in note 28 to the financial statements.

Directors' insurance and indemnities

The directors have the benefit of the indemnity provisions contained in the Society's Rules, and the Society has maintained throughout the year directors' and officers' liability insurance for the benefit of the Society, the directors and its officers. The Society has entered into qualifying third-party indemnity arrangements for the benefit of all its directors which were in force throughout the year and remain in force.

Simon Allford
Secretary
6 April 2020

Directors' remuneration report

Annual statement from the Remuneration Sub-Committee Chairman

Foreword

I am pleased to present the Directors' remuneration report including detail of the executive and non-executive directors pay for 2019. Our role as a Remuneration Sub-Committee is to ensure that all our remuneration policies align with the Board-approved strategy to ensure that the business is run safely, and successfully, for our members. We want you to understand and see clear evidence of the objectives that are driving the best outcomes for OneFamily and our members, by having remuneration arrangements that are straightforward to explain, to understand and that ultimately drive the right behaviours.

The Sub-Committee continues to consider how remuneration practices and outcomes align to long term business performance, strategy, purpose and our values, whilst also taking into consideration the views of the wider workforce in how we arrive at such decisions.

As a Sub-Committee, where possible, we align with the requirements of the 2018 UK Corporate Governance Code ("the Code") to ensure we maintain remuneration best practice. As a Sub-Committee we have overseen all revisions of our remuneration policies and practice. We have also considered reporting requirements contained in the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2013, which apply to listed companies. Whilst, given our mutual status we are not governed by these regulations, we believe greater levels of disclosure and transparency will help members to better understand how our reward strategy supports their interests and OneFamily's overall business objectives.

Key decisions of the Remuneration Committee in 2019

The Sub-Committee has considered performance against agreed metrics in line with the remuneration policy and, after having considered reports from the Chairs of the Risk and Audit Sub-Committees, have agreed variable pay (bonus) budgets and recommendations for bonus to be paid based on 2019 business performance.

A fundamental principle of our approach to variable remuneration is that there is a balance between financial and non-financial metrics when assessing individual performance (i.e. behaviours). We are confident that principle applies to the Short-Term Incentive Scheme. The Committee has made some further adjustments to the constituent elements of the Long-Term Incentive Scheme to now incorporate a combination of capital growth, new sales, customer and employee metrics. These adjustments were made to support the achievement of the long-term business strategy and align with relevant remuneration regulations.

As committed in my report last year, we have reviewed all base salaries across the business to ensure that everyone is paid above the Voluntary Living Wage. We also undertook the process to select and appoint a new CEO and CFO which was critical activity to ensure we secured key leadership skills and experience to lead OneFamily.

Areas of focus for 2020

We remain committed to best practice remuneration policies and wider HR-led initiatives on behalf of all our staff in 2020. We will continue to focus on Diversity and Inclusion initiatives and will be working hard with our HR teams to support the alignment of our culture with OneFamily's purpose and strategy.

Conclusion

The Sub-Committee is very aware of its responsibility to balance different perspectives when it comes to making judgements on executive director and executive pay. At the same time, we need to be sure to attract, and retain a high calibre of talent in what is a very competitive financial services market.

The Sub-Committee is satisfied the reward structure continues to attract and retain the talent that OneFamily needs to deliver its strategy and continue the long-term success of OneFamily for our members.

Graham Lindsay
Chairman of the Remuneration Sub-Committee
6 April 2020

Directors' remuneration policy

OneFamily's purpose is to create and protect value for our members. Our remuneration policy reflects this purpose, our culture and strategy and is formally set by the Board, overseen by the Remuneration Sub-Committee, and aligned to the requirements of the Remuneration Code (the latter governed by the Financial Conduct Authority). The policy is designed to attract, motivate and retain executives and colleagues with the relevant skills to help achieve OneFamily's objectives, and to ensure that all are appropriately rewarded for enhancing the level of service that we provide to our customers and members. It is also designed to achieve a direct correlation between reward and performance whilst not encouraging undue risk taking or inappropriate behaviours. The Sub-Committee has full oversight of our remuneration policies and practice and can apply appropriate discretion where any risk, performance or behaviour is contrary to our policies.

OneFamily believes it is important that its mutual status is reflected in its remuneration policy. Variable remuneration schemes (both short and long-term incentives) are designed to be clear, measurable and aligned to our members' interests by rewarding performance against key criteria that are important to our members.

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

Remuneration policy table

The following table sets out the main elements of the remuneration policy currently in place for executive directors:

Element	Purpose	Operation	Potential value
Base salary	To provide a competitive level of base salary, reflecting the skills and experiences required and reward ongoing contribution to the role.	Base salaries reflect individuals' skills and experience and are reviewed annually in the context of annual performance assessment. They are determined by the scope and responsibilities of each role, individual performance and by reference to appropriate market rates obtained from external sources. This is the only element of remuneration which is pensionable.	Base salary increases are assessed annually, along with other colleagues, with reference to market rates and consideration of affordability. Higher increases may be awarded, for example, for an increase in scope or responsibilities.
Benefits	To provide a range of market competitive benefits that are valued.	Includes private medical insurance and life cover.	Benefits are provided in line with the market.
Pensions	To encourage planning for retirement and long-term savings.	Eligible to participate in the defined contribution pension plan. Where contributions exceed the annual or lifetime allowance, executive directors may be permitted to take a cash alternative in place of contributions.	Pension contributions in line with pension scheme rules or cash supplement for executive directors. Executive Director pension contribution rates align with the rates applicable to the wider workforce.
Short-term incentive scheme	To drive and reward performance against annual financial, non-financial and individual objectives which are consistent with the business strategy and align to members' interests. The short-term incentive scheme is designed to drive the right behaviours to ensure consistency with OneFamily's purpose, values and strategy.	Short-term incentive awards are linked to annual individual performance against agreed objectives and business performance using balanced scorecards. Performance is assessed against key criteria including customer service, financial and operational performance, cost control, colleague engagement and risk control. Awards are paid over three years, with 40% of any short-term incentive earned being deferred and payable in two equal parts on the first and second anniversary of the initial payment. Short-term incentive is subject to malus and clawback provisions. Malus provisions will apply to an unvested award and clawback provisions will apply to the vested amount for three years following the vesting of such awards.	The potential maximum award for current executive directors is: Chief Executive – 100% potential maximum opportunity of base salary. Chief Finance Officer – 50% potential maximum opportunity of base salary. Chief Commercial Officer – 50% potential maximum opportunity of base salary. 50% of the maximum potential award is paid for achievement of budgeted targets and up to 100% of the maximum potential award is paid for achievement of stretch targets. Ultimately, any payment under the scheme is at the discretion of the Remuneration Sub-Committee and is subject to malus and clawback conditions. Individuals will not be rewarded for poor performance.

Element	Purpose	Operation	Potential value
Long-term incentive scheme	To incentivise sustainable long-term alignment with member interests. The long-term incentive scheme is designed to drive the right behaviours to ensure consistency with OneFamily's purpose, values and strategy.	Performance will be assessed (over three years) considering factors including capital growth, cost efficiency, new sales, customer, colleagues and risk. 50% of the long-term incentive award shall be made only upon the third anniversary of the completion of the financial year in which the award is made. The remaining 50% of any long-term incentive earned will be deferred and is payable in two equal parts on the first and second anniversary of the initial payment. Long-term incentive awards are subject to malus and clawback provisions. Malus provisions will apply to an unvested award and clawback provisions will apply to the vested amount for three years following the vesting of such awards.	The potential maximum award for current directors is: Chief Executive – 100% of base salary. Chief Finance Officer – 50% of base salary. 50% of the maximum potential award is paid for achievement of budgeted targets and up to 100% of the maximum potential award is paid for achievement of stretch targets. Ultimately, any payment under the scheme is at the discretion of the Remuneration Sub-Committee and is subject to malus and clawback conditions. Individuals will not be rewarded for poor performance.

Other policy elements

Element	Potential value
Policy for new appointments	The policy adopted for the recruitment of new executive directors aims to be competitive and to structure remuneration in line with the framework applicable to current executive directors, based on the remuneration elements detailed in the policy table.
Notice periods	It is the Group's policy that the notice period of executive directors' service contracts should not exceed one year and any compensation for loss of office should not exceed 12 months' remuneration. None of the non-executive directors has a service contract, they have letters of appointment.
Leavers	The Remuneration Sub-Committee has the discretion to determine an appropriate short or long-term incentive award taking into consideration the circumstances in which an executive director leaves. No award will be made unless the executive director is determined to be a 'good leaver'. For a 'good leaver' the Remuneration Sub-Committee has the discretion to make awards on such basis as it deems appropriate (this could include pro-rating for time and performance). Awards will vest at the usual date subject to the usual deferral periods.
Good leaver	A good leaver for the purposes of the variable pay will be any executive director who leaves employment for reasons of: Death, redundancy, disability or ill-health, retirement or any other reason the Remuneration Sub-Committee so decides.
Legacy arrangements	OneFamily may continue to honour any previous commitments or arrangements entered into with current or former executive directors that may have different terms, including terms agreed prior to appointment as an executive director.

Remuneration for the Chairman and non-executive directors

Element	Purpose	Operation	Potential value
Fees	To reflect the required skills, experience and time commitment.	Fees are paid monthly. No variable pay is provided so that the Chairman and non-executive directors can maintain appropriate independence.	The rates for the year are set out in the annual report on remuneration.
Expenses	To provide a level of expenses in line with market practice.	Reimbursement of reasonable out-of-pocket expenses.	The terms and reimbursement of travel and other expenses is aligned with the OneFamily's expenses policy.

Non-executive directors' fees

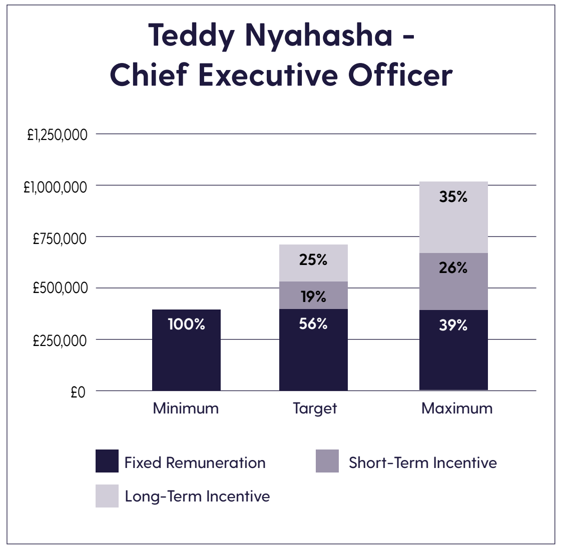
Non-executive directors receive a base fee and an additional fee for chairmanship of a sub-committee and/or holding the position of Senior Independent Director. They are reimbursed for reasonable expenses, paid in accordance with OneFamily's expenses policy.

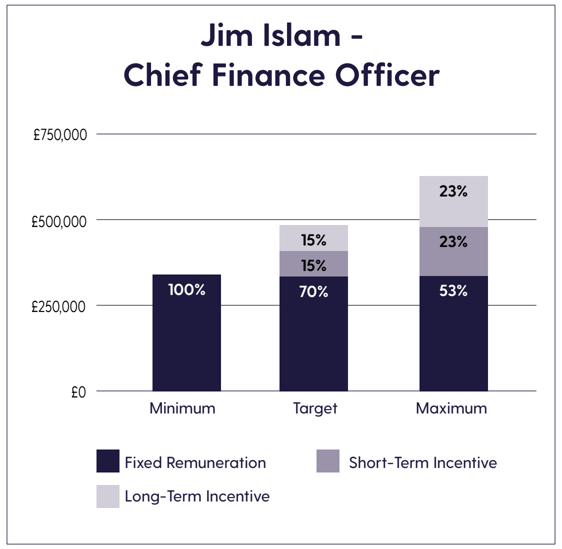
These fees are set at a level that reflects the market and is sufficient to attract individuals with appropriate knowledge and experience to support the Group in progressing its strategy. The non-executive directors do not participate in any OneFamily pension or variable remuneration arrangements.

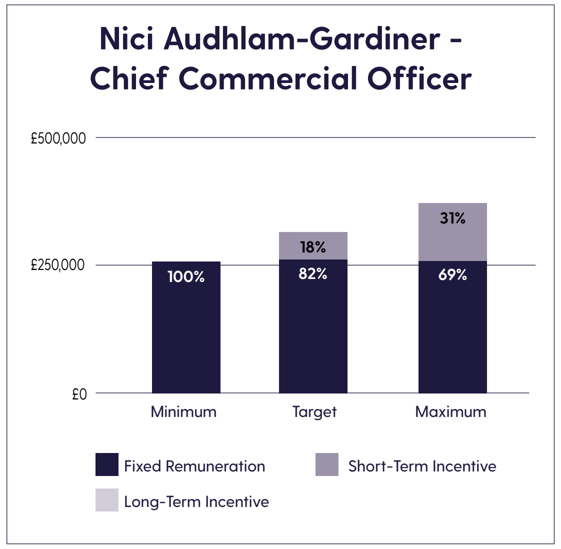
Illustration of remuneration policy for 2020

The charts right illustrate the amounts that executive directors would be paid under three different performance scenarios:

- **Minimum** – fixed remuneration elements only (base salary, benefits and pension)
- **Target** – assumes target levels of performance are achieved
- **Maximum** – assumes that stretch levels of performance are achieved







Pay policy for other colleagues

OneFamily is committed to attracting, developing and retaining talent to drive and support the delivery of its long-term vision and strategy. Relevant reward and recognition is an important factor in achieving the business objectives. Remuneration arrangements continue to promote effective collaboration, engagement and drive behaviours that are consistent with our purpose, values and strategy.

The principles on remuneration for the executive directors of OneFamily are reflected in the remuneration policy for all colleagues, where:

- Base salaries are determined by the scope and responsibilities of the role, individual performance, and by reference to external market data
- Performance and remuneration processes are designed to recognise both business performance and individual performance (considering a balance of financial and non-financial criteria)
- The remuneration processes are designed to recognise and differentiate high performance
- Decisions on remuneration are balanced, measuring capability, performance and behaviour against market rate value, and weighed against affordability
- Our remuneration structures and processes are fair and transparent, and meet the requirements of all relevant regulatory obligations
- Executive remuneration is aligned to company purpose, our values, and is linked to the successful delivery of OneFamily's long-term strategy
- We do not discriminate on the grounds of gender, race, age, physical ability, sexual orientation, religion, religious belief or nationality

Annual report on remuneration

Single total figure of remuneration for each director

The remuneration of the directors of OneFamily for the year-ended 31 December 2019 and the previous year is set out in the tables below. This is audited information.

Board of Directors remuneration

	Salary/Fees		Short-Term Incentive Scheme		Long-Term Incentive Scheme		Other Benefits[2]		Total remuneration	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000	**2019 £'000**	2018 £'000
Executives										
Simon Markey[1]	460	460	313	310	347	416	86	117	1,206	1,303
Teddy Nyahasha	300	250	168	154	120	93	38	40	626	537
Non-executives										
Christina McComb	115	112	–	–	–	–	–	–	115	112
Peter Box[3]	25	57	–	–	–	–	–	–	25	57
Ian Buckley	62	65	–	–	–	–	–	–	62	65
Steve Colsell	61	57	–	–	–	–	–	–	61	57
Graham Lindsay	63	59	–	–	–	–	–	–	63	59
Sally Williams	54	–	–	–	–	–	–	–	54	–
Nigel Masters[4]	–	22	–	–	–	–	–	–	–	22
	1,140	**1,082**	**481**	**464**	**467**	**509**	**124**	**157**	**2,212**	**2,212**

1 Plus £345k for contractual notice period payable in 2020

2 Other benefits include for example pension costs, private medical insurance paid for by the company, taxable expenses and a grossed-up payment for the associated tax due on these taxable expenses claimed (taxable expenses include for example travel between offices)

3 Resigned 05.06.2019

4 Resigned 06.06.2018

Individual elements of remuneration

- **Salary/fees** – base salary for executive directors and annual fees for non-executive directors
- **Short-term incentive scheme** – includes the short-term incentive award based on performance in the reporting year. This bonus will be paid in the three years following the reporting period in accordance with the scheme rules. A detailed breakdown showing payments made and outstanding in relation to this scheme can be seen in the incentive schemes section overleaf
- **Long-term incentive scheme** – includes the award for the long-term incentive scheme which considers performance over a three-year period ending in the reporting year. This bonus will be paid in the three years following the reporting period in accordance with the scheme rules. A detailed breakdown by performance period can be seen in the incentive schemes section overleaf
- **Other benefits** – include pension contributions, private health insurance and cash payments in lieu of pension due to fixed protection into the Stakeholder Pension Scheme. Also included are taxable expenses, for example travel between offices and the associated taxation

Incentive schemes

Short-term incentive scheme

	Value of deferred bonus as at 31 Dec 2018 £'000	Bonus paid during 2019 £'000	Bonus vested in 2019 to be paid in 2020 £'000	Bonus vested in 2019 but payment deferred to 2021/2022 £'000	Value of deferred bonus at 31 Dec 2019 £'000
Simon Markey Performance period					
2016	75	(75)	–	–	–
2017	129	(64)	–	–	65
2018	310	(186)	–	–	124
2019	–	–	188	125	313
	514	(325)	188	125	502
Teddy Nyahasha Performance period					
2016	9	(9)	–	–	–
2017	42	(21)	–	–	21
2018	154	(92)	–	–	62
2019	–	–	101	67	168
	205	(122)	101	67	251
Total	**719**	**(447)**	**289**	**192**	**753**

Long-term incentive scheme

	Value of deferred bonus as at 31 Dec 2018 £'000	Bonus paid during 2019 £'000	Bonus vested in 2019 to be paid in 2020 £'000	Bonus vested in 2019 but payment deferred to 2021/2022 £'000	Value of deferred bonus at 31 Dec 2019 £'000
Simon Markey Performance period					
2014-2016	97	(97)	–	–	–
2015-2017	211	(106)	–	–	105
2016-2018	416	(208)	–	–	208
2017-2019	–	–	174	173	347
Total	**724**	**(411)**	**174**	**173**	**660**
Teddy Nyahasha Performance period					
2016-2018	92	(47)	–	–	45
2017-2019	–	–	60	60	120
	92	(47)	60	60	165
Total	**816**	**(458)**	**234**	**233**	**825**

Total bonuses vested in the year	2019 £'000	2018 £'000
Simon Markey		
Long-term incentive scheme	347	416
Short-term incentive scheme	313	310
	660	726
Teddy Nyahasha		
Long-term incentive scheme	120	92
Short-term incentive scheme	168	154
	288	246
Total Executive Directors bonuses vested in year	**948**	**971**

Further information on individual remuneration elements: non-executive directors' fees

Non-executive directors' fees are reviewed annually in light of responsibilities and with reference to market competitive ranges. The table opposite sets out the fee levels for non-executive director roles which were in place during the year.

Non-executive director fees are made up of a base fee, plus a sub-committee chairman fee as appropriate. The Chairman of the Board does not receive any additional fees.

Non-executive director fees structure	2019 £'000	2018 £'000
Chairman	115	115
Base fee	48	48
Vice chair	60	60
Audit Sub-Committee chairman	10	10
Risk Sub-Committee chairman	10	10
Remuneration Sub-Committee chairman	10	10
Investment & Product Sub-Committee chairman	5	5
Member and Customer Sub-Committee chairman	5	5
With-Profits Sub-Committee chairman	2.5	2.5

CEO Pay Ratio

For the first year we are publishing the ratio of the Chief Executive's pay to the wider employee population. This ratio compares the total remuneration of the Chief Executive against the total remuneration of the median employee and those who sit at the 25th and 75th percentiles (lower and upper quartiles).

Remuneration element	25th Percentile pay ratio	Median pay ratio	75th Percentile pay ratio
Total remuneration	34:1	23:1	15:1
Fixed Pay	22:1	15:1	11:1

CEO pay ratio methodology:

- The calculation is based on Option A as set out in the UK Corporate Governance Code regulations.
- Total remuneration and fixed pay calculations use employee pay data as at 31 December 2019.
- The colleagues identified at each quartile are entitled to the staff bonus scheme only and are not eligible to take part in the Short-Term and Long-Term Incentive Plans.
- The fixed pay figures are based on full-time equivalent base pay. The figures do not factor in deductions for salary sacrifice schemes.
- The total remuneration figures are based on full time equivalent base pay and employer pension contributions, healthcare costs, overtime, standby and on-call payments, car and travel allowances, staff bonus in 2019, sales bonus, STIP 2019 Bonus and LTIP Bonus (2017-2019 scheme only). The figures do not factor in deductions for salary sacrifice schemes.

Payments to past directors

No payments have been made to past directors in 2019 other than:

- Retirement benefits payable to previous executive directors
- Retained short-term and long-term incentive scheme payments paid to 'good' leavers

Employee expenditure of relative importance

Employee costs form a significant element of Group expenditure, representing 44% of the net operating expenses

Relative importance of spend on pay	2019 £m	2018 £m	Change %
Net operating expenses	70.6	74.9	-5.6%
Overall staff costs	31.4	28.9	8.3%

Remuneration Sub-Committee members and advisers

The Remuneration Sub-Committee considers external data from independent national surveys of the financial services sector, FTSE 250 companies and a comparator group of financial institutions to ensure remuneration remains competitive. The Sub-Committee also considers regulatory compliance, best practice for remuneration and market practice. The Remuneration Sub-Committee also draws on the advice of independent external consultants when required to support in performing its duties. The Sub-Committee is satisfied that the advice received is objective and independent.

Graham Lindsay
Chairman of Remuneration Sub-Committee
6 April 2020

Independent auditor's report

to the members of Family Assurance Friendly Society Limited

1. Our opinion is unmodified

We have audited the financial statements of Family Assurance Friendly Society Limited (the "Society") for the year ended 31 December 2019 which comprise the Group and Society Statement of Income and Expenditure Accounts, the Group and Society Statements of Other Comprehensive Income, the Group and Society Statements of Changes in Equity, the Group and Society Statements of Financial Position, and the related notes, including the Statement of Accounting Policies.

In our opinion the financial statements:

- give a true and fair view, of the state of affairs of the Group and of the Society as at 31 December 2019 and of the income and expenditure of the Group and of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland;* and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the directors on 25 May 2015. The period of total uninterrupted engagement is for the five financial years ended 31 December 2019.

We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard applicable to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole		£3.5m (2018: £6.0m) 1.8% (2018: 3.1%) of retained earnings and funds for future appropriations
Coverage		93% (2018:100%) of Group profit before tax
Key audit matters		**vs 2018**
Recurring risk	Valuation of long term business provision	◄►

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matter in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

	The risk	Our response
Valuation of long term business provision (£284 million; 2018: £262 million) *Refer to page* ***55*** *(Audit Committee Report), page* ***96*** *(accounting policy) and page* ***131*** *–* ***133*** *(financial disclosures)*	**Subjective valuation:** The Group has significant liabilities for long term insurance business representing 16.8% of the Group's total liabilities based on 31 December 2019 results. The valuation of the long term business provision is an area that involves significant judgement over uncertain future outcomes; the actuarial liabilities are highly sensitive to the underlying assumptions set by management. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of long term business provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Key FRS 102 assumptions include: • Demographic assumptions (base mortality, mortality improvement, and persistency) which are determined by reference to the Group's own experience and expected changes to future mortality or policyholder behaviour; • Valuation interest rates which are determined using the 'risk free' gilt yields, expected inflation, the credit default allowance, and the yield on the Group's investment assets; and • The expected level of future expenses which is based on the expected future costs of administering the underlying policies. This key audit matter, along with our corresponding response and findings, applies to both the Group and Society financial statements.	We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: — **Control design and operation :** We tested the design, implementation and operating effectiveness of key controls over management's valuation processes. This included the change management controls over the actuarial models. — **Methodology choice:** We challenged management's process for selecting the assumptions and for calculating the long term business provision. This included: • Assessing the methodology adopted for selecting the assumptions by applying our industry knowledge and experience and comparing the methodology used against standard industry actuarial practice; and • Evaluating the analysis of the movements in the long term business provision during the year, including consideration of whether the movements were in line with our expectations based upon the methodology and assumptions adopted. — **Evaluation of key assumptions:** We challenged the Group's rationale when deriving the key FRS 102 demographic assumptions by comparing to wider industry practice and our own expectations derived from market experience. We evaluated the appropriateness of the valuation interest rates by comparing key inputs such as the 'risk free' gilt yield and implied inflation rate to externally sourced data. We checked that the valuation interest rates have been derived in line with management's methodology. We also assessed whether the allowance for credit default risk is reasonable given market benchmarks. We critically assessed whether the expense assumptions reflect the expected future costs of administering the underlying policies, in particular assessing the cost base is allocated in an appropriate manner between the different products, funds and different cost types. Continued over page

2. Key audit matters: our assessment of risks of material misstatement (continued)

The risk	Our response
	— **Assessing transparency:** We considered whether the Group's disclosures in relation to the assumptions used in the valuation of the long term business provision are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs. **Our results** We found the valuation of long term business provision to be acceptable (2018: acceptable).

We continue to perform procedures over the impact of uncertainties due to the UK exiting the European Union. However, as a result of developments since our prior year report, the relative significance of this matter on our audit work, including in relation to the Valuation of long term business provision, has reduced and, therefore, it is not separately identified in our report this year.

We also continue to perform procedures over the Valuation of hard to value (level 3) investments. However, as a result of the Group's divestment of its hedge fund holdings over the course of 2019, we have revised our preliminary assessment of the key audit matters affecting our audit and do not separately identify this matter in our report this year.

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £3.5m (2018: £6.0m), determined with reference to a benchmark of retained earnings and Funds for Future Appropriations ("FFA") of which it represents 1.8% (2018: 3.1%).

We consider retained earnings and FFA to be the most appropriate benchmark as it represents the members' aggregated underlying interests, as well as capital to further develop the business.

Materiality for the Society financial statements as a whole was set at £3.4m (2018: £5.9m), determined with reference to a benchmark of retained earnings and FFA, of which it represents 1.7% (2018: 3.0%).

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.2m (2018: £0.3m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 (2018: 12) reporting components, we subjected 1 (2018: 12) to full scope audit for Group purposes and 3 (2018: none) to specified risk-focused audit procedures. The latter were not individually financially significant enough to require a full scope audit for group purposes, but did present specific individual risks that needed to be addressed.

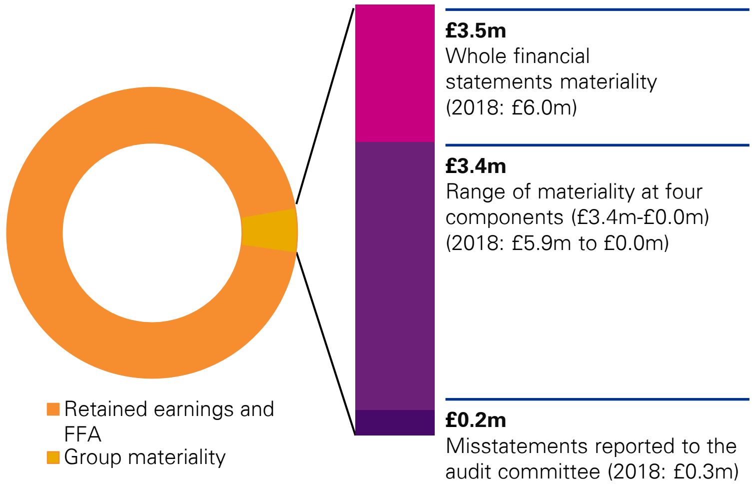
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 7% of total group revenue, 7% of group profit before tax and 7% of total group assets is represented by eight reporting components, none of which individually represented more than 10% of any of total group revenue, group profit before tax or total group assets. For these residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

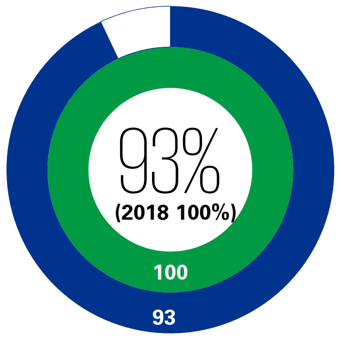
The work on these components was performed by the Group team at the Group's head office in Brighton.

Retained earnings and FFA
£193.4m (2018: £194.1m)

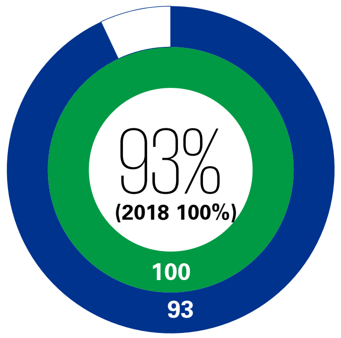
Group Materiality
£3.5m (2018: £6.0m)



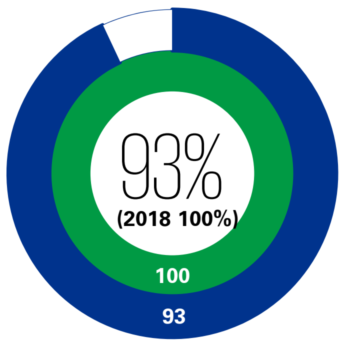
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2019
Full scope for group audit purposes 2018
Residual components

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Society or the Group or to cease their operations, and as they have concluded that the Society's and the Group's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Society will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Society's business model and analysed how those risks might affect the Group's and Society's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Society's available financial resources over this period were :

- A deterioration in economic environment or mortality experience which would drive the assumptions underlying the actuarial reserves; and
- A deterioration in the valuation of the Group and of the Society's investment arising from a significant change in the economic environment.

As these were risks that could potentially cast significant doubt on the Group's and the Society's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts which could result in a rapid reduction of available financial resources.

Based on this work, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

5. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Report of the Directors

Based solely on our work on the other information:

- we have not identified material misstatements in the Report of the Directors;
- in our opinion the information given in that report for the financial year is consistent with the financial statements; and
- in our opinion that report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

6 . We have nothing to report on the other matters on which we are required to report by exception

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

— adequate accounting records have not been kept;

— the financial statements are not in agreement with the accounting records; or

— we have not received all the information and explanations and access to documents that we require for our audit.

We have nothing to report in these respects.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 61 – 62, the Directors are responsible for: preparing financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or other irregularities (see below), or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the directors (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors the policies and procedures regarding compliance with laws and regulations. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related friendly society legislation) and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and certain aspects of friendly society legislation recognising the financial and regulated nature of the Group's activities and its legal form. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. The purpose of our audit work and to whom we owe our responsibilities

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

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
E14 5GL
6 April 2020

Consolidated financial statements 2019

Group and Society statement of income and expenditure accounts for the year ended 31 December 2019

Technical account **Long-term business**	Notes	**Group 2019 £'000**	Group 2018 £'000	**Society 2019 £'000**	Society 2018 £'000
Earned premiums, net of reinsurance					
Gross premiums written	3	**39,293**	39,470	**39,293**	39,470
Outward reinsurance premiums	3	**(11,505)**	(11,291)	**(11,505)**	(11,291)
Investment income	4	**107,174**	106,260	**113,215**	111,017
Unrealised gains/(losses) on investments	4	**88,520**	(196,201)	**83,591**	(196,201)
Other technical income	11	**3,571**	8,527	**6,916**	10,557
Claims incurred, net of reinsurance					
Gross claims incurred	5	**(40,962)**	(37,336)	**(40,962)**	(37,336)
Outward claims reinsurance	5	**12,197**	11,623	**12,197**	11,623
Change in long-term business provision, net of reinsurance	20	**(8,489)**	10,314	**(8,489)**	10,314
Change in gross liability for investment contracts	21	**(163,956)**	93,992	**(163,956)**	93,992
Other technical charges		**(2,954)**	(6,594)	**(2,954)**	(6,594)
Goodwill and intangibles amortisation	14, 20	**(2,784)**	(3,351)	**(2,784)**	(3,351)
Net operating expenses	7	**(23,633)**	(31,168)	**(23,633)**	(31,168)
Investment expenses and charges	4	**(3,068)**	(1,992)	**(3,068)**	(1,992)
Taxation credit	13	**828**	2,025	**828**	2,025
Transfer (to)/from the fund for future appropriations		**(2,765)**	10,407	**(2,765)**	10,407
Balance on the long-term business technical account		**(8,533)**	(5,315)	**(4,076)**	1,472

The notes to the financial statements on pages 102 to 147 are an integral part of these financial statements.

Group and Society statement of income and expenditure accounts (continued) for the year ended 31 December 2019

Non-technical account	Notes	**Group 2019 £'000**	Group 2018 £'000	**Society 2019 £'000**	Society 2018 £'000
Balance on the long-term business technical account		**(8,533)**	(5,315)	**(4,076)**	1,472
Other income	12	**55,269**	51,614	**–**	–
Net operating expenses	7	**(46,990)**	(43,684)	**–**	–
Goodwill and intangibles amortisation	14	**(4,751)**	(1,533)	**–**	–
Excess of income over expenditure on ordinary activities before tax		**(5,005)**	1,082	**(4,076)**	1,472
Tax on excess of income over expenditure on ordinary activities	13	**(33)**	(883)	**–**	–
Excess of income over expenditure after tax		**(5,038)**	199	**(4,076)**	1,472

The notes to the financial statements on pages 102 to 147 are an integral part of these financial statements.

Group and Society statement of other comprehensive income
for the year ended 31 December 2019

	Notes	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Excess of income over expenditure after tax		**(5,038)**	199	**(4,076)**	1,472
Remeasurement of defined benefit scheme	26	**(400)**	100	**(400)**	200
Unrealised gain on property revaluation	15	**1,964**	–	**1,964**	–
Total recognised (loss)/profit in the year	25	**(3,474)**	299	**(2,512)**	1,672

Group and Society statement of changes in equity
for the year ended 31 December 2019

	Notes	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Retained earnings					
Reported at 1 January		**160,929**	160,630	**164,578**	162,906
Total recognised (loss)/profit in the year		**(3,474)**	299	**(2,512)**	1,672
As at 31 December		**157,455**	160,929	**162,066**	164,578

The notes to the financial statements on pages 102 to 147 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2019

Assets	Notes	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Intangible assets					
Goodwill	14	**1,689**	1,975	**602**	717
Other intangible assets	14	**3,902**	8,619	**458**	596
Investments					
Investment in land and buildings	15	**11,770**	9,806	**11,770**	9,806
Investment in group undertakings	16	**–**	–	**21,336**	24,266
Non-linked financial investments	17	**272,577**	254,566	**272,577**	254,566
Assets held to cover linked liabilities	17	**1,211,259**	1,154,219	**1,211,259**	1,154,219
Debtors	17, 18	**15,045**	13,216	**19,471**	17,610
Reinsurers' share of technical provisions					
Long-term business provision	20	**115,783**	101,783	**115,783**	101,783
Other assets					
Tangible assets	19	**454**	793	**410**	644
Cash at bank	17	**49,929**	60,309	**33,905**	42,868
Deferred taxation	13	**287**	320	**–**	–
Prepayments and accrued income					
Accrued interest and rent		**2,978**	2,807	**979**	1,134
Other prepayments and accrued income		**1,516**	1,659	**1,516**	1,659
Total assets		**1,687,189**	1,610,072	**1,690,066**	1,609,868
Net pension asset	26	**–**	–	**–**	–
Total assets including the pension asset		**1,687,189**	1,610,072	**1,690,066**	1,609,868

The notes to the financial statements on pages 102 to 147 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2019

Liabilities	Notes	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Retained earnings	25	**157,455**	160,929	**162,066**	164,578
Fund for future appropriations (FFA)	24	**35,939**	33,174	**35,939**	33,174
Technical provisions					
Long-term business provision	20	**246,700**	221,723	**246,700**	221,723
Claims outstanding	20	**6,391**	5,623	**6,391**	5,623
Technical provision for linked liabilities	21	**1,211,241**	1,154,219	**1,211,241**	1,154,219
Deposits from reinsurers		**3,448**	7,284	**3,448**	7,284
Creditors					
Creditors arising out of insurance operations	22	**982**	3,106	**982**	3,106
Other creditors including taxation and social security	23	**6,050**	7,089	**7,338**	7,191
Accruals and deferred income		**18,983**	16,925	**15,961**	12,970
Total liabilities		**1,687,189**	1,610,072	**1,690,066**	1,609,868

The notes to the financial statements on pages 102 to 147 are an integral part of these financial statements.

The financial statements were approved at a meeting of the Board of Directors on 6 April 2020 and signed on its behalf by:

Teddy Nyahasha
Chief Executive Officer

Christina McComb
Chairman

Simon Allford
Secretary

Statement of accounting policies

A. Statement of compliance

The Group and individual financial statements of the Society have been prepared in compliance with the Friendly Societies (Accounts and Related Provisions) Regulations 1994 and the Friendly Societies Act 1992.

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102) and Financial Reporting Standard 103 "Insurance contracts" (FRS 103) as they apply to the financial statements of the Group and the Society for the year ended 31 December 2019.

B. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these Group and individual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

C. Basis of preparation

These Group and individual financial statements have been prepared on the going concern basis supported by an assessment of the Group's forecast profitability and capital resilience over the period of at least 12 months from the date of approval of these financial statements. In assessing going concern and the long-term viability of the Society and the Group, the Board have taken account of the COVID-19 pandemic in early 2020. The Board have considered the consequence of the stock market falls, continued stock market volatility experienced in early 2020 and also the effect on business operations as a result of the pandemic. This included assessment of the Group's financial resilience (including solvency and liquidity) and sensitivities to further equity, interest rate and credit spread changes. The Group's operational resilience has also been considered by the Board in the assessment of going concern.

They have also been prepared under the historical cost convention, as modified by the recognition of certain financial assets and liabilities measured at fair value.

The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1k.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to use judgement in applying the Group's and Society's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

The Group (and Society) is exempt from preparing a cash flow statement due to its status as a mutual life assurance company.

D. Business combinations and goodwill

Business combinations are accounted for by applying the purchase method. The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction. Any contingent consideration is initially recognised at an estimated amount where the consideration is probable and can be measured reliably.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values of the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

Goodwill is amortised over its expected useful life. Where the Group is unable to make a reliable estimate, goodwill is amortised over a period not exceeding 10 years. Goodwill is assessed for impairment when there are indicators of impairment. Impairment is charged to the income and expenditure account. Reversals of impairment are recognised when the reasons for impairment no longer apply.

The accounting policies in relation to the acquired assets and liabilities are harmonised with those of the Group.

For those transactions where there is insufficient guidance in UK GAAP, the Group looks to the guidance in IFRS 3 Business Combinations.

E. Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities, and results of the Society and its subsidiary undertakings drawn up to 31 December each year. A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary results to apply the Group's accounting policies when preparing the consolidated financial statements.

Any subsidiary undertakings sold or acquired during the year are included up to, or from the date of change of control.

Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated statement of income and expenditure accounts. The gain or loss also includes amounts included in other comprehensive income that are required to be reclassified to the income and expenditure account but excludes those amounts that are not required to be reclassified.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. The Group does not recognise customer funds under management, including CTF assets, in its statement of financial position as it is neither exposed to the risks and rewards of ownership nor does it receive the investment returns generated from those assets held in trust accounts.

F. Discontinued operations

The Group recognises as discontinued operations components which have been disposed of which represented either:

- A separate major line of business or geographical area of operation, which were part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation or;
- A subsidiary which was acquired exclusively for resale.

G. Classification of contracts

The Group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract. Such contracts which may also transfer financial risk, remain insurance contracts until all rights and obligations are extinguished or expire.

Contracts that are not classified as insurance contracts are investment contracts. Investment contracts are those contracts that transfer financial risk with no significant insurance risk. Unit-linked contracts, where the liability under the contract is dependent on the value of the underlying financial assets, are classified as investment contracts unless the contracts also contain features that transfer significant insurance risk.

Contracts initially classified as investment contracts can be reclassified as insurance contracts after inception, if insurance risk becomes significant.

Amounts received from and paid to policyholders of investment contracts are accounted for as deposits received (or repaid) and are not included in the premiums and claims in the Technical account – Long-term business. For unit-linked contracts the related liability is established on the due date for payment. Fees for investment management and other services are recognised in the Technical account – Long-term business in the period in which the services are provided. The liability for the unit-linked business is disclosed in the Statement of financial position as 'Technical provisions for linked liabilities'.

The above approach for accounting for investment contract deposits and withdrawals is generally referred to as 'deposit accounting.'

A number of contracts issued by the Group contain a discretionary participation feature (DPF). Such features entitle the contract holder to receive, as a supplement to guaranteed benefits, a minimum percentage of the surplus arising in designated funds. The percentage allocated to contract holders may be higher and the timing of the allocation and/or the amount of the benefits to individual contract holders is to some extent at the discretion of the Group. Investment contracts with DPFs are recognised and measured in the same way as insurance contracts.

H. Long-term business

Premiums
Long-term insurance business premiums relating to insurance contracts, including reinsurance premiums, are recognised when they become due for payment. New business premiums, including single premiums, are recognised when they are received.

Claims
For insurance contracts, death claims are accounted for when notified to the Group. Annuity payments are recorded when due. Maturities and surrenders are recorded on the earlier of the date when paid or when the policy ceases to be included within the long-term business provision. Reinsurance recoveries are credited to match the relevant gross amounts.

The provision for outstanding claims represents the total estimated ultimate cost to the Group of settling all incurred insurance contract claims arising from notified events that have occurred up to the end of the financial year, less amounts already paid in respect of such claims.

Deferred acquisition costs
In certain cases directly attributable costs of acquiring new insurance contracts are deferred. Such costs are disclosed as an asset in the statement of financial position. The deferred acquisition costs are amortised in line with the expected life of the policies.

Policyholder liabilities
See accounting policy O - 'Valuation of insurance liabilities' and policy P – 'Linked investment contracts'.

Reinsurance
Long-term insurance business is ceded to reinsurers under contracts to transfer part or all of one or more of the following risks: mortality, morbidity and lapse.

Amounts recoverable from reinsurers are estimated based upon the related gross insurance provisions, having due regard for collectability. The recoverability of reinsurance assets is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, disclosed in Note 5, reflects the amounts received and receivable from reinsurers in respect of claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Technical Account – Long-term business when payable.

I. Investment income and unrealised gains and losses on investments ('investment return')

Investment return comprises all investment income, realised gains and losses and movements in unrealised gains and losses, net of investment expenses.

Dividends on equity holdings are included as investment income on the date the equity shares are quoted ex dividend and are stated net of the dividend withholding tax. Interest, including mortgage interest, rent and expenses are accounted for on an accruals basis or using the effective interest method as appropriate.

Dividends on accumulation shareholdings in open ended investment companies (OEICs) and accumulation unit holdings in unit trusts are included as investment income on the date the dividend voucher is received.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the fair value at the statement of financial position date and their purchase price or their fair value at the last statement of financial position date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

J. Financial instruments

The Group has chosen to adopt Sections 11 Basic Financial Instruments and 12 Other Financial Instruments Issues of FRS 102 in respect of financial instruments.

The Group classifies its financial instruments as either financial assets at fair value, with adjustments through income and expenditure, or loans and receivables.

Basic financial instruments

Financial assets and liabilities

Basic financial assets including trade and other debtors, and cash and bank balances, are recognised initially at transaction price plus attributable transaction costs. Basic financial liabilities including trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses (for financial assets). At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is calculated as the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the income and expenditure accounts.

Loans and receivables, comprising secured and other loans are carried at amortised cost using the effective interest method. To the extent that the loan is uncollectable, it is written off as impaired in the long-term business account. Subsequent recoveries are credited back to the long-term business technical account.

Where an arrangement constitutes a financing transaction, for example, if payment is deferred beyond normal business terms, then the financial liability is measured at the present value of future payments discounted at a market rate of interest for a similar debt instrument.

Financial assets held at fair value through income and expenditure

The Group initially measures other financial assets including investments in equity instruments which are not subsidiaries at fair value, usually the transaction price excluding transaction costs. Such assets are subsequently carried at fair value and the changes in fair value are recognised in income and expenditure. The Group's methodology for determining the fair value of financial assets is as follows:

- Listed and other quoted investments are carried at stock exchange bid values at the statement of financial position date
- Linked investments, including redeemable debt and other fixed income securities, and listed and other quoted investments, are stated at bid price
- Unlisted investments are carried at fair value as determined by the Directors

In compliance with FRS 102, the Group discloses in Note 17 for each class of financial instrument held at fair value in the statement of financial position, an analysis of the level in the fair value hierarchy into which the fair value measurements are categorised. The three levels applied are summarised below:

Valuation methodology	Level
Using the unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.	1
Using inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.	2
Using inputs that are unobservable (i.e. for which market data is unavailable) for the asset or liability.	3

Recognition and de-recognition of financial instruments

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Loans and receivables, comprising secured and other loans, are recognised when cash is advanced to borrowers. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group 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 the trade date; that is the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Investments in Group undertakings and participating interests

The Group's subsidiaries are held at fair value with movements in fair value taken through income and expenditure as permitted under FRS 102.

Other financial instruments

Other financial instruments are those that do not meet the definition of basic financial instruments.

Complex financial instruments

Complex financial instruments include hedge funds, collateralised debt, mortgage backed securities and derivatives.

These are initially recognised at fair value, which usually represents their cost, including any premium paid. They are subsequently re-measured at each balance sheet date at their fair value with changes in the fair value recognised immediately in unrealised gains and losses on investments. All derivatives are carried as assets when the fair values are positive and as liabilities when the fair values are negative. None of the derivative financial instruments used by the Group are used for hedge accounting.

The notional or contractual amounts associated with derivative financial instruments are not recorded as assets or liabilities on the statement of financial position as they do not represent the fair value of these transactions. Collateral pledged by way of cash margins on futures contracts is recognised as an asset on the statement of financial position within cash and cash equivalents.

K. Non-technical account

Revenue is recognised as follows:

Fee income receivable in relation to the provision of administration services is recognised when the services are provided, to the extent the amounts are considered recoverable (this is predominantly calculated as a percentage of the funds under management during the year).

Origination and service income in relation to Lifetime Mortgages is recognised as services are provided. Origination fees are generated on each loan originated and are based on the value of the loan. Deferred origination and service income is recognised at the present value of the future receipts, with the interest element recognised in the non-technical account as the discounting unwinds.

All other sources of income and expenditure included in the non-technical account are recognised on an accruals basis. The results of subsidiaries that are not conducting long-term insurance business are also included in the non-technical account.

L. Intangible assets

General

Intangible assets are initially recognised at cost (or fair value in the case of intangibles acquired in a business combination) and are amortised over their estimated Useful Economic Lives (UEL) on a straight line basis. Goodwill arising on long-term business is amortised over a period of 10 years.

Project development costs are capitalised where they will generate economic benefit to the Group in future periods.

The UEL of other intangible assets are as follows:

Brand and Foundation	2 years
IT, systems & project development	3 to 5 years
Beneficial contracts	4 years
Acquired funds under management	10 years

Amortisation is charged to administration expenses in the income and expenditure accounts.

Where factors, such as technological advancement or changes in market price, indicate that the residual value or useful life have changed, the residual value, useful life or amortisation rate are amended prospectively to reflect the new circumstances.

The assets are reviewed annually at the statement of financial position date, if the above factors indicate that the carrying amount may be impaired. Impairment is charged to the income and expenditure account.

Present Value of In-Force (PVIF) business

A PVIF asset is recognised on acquisition of long-term business. This intangible asset is included within the Long-term business provision as an offset against the liabilities of the business to which the PVIF relates.

The PVIF asset is amortised over the expected life of the acquired policies, which is deemed to be approximately 40 years from acquisition.

The PVIF asset is reviewed annually at the statement of financial position date for factors which indicate impairment.

M. Tangible assets

Tangible assets are recognised at cost less accumulated depreciation, and any accumulated impairment losses. Depreciation is provided on the cost of the assets over their estimated Useful Economic Lives (UEL). The UEL applied for each class of assets is as follows:

Fixtures, fittings & office equipment	5 years
Computer equipment	4 years

The assets' residual values and useful lives are reviewed and, if appropriate, adjusted at the end of each reporting period. The effect of any change is accounted for prospectively.

A review for evidence of impairment of tangible assets is performed at each statement of financial position date.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in the income and expenditure account.

Land and buildings

Owner-occupied properties are initially recognised at cost. Subsequent to initial recognition, properties held by the Group for its own use are measured at their revalued amount, which is the fair value at the date of revaluation less subsequent depreciation and impairment losses. Fair value is calculated using valuations made by independent, professionally qualified chartered surveyors' following RICS guidelines or using a contractually agreed sale price. Valuations are carried out annually. On revaluation of a property the accumulated depreciation is eliminated against the gross carrying amount and the net amount is restated to the revalued amount. Increases in the net carrying amount are recognised in other comprehensive income, except to the extent that the increase reverses a previous revaluation deficit on the same asset recognised in income and expenditure accounts. Any deficit on revaluation is recognised in income and expenditure accounts except to the extent that it reverses a previous revaluation surplus on the same asset, in which case it is recognised in other comprehensive income.

Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost. Subsequent to initial recognition, investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in the statement of income and expenditure account in the period that they arise. No depreciation is provided in respect of investment properties applying the fair value model.

If a reliable measure is not available without undue cost or effort for an item of investment property, this item is thereafter accounted for as a tangible fixed asset in accordance with section 17 of FRS 102 until a reliable measure of fair value becomes available.

Fair value valuations are based on independent valuations carried out by surveyors under RICS guidelines, usually on an annual basis or based on the sale price where a contract has been agreed to dispose of the property.

N. Impairment of non-financial assets

At each statement of financial position date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the asset is compared to the carrying amount of the asset.

The recoverable amount of the asset is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income and expenditure account, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in the income and expenditure account.

If an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income and expenditure accounts.

O. Valuation of insurance liabilities

The Long-term business provision is determined by the Group's Chief Actuary following their annual investigation of the long-term business, which is based on methods and assumptions that have been approved by the Board of Directors. It is calculated initially to comply with the reporting requirements under the Prudential Sourcebook for Insurers (INSPRU) as at 31 December 2015 but using per policy expense assumptions based on the expected future costs. This basis of valuation is then adjusted by eliminating certain reserves required under Friendly Society Regulations.

No explicit provision is made for future final (terminal) bonuses under this basis. Implicit provision for part of future yearly (reversionary) bonuses is included in the long-term business provision (LTBP). The acquired present value in-force (PVIF) is being netted off against LTBP.

P. Linked investment contracts

Linked investment contract liabilities are measured at fair value as their value is directly linked to the market value of the underlying portfolio of assets. The fair value of a unit-linked contract is equal to the market value of the units held (i.e. the unit reserve).

Q. Taxation

Tax is recognised in the income and expenditure account except to the extent that it relates to items recognised in other comprehensive income. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws enacted or substantially enacted at the statement of financial position date.

Deferred tax is provided on timing differences that have originated but not reversed by the statement of financial position date. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantially enacted at the statement of financial position date. Deferred tax balances are not discounted.

R. Provisions and contingencies

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount of the obligation can be estimated reliably.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering that class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

In particular:

(i) Restructuring provisions are recognised when the Group has a detailed, formal plan for the restructuring and has raised a valid expectation in those affected by either starting to implement the plan or announcing its main features to those affected and therefore has a legal or constructive obligation to carry out the restructuring

(ii) Provision is not made for future operating losses

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Contingencies

Contingent liabilities are not recognised, except those acquired in a business combination. Contingent liabilities arise as a result of past events when (i) it is not probable that there will be an outflow of resources or that the amount cannot be reliably measured at the reporting date or (ii) when the existence will be confirmed by the occurrence or non-occurrence of uncertain future events not wholly within the Group's control.

Contingent liabilities are disclosed in the financial statements unless the probability of an outflow of resources is remote.

Contingent assets are not recognised. Contingent assets are disclosed in the financial statements when an inflow of economic benefits is probable.

S. Employee benefits

The Group provides a range of benefits to employees, including, but not limited to, cash-settled bonus arrangements, private healthcare, life assurance, paid holiday arrangements and defined benefit and defined contribution pension plans. Details of benefits paid to the executive directors are included in the remuneration report.

i. Short-term benefits

Short-term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii. Pension plans

The Group operates two defined benefit pension schemes (collectively 'the Schemes') following the merger with Homeowners Friendly Society Limited (HFSL). All rights of the HFSL defined benefit scheme members were preserved under the instrument of transfer at merger.
The Group now makes contributions to a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

The Family Assurance Staff Pension Scheme (the Family Scheme)

The Group operated a defined benefit pension scheme, the Family Scheme. The Family Scheme closed to all further benefit accrual with effect from 31 December 2009.

In its place the Group makes pension contributions to a defined contribution stakeholder pension scheme on behalf of staff when they become eligible for pension benefits. The stakeholder scheme is administered by Legal & General Assurance Society Limited.

The Homeowners Staff Pension Scheme (the Homeowners Scheme)

The HFSL Group operated a defined benefit pension scheme, the Homeowners Scheme. The Homeowners Scheme was for the benefit of those staff whose employment commenced before 6 April 2001; the Homeowners Scheme was closed to further accruals on 31 December 2012.

For both defined benefit schemes the Schemes' funds are administered by trustees and are independent of the Group's finances.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligations in respect of defined benefit schemes are calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The entity determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments.

The discount rate is the yield at the statement of financial position date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the entity's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The entity recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in income and expenditure accounts.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

iii. Annual bonus plan

The Group operates an annual bonus plan for employees. Bonus payments are not a guaranteed element of salary. The decision as to whether to pay a bonus and the amount of the bonus is entirely at the Group's discretion. An expense is recognised in the income and expenditure account when the Group has a legal or constructive obligation to make payments under the plan as a result of past events and a reliable estimate of the obligation can be made.

iv. Short-term incentive scheme

The Group operates a cash-settled short-term incentive scheme for certain members of the executive team and senior management. This is linked to annual individual performance against agreed objectives and the performance of the business. A liability for the plan is raised on the estimated amount payable.

v. Long-term incentive scheme

The Group operates a cash-settled long-term incentive scheme for certain members of the executive team. Performance is assessed (over three years) taking into account factors including capital growth, cost efficiency, new sales, customer, colleagues and risk. A liability for the plan is raised on the estimated amount payable.

T. Foreign currency

i. Functional and presentation currency

The Group financial statements are presented in pound sterling and rounded to the nearest £1k. The Group's functional currency is pound sterling.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period-end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income and expenditure account.

U. Operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

Operating lease payments are accounted for on a straight line basis over the term of the lease. There are no lease incentives.

V. Cash flow statement

The Society (and the Group), being a mutual life assurance company, is exempt from the requirement under FRS 102 to produce a cash flow statement.

W. Retained earnings and Fund for Future Appropriations

Under FRS 102 the Group designates reserves between those it classes as liabilities and those which are akin to equity.

The non-profit fund surplus is designated as retained earnings and all profits and losses of the Group and Society that do not relate to with-profits funds are classified within retained earnings in the statement of financial position.

The Group includes two 100% ring-fenced with-profits funds. The surplus of each with-profits fund is for the benefit of the with-profits policyholders of each fund respectively, as such the surpluses have been deemed liabilities and referred to as the Fund for Future Appropriations (FFA). This balance represents all with-profits surpluses, the allocation of which to individual policies has not yet been determined by the end of the financial year.

X. Contingent reinsurance financing

The Group receives reinsurance financing on sales of its Over 50s life cover from reinsurers. The financing repayment is contingent upon margins emerging on the business in future years. The advances are receivable at the inception of a policy and are included as income within other technical income in the Technical account – Long-term business.

The repayment of the financing advance is repayable as the margins emerge and is included in other technical charges. The amount of refinancing repayable at the statement of financial position date is included on the statement of financial position as deposits from reinsurers. This liability is classified as an insurance liability under FRS 103.

Y. Related party transactions

The Group discloses transactions with related parties which are not wholly owned within the Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the Directors, separate disclosure is necessary to understand the effect of the transactions on the Group financial statements.

Notes to the financial statements

for the year ended 31 December 2019

1. Management of financial and insurance risk

a. Market risk – interest rate and equity

Interest rate risk

The Group seeks to match future benefit payments with future income from premiums and investments period by period. This is referred to as asset and liability matching or Asset Liability Management. When the income and payments in a period do not exactly match, the excess cash inflow must be invested or the cash shortfall must be funded at the interest rates prevailing at the time. The Group sets its reserves based on prudent assumptions about these future interest rates. As market views of future interest rates change, the reserves change. Interest rate risk is the risk that adverse interest rate changes will require reserves to be increased.

A separate interest rate risk arises from the impact of interest rate changes on unit-linked funds invested in fixed interest rate assets. Changes in current interest rates directly affect the market values of the fixed interest assets, which in turn affect unit values. A significant element of the Group's income is directly related to the value of the unit funds through annual management charges. The interest rate risk in this case is that adverse interest rate movements will reduce the value of these unit-linked funds and hence the Group's income.

Equity price risk

The Group has exposure to equity securities both directly through equity securities held and indirectly through holdings in Open Ended Investment Companies (OEICs) and Authorised Unit Trusts which in turn invest, partially and wholly, in equity securities. The Group also has exposure to equity securities through the defined benefit pension schemes (see Note 26).

The Group has in place a number of agreements with investment managers, to monitor that investment transactions are managed within agreed mandates and benchmarks and which limit the exposure in aggregate terms to equity investments, as well as between specific sectors and asset classes.

On the unit-linked and OEIC / Unit Trust funds which the Group manages the equity price risk is borne by policyholders, since the value of the policyholders' liabilities relate directly to the value of the underlying assets held on their behalf. However, a significant element of income for the Group is derived as a fixed percentage of the market value of unit-linked and OEIC / Unit Trust assets and as such any changes in the value of assets impacts future income.

b. Credit risk

Credit risk is the risk that counterparties will be unable to pay amounts in full when they fall due.
The Group is exposed to credit risk in relation to corporate bonds, bank deposits and its reinsurance arrangements, both in relation to the reinsurers' share of the long-term business provision and in relation to amounts they owe on claims which the Group has already paid.

1. Management of financial and insurance risk (continued)

Reinsurance is used to manage insurance risk. This does not, however, discharge the Group's liability as primary insurer. If a reinsurer fails to pay a claim, the Group remains liable for the payment to the policyholder.

The Group monitors the financial strength of its reinsurance counterparties by reviewing credit ratings provided by rating agencies and other publicly available financial information.

Other credit risk arises from exposure to various business counterparties, including insurance intermediaries. The Group conducts appraisals of the level of risk associated with business counterparties at the inception of an agreement, as well as on an ongoing basis. The Group does not have significant credit risk relating to amounts due from contract holders since policy benefits are directly related to the payment of outstanding premiums.

The assets bearing credit risk, together with an analysis by credit rating are shown below:

Credit risk	**Group 2019 £'000**	Group 2018 £'000	**Society 2019 £'000**	Society 2018 £'000
Non-linked financial investments subject to credit risk	**97,041**	169,016	**97,041**	169,016
Debtors	**15,045**	13,216	**19,471**	17,610
Cash at bank	**49,929**	60,309	**33,905**	42,868
Reinsurers share of technical provisions	**115,783**	101,783	**115,783**	101,783
Total assets bearing credit risk	**277,798**	344,324	**266,200**	331,277
Debt and other assets rated as:				
UK government	**56,607**	129,570	**56,607**	129,570
A rated and above	**191,370**	188,441	**169,176**	165,251
B rated – BBB	**19,773**	18,999	**19,773**	18,999
Not rated	**10,048**	7,314	**20,644**	17,457
Total assets bearing credit risk	**277,798**	344,324	**266,200**	331,277

For unit-linked policies the policyholder is exposed to the credit risk, since policy benefits are linked directly to assets. These assets are therefore not disclosed in the above credit risk exposures.

1. Management of financial and insurance risk (continued)

c. Foreign exchange risk

The only material exposure to foreign exchange risk is in relation to linked assets where there are assets held in foreign currencies. This risk is borne by the policyholder, since policy benefits are directly linked to assets.

The Group may, at times, look to mitigate this risk to policyholders by entering into a currency hedge.

d. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its cash commitments as they fall due. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values; or from a counterparty defaulting on repayment of a contractual obligation; or from an insurance liability falling due for payment earlier than expected; or from the inability to generate cash inflows as anticipated.

The Group manages a significant value of tax-exempt savings plans based on wholesale cash deposits and maintains a prudent liquidity profile in relation to such deposits. Amounts payable on linked contracts are generally payable on demand and the Group is responsible for ensuring there is sufficient liquidity in the investment portfolio to ensure payments can be made as they fall due. However, the Group policy on the linked funds is such that in certain circumstances, and in line with customer contracts, it may defer the payments until such time liquid assets can be realised at an appropriate value.

The Group liquidity policy is focused on having sufficient liquid assets to meet outflows, on a stressed basis, over the following 12 months. Given the expected level of cash emergence over the next few years, a duration mismatch of assets against liabilities is not considered to be an area of significant risk.

With-profits contracts can be surrendered before maturity for a cash surrender value. The Group has the discretion to impose market value reductions (MVRs) on early surrender which reduce the amount payable. MVRs contribute to managing the liquidity risk in the with-profits funds as well as ensuring an equitable treatment between policyholders surrendering and those remaining in the with-profits funds.

An analysis of the expected maturity periods of the policyholder insurance liabilities, on a non-discounted basis, net of reinsurance, is set out on the following page.

1. Management of financial and insurance risk (continued)

Liquidity risk	Total £'000	Within 1 year £'000	1–5 years £'000	5–15 years £'000	More than 15 years £'000
As at 31 December 2019					
Long-term business					
Non-profit fund	**96,068**	**6,497**	**21,588**	**35,079**	**32,904**
With-profits fund 1	**46,625**	**10,123**	**21,364**	**13,908**	**1,230**
With-profits fund 2	**29,366**	**4,402**	**11,321**	**10,575**	**3,068**
Total	**172,059**	**21,022**	**54,273**	**59,562**	**37,202**
As at 31 December 2018					
Long-term business					
Non-profit fund	82,679	4,003	17,451	39,222	22,003
With-profits fund 1	49,286	4,317	17,474	26,650	845
With-profits fund 2	35,374	3,050	11,068	18,888	2,368
Total	167,339	11,370	45,993	84,760	25,216

Due to the long-term nature of the insurance liabilities and the requirement of the Group's investment policies to hold a significant proportion of liquid assets, there is sufficient liquidity to meet claims as they arise.

Investment liabilities of £1,211,241k (2018: £1,154,219k) are classed as repayable on demand but we would not expect these to all become due over the next 12 months. However, there is considered to be sufficient liquidity to meet claims as they arise, and the Group has the right to defer repayments in order to realise the corresponding linked assets. As such an analysis of expected maturity periods of the investment liabilities has not been presented.

e. Lapse risk

Lapses (or surrenders) occur when a policy is terminated by the policyholder before the maturity date. When calculating the value of the policyholder liabilities, a prudent allowance is made for the proportion of policyholders expected to lapse over future periods. This allowance is referred to as the lapse rate. Lapse risk occurs when future lapse rates differ from the allowance made.

The methodology for calculating the long-term business provision for the majority of whole of life business allows the calculation of negative reserves, in compliance with PRA Policy 06/14 (PS06/14).

Negative reserves act as an asset to the overall long-term business provision. An increase in future lapse rates leads to a reduction in this asset and therefore an increase to aggregate reserves.

1. Management of financial and insurance risk (continued)

f. Expense risk

When calculating the value of the policyholder liabilities a prudent allowance is made for future expenses. To the extent that future expenses differ from this allowance the Group is exposed to expense risk.

The Group has internal management information and governance activity in order to ensure that the levels of on-going management and acquisition expenses remain within expected levels.

g. Mortality and longevity risk

Mortality risk arises in relation to whole of life business, term assurance and group life business, if the mortality of the lives assured is different to that assumed. The Group manages mortality risk at a portfolio level by using reinsurance arrangements which transfer a large percentage of the mortality risk to our reinsurance partners in return for an agreed reinsurance premium.

Longevity risk in relation to the annuity business would arise if annuitants lived longer than anticipated. The Group manages annuitant longevity risk by setting a prudent valuation assumption and monitoring actual experience. The Group also monitors the need for reinsurance as a tool for managing longevity risk.

h. Unit-linked investment contracts

For unit-linked investment contracts the Group matches all the policyholder liabilities with assets on which the unit prices or value of the policies are based. There is therefore minimal first order interest, market or credit risk for the Group on these contracts, see note 1a for the impact on annual management charges.

Amounts payable on linked contracts are generally payable on demand and the Group is responsible for ensuring there is sufficient liquidity in the investment portfolio to ensure payments can be made as they fall due. However, the Group policy on the linked funds is such that in certain circumstances it may defer the payments until such time as liquid assets can be realised.

i. Capital management

The Group and its regulated subsidiaries maintain sufficient capital, consistent with the Group's risk appetite and the relevant regulatory requirements.

The Society is a mutual organisation and there are no shareholders. The Society's regulated subsidiaries are subject to regulation and capital requirements as stipulated by the Financial Conduct Authority (FCA).

The Society is subject to regulation by the Prudential Regulation Authority (PRA). From 1 January 2016, the Society has been required to maintain and report its capital position to the PRA under Solvency II (the EU wide insurance regulatory regime). Under Solvency II the Society is required to hold sufficient capital to withstand adverse outcomes from its key risks. This 'Solvency Capital Requirement' (SCR) is calibrated to be able to withstand a one in 200 year event over a one year period.

For the purposes of determining its Regulatory Capital, the Society uses the Solvency II standard formula without adjustment.

1. Management of financial and insurance risk (continued)

The Society's objectives in managing capital are that:

- Obligations to customers across the Group are met in full when due
- Risks are subject to structured analysis in accordance with the risk appetite agreed by the Board
- Sufficient capital resources are available to fund the growth of the Group
- The aggregate risk exposure of the Group is to be managed to ensure that the capital resources available always meet the minimum capital requirements set out by the PRA plus a buffer determined by the Board

The Society has not breached its Solvency II capital requirement at any point in 2019.

The Society and the Group have no shareholders' funds and also have no borrowings.

Movement of capital resources (unaudited)

The Own Funds (capital resources) of the Society have decreased by £3,428k (2018: decrease of £13,572k). The key contributors to this movement are outlined in the table below:

	Increase/ (decrease) in Own Funds 2019 £'000	Increase/ (decrease) in Own Funds 2018 £'000
New business	**362**	(1,461)
Non maintenance expenses and miscellaneous other	**(10,832)**	(9,006)
Investment return on opening Own Funds	**6,026**	(2,144)
Expected run-off of risk margin	**2,795**	3,242
Experience on in-force insurance and investment contracts	**(6,077)**	(5,240)
Profits from subsidiaries	**7,428**	8,632
Change in restriction on surplus	**(2,343)**	-
Impact from with-profits funds	**(787)**	(7,595)
Total increase/(decrease) in Own Funds	**(3,428)**	(13,572)

1. Management of financial and insurance risk (continued)

Funding of subsidiary undertakings

All Group companies are wholly owned subsidiaries of Family Assurance Friendly Society Limited.

The value of assets held to meet the liabilities of the Society and its regulated subsidiaries' capital requirements is determined in accordance with PRA regulations. The value of the subsidiaries is restricted to amounts which are likely to be recovered.

Restrictions on available capital resources

The Society and its regulated subsidiaries are required to hold capital sufficient to meet PRA/FCA minimum capital requirements.

The available capital resources held in the with-profits funds are only available to meet the capital requirements or be allocated to policyholders of those funds. There are no similar restrictions on the available capital held in the non-profit fund.

Guarantees

The following guarantees which would have a material value to policyholders are:

- Maturity values – on conventional and unitised with-profits policies there is a guarantee that on the maturity date there will be a minimum pay out of the sum assured plus any declared bonuses

- Return of premium guarantees – on certain unitised with-profits policies there is a guarantee that an amount not less than the initial premium will be paid out on the policies' 5th, 10th and each subsequent 10th anniversary. An explicit charge is made for this guarantee

Whilst not specifically a guarantee or option, pay outs on conventional and unitised with-profits policies are smoothed over time to reduce the effect of short-term fluctuations in investment returns. This primarily applies to pay outs on maturities; however, it can apply to a lesser extent on early surrender of certain policies.

j. Sensitivities

The capital position is sensitive to changes in market conditions, due to both changes in the value of the assets as well as the effect these changes in market conditions would have on the value of the liabilities. It is also sensitive to the expense and lapse experience and to changes in mortality.

The timing of any impact on capital would depend on the interaction of past experience and assumptions about future experience. In general, if experience had deteriorated or was expected to deteriorate, and management actions were not expected to reduce the future impact, then assumptions relating to future experience would be changed. In this way, liabilities would be increased to anticipate the future impact of the worse experience with an immediate adverse impact on the capital position.

The Board has quantified the impacts of the principal risks on the Group's long-term business provisions and assets both in the current and prior year. This is presented in the following tables along with the impact on the Group's retained earnings and Fund for Future Appropriations (FFA).

1. Management of financial and insurance risk (continued)

2019	Mortality		Lapse	Expenses		Fixed Interest Yield		Equities/ Property	
	5% £'000	-5% £'000	10% £'000	10% £'000	-10% £'000	20% £'000	-20% £'000	10% £'000	-10% £'000
Impact on long-term business provision (LTBP)									
Fund									
Non-profit fund	(574)	1,966	(1,277)	2,505	(2,473)	(5,607)	6,191	–	–
With-profits fund 1	(30)	33	–	234	(225)	(343)	393	–	–
With-profits fund 2	(31)	33	–	–	–	(243)	283	(14)	14
Change in LTBP	(635)	2,032	(1,277)	2,739	(2,698)	(6,193)	6,867	(14)	14
Impact on asset valuations									
Fund									
Non-profit fund	–	–	–	–	–	(3,221)	3,847	3,741	(3,741)
With-profits fund 1	–	–	–	–	–	(938)	1,033	2,431	(2,431)
With-profits fund 2	–	–	–	–	–	(983)	1,261	1,250	(1,250)
Change in asset valuations	–	–	–	–	–	(5,142)	6,141	7,422	(7,422)
Impact on retained earnings and the FFA									
Retained earnings (non-profit fund)	574	(1,966)	1,277	(2,505)	2,473	2,386	(2,344)	3,741	(3,741)
FFA (with-profits funds)	61	(66)	–	(234)	225	(1,335)	1,618	3,695	(3,695)

1. Management of financial and insurance risk (continued)

2018	Mortality		Lapse	Expenses		Fixed Interest Yield		Equities/ Property	
	5% £'000	-5% £'000	10% £'000	10% £'000	-10% £'000	20% £'000	-20% £'000	10% £'000	-10% £'000
Impact on long-term business provision (LTBP)									
Fund									
Non-profit fund	(159)	1,792	(1,049)	2,436	(2,375)	(6,393)	7,384	–	–
With-profits fund 1	(27)	29	–	184	(172)	(356)	448	–	–
With-profits fund 2	(29)	30	–	–	–	(379)	421	(11)	4
Change in LTBP	(215)	1,851	(1,049)	2,620	(2,547)	(7,128)	8,253	(11)	4
Impact on asset valuations									
Fund									
Non-profit fund	–	–	–	–	–	(5,454)	5,454	2,558	(2,558)
With-profits fund 1	–	–	–	–	–	(392)	392	1,968	(1,968)
With-profits fund 2	–	–	–	–	–	(698)	698	1,356	(1,356)
Change in asset valuations	–	–	–	–	–	(6,544)	6,544	5,882	(5,882)
Impact on retained earnings and the FFA									
Retained earnings (non-profit fund)	159	(1,792)	1,049	(2,436)	2,375	939	(1,930)	2,558	(2,558)
FFA (with-profits funds)	56	(59)	–	(184)	172	(355)	221	3,335	(3,328)

The non-profit mortality assumptions impact both annuity business and non-annuity business. The 5% increase in mortality shows the impact of increasing mortality rates on non-annuity business to 105% of the expected rate. The 5% fall in mortality sensitivity shows the impact of reducing mortality rates on annuity business to 95% of the expected rate. A decrease in mortality on annuities would expect to be offset, to an extent, by a decrease in mortality on the whole of life business, and vice versa, but this sensitivity is not included above.

2. Critical accounting estimates and judgements

In the preparation of these financial statements, the Group is required to make estimates and judgements that affect items reported in the statement of income and expenditure, statement of financial position, and other primary statements and related supporting notes.

Critical accounting estimates and judgements are those which involve the most complex or subjective judgements or assessments. Where applicable the Group applies estimation and assumption setting techniques that are aligned with relevant actuarial and accounting guidance based on knowledge of the current situation. This requires assumptions and predictions of future events and actions. There have been no significant methodology changes to the critical accounting estimates and judgements that the Group applied at 31 December 2019.

The principal areas of judgement and the use of estimation techniques during the year are:

Long-term business provisioning

The Group prepares its long-term business provisioning by making estimates and judgements that are in keeping with market practice and recognised techniques for the evaluation of such liabilities. The reserving is carried out and reviewed by appropriately skilled actuarial resources.

Key economic and longevity assumptions are considered and approved by the Board having sought appropriate guidance from the Chief Actuary. Assumptions are compared to market available data sources in order to ensure that assumptions adopted are in line with general practice for the relative business types. The sensitivity of the long-term business provision to the principal risks facing the Group are presented in note 1j.

Other areas of focus

Defined benefit pension scheme

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service. That benefit is discounted to determine its present value. The fair value of any plan assets is deducted to determine whether each scheme has a net asset or liability as at the balance sheet date. The Group determines the net interest expense or income on the net defined benefit liability or asset for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability or asset taking account of changes arising as a result of contributions and benefit payments.

The Group recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

The discount rate is the yield at the statement of financial position date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to, the terms of the Group's obligations. A full valuation is performed every 3 years by a qualified actuary using the projected unit credit method.

The sensitivity of the defined benefit obligations to changes in key assumptions is presented in Note 26 Pension commitments.

2. Critical accounting estimates and judgements (continued)

Classification of long-term contracts

The Group has exercised judgement in its classification of long-term business between insurance and investment contracts, which fall to be accounted for differently in accordance with the policies set out in accounting policy G – 'Classification of contracts'. Insurance contracts are those where significant risk is transferred to the Group under the contract and judgement is applied in assessing whether the risk so transferred is significant.

Fair value of financial assets and land and buildings

Market observable inputs are used wherever possible to determine the fair value of financial and other assets. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions and discounted cash flow analysis. For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. This valuation will also take into account the marketability of the assets being valued.

Non-consolidation of Unit Trusts

Unit Trusts managed by a subsidiary company of the Society and invested in by the Society, as part of assets held to cover linked liabilities, are not consolidated within these Group financial statements. This is due to any investment being held for resale as part of the investment portfolio.

3. Premium analysis

Group and Society	**2019 £'000**	2018 £'000
Gross premiums written	**39,293**	39,470
Less: reinsurers' share	**(11,505)**	(11,291)
Net earned premiums – insurance business	**27,788**	28,179

Long-term business only includes premiums in respect of insurance business. Consideration received in respect of investment contracts of £18,194k (2018: £20,661k) is treated as customer deposits and taken directly to the statement of financial position (see Note 21).

The Group administers business that is classified as retail investment business. In addition to the amounts included in Net earned premiums above, the Group undertakes a significant volume of retail investment business, on which it earns an annual management charge which is included in other income (see Note 12).

4. Investment income

	Group 2019 £'000	Group 2018 £'000	**Society 2019 £'000**	Society 2018 £'000
Income from other investments	**38,878**	36,396	**44,874**	41,165
Interest income	**850**	1,525	**844**	1,513
Realised gains on investments	**67,446**	68,339	**67,497**	68,339
Total investment income	**107,174**	106,260	**113,215**	111,017
Unrealised gains/(losses) on investments	**88,520**	(196,201)	**83,591**	(196,201)
Investment management expenses	**(3,068)**	(1,992)	**(3,068)**	(1,992)
Total net investment return	**192,626**	(91,933)	**193,738**	(87,176)

All of the above gains and losses are at fair value through the income and expenditure accounts.

5. Claims incurred, net of reinsurance

Group and Society	**2019 £'000**	2018 £'000
Gross claims paid	**40,194**	37,871
Change in provision for claims outstanding at year-end	**768**	(535)
Gross claims incurred	**40,962**	37,336
Outward claims reinsurance	**(12,197)**	(11,623)
Total claims incurred, net of reinsurance	**28,765**	25,713

Policies defined as investment rather than insurance contracts are accounted for on a deposit basis. The claims analysis above excludes £125,128k (2018: £131,493k) of payments made in relation to investment contracts (see Note 21).

6. Bonuses

The value of terminal bonuses paid to with-profit policyholders in the year was £4,446k (2018: £4,151k).

7. Net operating expenses

Technical account – long-term business	**Group 2019 £'000**	Group 2018 £'000	**Society 2019 £'000**	Society 2018 £'000
Acquisition costs	**7,268**	9,817	**7,268**	9,817
Administrative expenses (including auditor's remuneration)	**16,365**	21,351	**16,365**	21,351
Net operating expenses	**23,633**	31,168	**23,633**	31,168
Non-technical account				
Acquisition costs	**10,339**	9,583	**–**	–
Administrative expenses	**36,651**	34,101	**–**	–
Net operating expenses	**46,990**	43,684	**–**	–
Total net operating expenses	**70,623**	74,852	**23,633**	31,168

Acquisition costs relate to business written in the Society and its subsidiaries.

Total commission paid by the Group on new business was £5,829k (2018: £7,675k).

8. Auditor's remuneration

During the year the Group obtained services from KPMG LLP, as detailed below:

Audit services	**Group 2019 £'000**	Group 2018 £'000	**Society 2019 £'000**	Society 2018 £'000
Fees payable to the Society's auditor for the audit of the annual accounts	**383**	297	**383**	297
Audit of the accounts of subsidiaries	**87**	80	**–**	–
Audit-related assurance services	**111**	107	**–**	–
Other assurance services	**18**	199	**18**	199
Total	**599**	683	**401**	496

Excluded from the numbers above is £30k (2018: £32k) incurred in connection with audits of the unit trusts and open ended investment company managed by a subsidiary company and £75k (2018: £75k) in relation to out of pocket expenses.

9. Operating lease rentals

Group and Society	**2019 £'000**	2018 £'000
Operating lease amounts payable:		
– less than one year	**463**	384
– between one and five years	**248**	311
Total	**711**	695
Payments made under operating leases (recognised as an expense)		
Hire of fixtures and fittings – rental under operating leases	**351**	203
Property rental expenses in the year	**246**	235
Total	**597**	438

These payments relate to leases for office equipment and property rentals.

10. Staff costs

Group and Society	**2019 £'000**	2018 £'000
Wages and salaries	**26,779**	24,627
Social security costs	**2,840**	2,692
Defined contribution pension costs	**1,740**	1,625
Total staff costs	**31,359**	28,944

The average number of full time equivalent (FTE) employees in the Group during the year, including directors, is as follows:

Full time equivalent (FTE) employees	**2019 FTE**	2018 FTE
Administration	**417**	438
Management	**41**	41
Marketing	**28**	35
Total number of staff	**486**	514

All staff are employed and remunerated by Family Assurance Friendly Society Limited (FAFSL). The directors have been wholly remunerated by FAFSL for their services to the Society and other group undertakings. During 2019 the total remuneration paid to the directors was £2,529k (2018: £2,212k) and the total remuneration paid to the highest paid director was £1,530k (2018: £1,303k). In 2019, directors' remuneration and the highest paid director's remuneration included £345k in respect of a contractual notice period which is payable in 2020.

Key management compensation

Compensation to key management personnel (including executive directors) in the year was £4,338k (2018: £3,914k).

11. Other technical income

	Group 2019 £'000	Group 2018 £'000	**Society 2019 £'000**	Society 2018 £'000
Annual management rebates	**722**	829	**722**	829
Mortgage interest receivable	**36**	45	**36**	45
Reassurance financing advance	**2,813**	6,398	**2,813**	6,398
Other income	**–**	1,255	**3,345**	3,285
Total other technical income	**3,571**	8,527	**6,916**	10,557

Other income includes charges from the Society to subsidiaries as a management charge on the CTF business, and other administration charges.

12. Other income

	Group 2019 £'000	Group 2018 £'000
Annual management charges	**48,140**	44,171
Lifetime mortgage income	**5,264**	3,450
Other operating income	**1,865**	3,993
Total other income	**55,269**	51,614

13. Taxation

Analysis of the tax charge for the year:

The tax credit for the Group is £795k (2018: tax credit £1,142k).

The applicable UK corporation tax rate is 19% (2018: 19%).

The Finance Bill 2016, substantively enacted on 6 September 2016, included legislation reducing the UK corporate tax rate to 17% from 1 April 2020.

The Group primarily writes tax exempt business, with a small proportion of taxable business. The UK rate of income tax applicable to this taxable business is 20% (2018: 20%).

Tax (credit)/charge	**Group 2019 £'000**	Group 2018 £'000	**Society 2019 £'000**	Society 2018 £'000
Technical account	**(828)**	(2,025)	**(828)**	(2,025)
Non-technical account	**33**	883	**–**	–
Total tax credit	**(795)**	(1,142)	**(828)**	(2,025)
Analysed as follows:				
Corporation tax				
Tax credit	**(828)**	(1,596)	**(828)**	(2,025)
Deferred tax				
Timing differences, origination and reversal	**33**	454	**–**	–
Total tax credit	**(795)**	(1,142)	**(828)**	(2,025)

Deferred tax expected to reverse in the year ending 31 December 2020 has been measured using the effective rate of 17.5% that is expected to apply in the period. Deferred tax expected to reverse after the year ending 31 December 2020 has been re-measured at the rate expected to apply at the point of reversal.

At 31 December 2019, the Group did not hold any provisions for uncertain tax positions.

13. Taxation (continued)

Reconciliation of current year tax charge	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Excess of income over expenditure	**(5,833)**	(943)	**(4,904)**	(553)
Result for year	**(5,833)**	(943)	**(4,904)**	(553)
Tax on result (2019: 19%, 2018: 19%)	**(1,108)**	(179)	**(932)**	(105)
Factors affecting tax charge:				
Accounting result not subject to policyholder tax	**1,108**	179	**932**	105
Items taxed on a different basis	**(776)**	(1,528)	**(828)**	(2,025)
Items disallowable in tax computation	**–**	1	**–**	–
Timing differences	**(8)**	(13)	**–**	–
Utilisation of unrecognised losses	**(44)**	(56)	**–**	–
Losses utilised during the year	**33**	454	**–**	–
Total corporation and income tax credit for the year	**(795)**	(1,142)	**(828)**	(2,025)

Analysis of deferred tax asset	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Losses recognised	**287**	320	**–**	–
Total recognised deferred tax asset	**287**	320	**–**	–
Unrecognised deferred tax assets	**7,730**	9,993	**5,737**	8,868
Total	**8,017**	10,313	**5,737**	8,868

Items taxed on a different basis include profits taxed in subsidiaries and tax recoverable in relation to unfranked investment income.

The deferred tax asset includes £287k (2018: £320k) of deferred tax that is forecast to be fully utilised in the next financial period. All deferred tax relates to prior year losses.

The Group has an unrecognised deferred tax asset of £7,730k (2018: £9,993k) with £1,993k (2018: £1,125k) of the deferred tax asset being in relation to the subsidiary companies and the remaining £5,737k (2018: £8,868k) relating to the Society.

The Society has an unrecognised deferred tax asset of £5,737k at 31 December 2019, which has decreased by £3,131k in the period. It is considered unlikely that the remaining net deferred tax asset will be used and therefore it continues not to be recognised. The unrecognised net deferred tax asset is made up of deductible expenses carried forward and unrealised capital losses reduced by carried forward taxable gains as at the balance sheet date.

14. Goodwill and intangible assets

Group	Goodwill £'000	Brand & foundation £'000	Beneficial contracts £'000	IT, systems & project development £'000	Acquired funds under management £'000	Total £'000
Cost						
At 1 January 2019	2,863	2,878	1,757	6,208	5,000	**18,706**
At 31 December 2019	**2,863**	**2,878**	**1,757**	**6,208**	**5,000**	**18,706**
Amortisation						
At 1 January 2019	888	2,878	1,757	1,647	942	**8,112**
Provided in the year	286	–	–	1,109	615	**2,010**
Impairment in the year	–	–	–	2,993	–	**2,993**
At 31 December 2019	**1,174**	**2,878**	**1,757**	**5,749**	**1,557**	**13,115**
Net book value at 31 December 2019	**1,689**	**–**	**–**	**459**	**3,443**	**5,591**
Net book value at 31 December 2018	1,975	–	–	4,561	4,058	10,594

On 18 November 2016 the Group acquired contractual rights relating to Child Trust Fund (CTF) assets at a cost of £5,000,000. The asset is amortised over its estimated useful economic life of 10 years and the amortisation is included in administrative expenses. The remaining amortisation period is seven years.

In 2017 and 2018 the Society capitalised the system and project development costs relating to new product development. The asset was amortised over its useful economic life and the amortisation is included in administrative expenses. In 2019 the asset was fully written down to reflect that the carrying value was higher than the recoverable amount in the short term.

14. Goodwill and intangible assets (continued)

Society	Goodwill £'000	Brand & foundation £'000	Beneficial contracts £'000	IT, systems & project development £'000	Total £'000
Cost					
At 1 January 2019	1,147	2,878	1,757	1,371	**7,153**
At 31 December 2019	**1,147**	**2,878**	**1,757**	**1,371**	**7,153**
Amortisation					
At 1 January 2019	430	2,878	1,757	775	**5,840**
Provided in the year	115	–	–	138	**253**
At 31 December 2019	**545**	**2,878**	**1,757**	**913**	**6,093**
Net book value at 31 December 2019	**602**	**–**	**–**	**458**	**1,060**
Net book value at 31 December 2018	717	–	–	596	1,313

15. Land and buildings

Group and Society	Current value investment £'000	Total £'000	Historical cost investment £'000	Total £'000
At 1 January	9,806	9,806	7,703	7,703
Revaluation/fair value adjustment	1,964	1,964	–	–
Balance at 31 December 2019	**11,770**	**11,770**	**7,703**	**7,703**
Group and Society				
At 1 January	5,457	5,457	2,442	2,442
Addition	5,416	5,416	5,261	5,261
Revaluation/fair value adjustment	(1,067)	(1,067)	–	–
Balance at 31 December 2018	9,806	9,806	7,703	7,703

Land and buildings relate to two freehold properties held for own use; a property in West Street, Brighton and a property in Kew. A full external professional valuation of the West Street investment property was carried out by G L Hearn, Chartered Surveyors at 31 December 2019. The valuation of the property in Kew was determined with reference to expected sales proceeds.

16. Investment in Group undertakings

The Society investment in subsidiaries can be analysed as follows:	**Society 2019 £'000**	Society 2018 £'000
Fair value at 1 January	**24,266**	19,508
Dividends paid to Society	**(6,000)**	(3,500)
Investments during year	**2,000**	2,500
Other fair value changes	**1,070**	5,758
Fair value as at 31 December	**21,336**	24,266

Investments are carried at fair value.

16. Investments in Group undertakings (continued)

Set out below are the Society's investments in subsidiary undertakings as at 31 December 2019 all of which are included in the consolidation; the carrying value of these subsidiaries cancel out on consolidation. All companies are incorporated in England and Wales.

Name of subsidiary undertaking	**Nature of business**
Engage Mutual Administration Limited	Administration services
Engage Mutual Funds Limited	Child Trust Fund management
Engage Mutual Services Limited	Insurance and non-regulated financial product intermediary
Family Enterprise Limited	Administration services
Family Equity Plan Limited	Child Trust Fund management
Family Investment Management Limited	Fund management
Family PEP Managers Limited	ISA fund management
Governor Finance Limited	Fund management
OneFamily Advice Limited	Financial advice services
OneFamily Foundation Limited	Individual and community grant funding
OneFamily Lifetime Mortgages Limited	Provider of mortgage products
EMFL Nominees Limited	Dormant
Family Assurance Staff Pension Scheme Trustees Limited	Dormant
Family Money Limited	Dormant
Family Nominees Limited	Dormant
Family.co.uk Limited	Dormant
FEPL Nominees Limited	Dormant
FPML Nominees Limited	Dormant
Governor Finance Nominees Limited	Dormant

The subsidiaries are wholly owned by the Society and the Society holds 100% of ordinary and preference shares within all the subsidiaries.

The registered address of all subsidiaries is 16-17 West Street, Brighton, BN1 2RL.

17. Financial instruments

Management consider that the carrying value of all financial assets and liabilities in the financial statements are equal to or approximate to their fair value.

	2019 £'000	2018 £'000
The financial investments held by the Group are valued as:		
Linked financial investments	**1,211,259**	1,154,219
Non-linked financial investments	**272,577**	254,566
Debtors	**15,045**	13,216
Cash at bank	**49,929**	60,309
Total financial investments	**1,548,810**	1,482,310
Financial liabilities		
Financial liabilities held at fair value through profit and loss	**1,211,241**	1,154,219
Financial liabilities held at amortised cost	**7,032**	10,195
Total Group financial liabilities	**1,218,273**	1,164,414

The above investments, which exclude Land & Buildings, and the financial liabilities, can then be further analysed out into the following categories:

17. Financial instruments (continued)

Group financial assets held at fair value through profit and loss	**Fair value 2019 £'000**	Fair value 2018 £'000	**Cost 2019 £'000**	Cost 2018 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,282,197**	1,159,707	**972,756**	936,287
Debt securities and other fixed income securities	**100,703**	139,796	**87,908**	126,074
Share of investment property	**7,973**	6,734	**5,091**	5,091
Derivatives held at fair value through profit and loss	**27**	378	**–**	–
Financial assets held at fair value through profit and loss	**1,390,900**	1,306,615	**1,065,755**	1,067,452
Loans and receivables				
Loans secured by mortgage	**456**	516	**456**	516
Deposits with credit institutions	**131,997**	159,631	**131,997**	159,631
Accrued income and receivables	**25,457**	15,548	**25,457**	15,548
Loans and receivables	**157,910**	175,695	**157,910**	175,695
Total Group financial assets (excluding land & buildings)	**1,548,810**	1,482,310	**1,223,665**	1,243,147

17. Financial instruments (continued)

Group Analysis – linked and non-linked, excluding land & buildings

Group financial assets held at fair value through profit and loss	**Linked fair value 2019 £'000**	**Non-linked fair value 2019 £'000**	**Total fair value 2019 £'000**	Linked fair value 2018 £'000	Non-linked fair value 2018 £'000	Total fair value 2018 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,110,779**	**171,418**	**1,282,197**	1,026,667	133,040	1,159,707
Debt securities and other fixed income securities	**–**	**100,703**	**100,703**	19,232	120,564	139,796
Shares of investment property	**7,973**	**–**	**7,973**	6,734	–	6,734
Derivatives held at fair value through profit and loss	**27**	**–**	**27**	378	–	378
Financial assets held at fair value through profit and loss	**1,118,779**	**272,121**	**1,390,900**	1,053,011	253,604	1,306,615
Loans and receivables						
Loans secured by mortgage	**–**	**456**	**456**	–	516	516
Deposits with credit institutions	**82,068**	**49,929**	**131,997**	99,322	60,309	159,631
Accrued income and receivables	**10,412**	**15,045**	**25,457**	1,886	13,662	15,548
Loans and receivables	**92,480**	**65,430**	**157,910**	101,208	74,487	175,695
Total Group financial assets	**1,211,259**	**337,551**	**1,548,810**	1,154,219	328,091	1,482,310
Financial liabilities						
Financial liabilities held at fair value through profit and loss	**1,211,241**	**–**	**1,211,241**	1,154,219	–	1,154,219
Financial liabilities held at amortised cost	**–**	**7,032**	**7,032**	–	10,195	10,195
Total Group financial liabilities	**1,211,241**	**7,032**	**1,218,273**	1,154,219	10,195	1,164,414

17. Financial instruments (continued)

The financial investments held by the Society are valued as:	2019 £'000	2018 £'000
Linked financial investments	**1,211,259**	1,154,219
Non-linked financial investments	**272,577**	254,566
Debtors	**19,471**	17,610
Cash at bank	**33,905**	42,868
Total financial investments	**1,537,212**	1,469,263
Financial liabilities		
Financial liabilities held at fair value through profit and loss	**1,211,241**	1,154,219
Financial liabilities held at amortised cost	**8,320**	10,297
Total Society financial liabilities	**1,219,561**	1,164,516

The above investments, which exclude land & buildings, and the financial liabilities, can then be further analysed out into the following categories:

Society financial assets held at fair value through profit and loss	Fair value 2019 £'000	Fair value 2018 £'000	Cost 2019 £'000	Cost 2018 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,282,197**	1,159,707	**972,756**	936,287
Debt securities and other fixed income securities	**100,703**	139,796	**87,908**	126,074
Shares of investment property	**7,973**	6,734	**5,091**	5,091
Derivatives held at fair value through profit and loss	**27**	378	**–**	–
Financial assets held at fair value through profit and loss	**1,390,900**	1,306,615	**1,065,755**	1,067,452
Loans and receivables				
Loans secured by mortgage	**456**	516	**456**	516
Deposits with credit institutions	**115,973**	142,190	**115,973**	142,190
Accrued income and receivables	**29,883**	19,942	**29,883**	19,942
Loans and receivables	**146,312**	162,648	**146,312**	162,648
Total Society financial assets	**1,537,212**	1,469,263	**1,212,067**	1,230,100

17. Financial instruments (continued)

Society analysis – linked and non-linked, excluding land & buildings.

Society financial assets held at fair value through profit and loss	Linked fair value 2019 £'000	Non-linked fair value 2019 £'000	Total fair value 2019 £'000	Linked fair value 2018 £'000	Non-linked fair value 2018 £'000	Total fair value 2018 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,110,779**	**171,418**	**1,282,197**	1,026,667	133,040	1,159,707
Debt securities and other fixed income securities	**–**	**100,703**	**100,703**	19,232	120,564	139,796
Shares of investment property	**7,973**	**–**	**7,973**	6,734	–	6,734
Derivatives held at fair value through profit and loss	**27**	**–**	**27**	378	–	378
Financial assets held at fair value through profit and loss	**1,118,779**	**272,121**	**1,390,900**	1,053,011	253,604	1,306,615
Loans and receivables						
Loans secured by mortgage	**–**	**456**	**456**	–	516	516
Deposits with credit institutions	**82,068**	**33,905**	**115,973**	99,322	42,868	142,190
Accrued income and receivables	**10,412**	**19,471**	**29,883**	1,886	18,056	19,942
Loans and receivables	**92,480**	**53,832**	**146,312**	101,208	61,440	162,648
Total Society financial assets	**1,211,259**	**325,953**	**1,537,212**	1,154,219	315,044	1,469,263
Financial liabilities						
Financial liabilities held at fair value through profit and loss	**1,211,241**	**–**	**1,211,241**	1,154,219	–	1,154,219
Financial liabilities held at amortised cost	**–**	**8,320**	**8,320**	–	10,297	10,297
Total Society financial liabilities	**1,211,241**	**8,320**	**1,219,561**	1,154,219	10,297	1,164,516

17. Financial instruments (continued)

VALUATION METHODS – These are based on FRS 102 (section 34) disclosure requirements on the three levels indicated.

2019 Group Financial assets held at fair value through profit and loss	Level 1 Active quoted prices £'000	Level 2 Other observable inputs £'000	Level 3 Other £'000	Total £'000
Shares, other variable yield securities and holdings in collective investment schemes	404,669	877,258	270	1,282,197
Debt securities and other fixed income securities	62,819	35,390	2,494	100,703
Shares of investment property	–	–	7,973	7,973
Derivatives held at fair value through profit and loss	27	–	–	27
Financial assets held at fair value through profit and loss	**467,515**	**912,648**	**10,737**	**1,390,900**
Financial liabilities held at fair value through profit and loss	**–**	**1,211,241**	**–**	**1,211,241**

2018 Group Financial assets held at fair value through profit and loss	Level 1 Active quoted prices £'000	Level 2 Other observable inputs £'000	Level 3 Other £'000	Total £'000
Shares, other variable yield securities and holdings in collective investment schemes	264,774	830,348	64,585	1,159,707
Debt securities and other fixed income securities	99,491	37,828	2,477	139,796
Shares of investment property	–	–	6,734	6,734
Derivatives held at fair value through profit and loss	378	–	–	378
Financial assets held at fair value through profit and loss	364,643	868,176	73,796	1,306,615
Financial liabilities held at fair value through profit and loss	–	1,154,219	–	1,154,219

Level 3 assets consist of investment property, venture capital and hedge fund holdings.

Investment properties are valued by reference to independent valuations as detailed in Note 15. The Investment Method of Valuation is used to value the investment property classified at level 3 in the fair value hierarchy. A key unobservable input is the present value of future market rents, adjusted for risk factors that are envisaged to exist at point of sale in an arms-length transaction.

17. Financial instruments (continued)

Hedge fund holdings at the prior year end are valued using prices obtained from the hedge fund administrator, the majority of these are based on exchange quotes of the underlying assets that would be classified as level 1 or 2 if they were held outside of the hedge fund. These exchange quotes are obtained before the balance sheet date and are then projected to 31 December to arrive at the value disclosed in the financial statements using a movement factor based on current holdings. All hedge funds have been divested as at 31 December 2019.

2019 Society Financial assets held at fair value through profit and loss	Level 1 Active quoted prices £'000	Level 2 Other observable inputs £'000	Level 3 Other £'000	Total £'000
Shares, other variable yield securities and holdings in collective investment schemes	404,669	877,258	270	1,282,197
Debt securities and other fixed income securities	62,819	35,390	2,494	100,703
Shares of investment property	–	–	7,973	7,973
Derivatives held at fair value through profit and loss	27	–	–	27
Financial assets held at fair value through profit and loss	**467,515**	**912,648**	**10,737**	**1,390,900**
Financial liabilities held at fair value through profit and loss	**–**	**1,211,241**	**–**	**1,211,241**

2018 Society Financial assets held at fair value through profit and loss	Level 1 Active quoted prices £'000	Level 2 Other observable inputs £'000	Level 3 Other £'000	Total £'000
Shares, other variable yield securities and holdings in collective investment schemes	264,774	830,348	64,585	1,159,707
Debt securities and other fixed income securities	99,491	37,828	2,477	139,796
Shares of investment property	–	–	6,734	6,734
Derivatives held at fair value through profit and loss	378	–	–	378
Financial assets held at fair value through profit and loss	364,643	868,176	73,796	1,306,615
Financial liabilities held at fair value through profit and loss	–	1,154,219	–	1,154,219

18. Debtors

Group and Society	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Amounts owed from Group undertakings	–	–	13,072	11,223
Amounts owed from policyholders	625	484	625	484
Amounts owed from intermediaries	140	73	140	73
Debtors arising out of reinsurance operations	1,884	1,467	1,884	1,467
Other debtors	12,396	11,192	3,750	4,363
Total	**15,045**	13,216	**19,471**	17,610

Amounts owed from Group undertakings in the Society include £7,653k (2018: £7,547k) falling due after more than one year.

19. Tangible assets

Group Cost	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
At 1 January 2019	418	1,171	1,589
At 31 December 2019	**418**	**1,171**	**1,589**
Depreciation			
At 1 January 2019	269	527	796
Provided in the year	105	234	339
As at 31 December 2019	**374**	**761**	**1,135**
Net book value at 31 December 2019	**44**	**410**	**454**
Net book value at 31 December 2018	149	644	793

The charge for depreciation for the Group in the year ended 31 December 2019 was £339k (2018: £343k).

Depreciation is included in operating expenses.

19. Tangible assets (continued)

Society Cost	Fixtures, fittings and office equipment £'000	Total £'000
At 1 January 2019	1,171	1,171
At 31 December 2019	**1,171**	**1,171**
Depreciation		
At 1 January 2019	527	527
Provided in the year	234	234
At 31 December 2019	**761**	**761**
Net book value at 31 December 2019	**410**	**410**
Net book value at 31 December 2018	644	644

The charge for depreciation for the Society in the year ended 31 December 2019 was £234k (2018: £234k).

20. Technical provisions

Group and Society	Long-term business provision £'000	Acquired present value of in force business £'000	Reinsurers share £'000	Provision for outstanding claims £'000
At 1 January 2019	262,097	(40,374)	(101,783)	5,623
Amortisation of PVIF	–	2,725	–	–
Movement in provision for outstanding claims	–	–	–	768
Change in long-term business provision	22,252	–	(14,000)	–
Impairment of PVIF	–	–	–	–
At 31 December 2019	**284,349**	**(37,649)**	**(115,783)**	**6,391**

20. Technical provisions (continued)

The acquired PVIF is being amortised as described in accounting policy L – 'Intangible assets' and the amortisation is shown under goodwill and intangible amortisation in the statement of income and expenditure account. The acquired PVIF is being netted off against long-term business provision (LTBP).

Provisions for outstanding claims represent amounts where notification of a claim has been received but full supporting documentation is still outstanding which means that it cannot be processed. Typically these amounts would be expected to unwind in the first half of the following accounting period.

Uncertainties and estimation techniques

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies and principally arises in respect of the technical provisions of the company. As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Long-term business provisions (LTBPs) are computed using statistical and other mathematical techniques, which are expected to give approximately the same results as if an individual liability were calculated for each long-term contract. The computations are made by suitably qualified personnel engaged by the Group on the basis of recognised actuarial methods. This methodology takes into account the risks and uncertainties of the particular classes of long-term business written and the results are certified by the professionals undertaking the valuations.

Process for determining assumptions

The process used to determine any assumptions is intended to result in conservative estimates of the most likely, or expected, outcome. The assumptions are checked to ensure they are consistent with observed market practice or other published information.

For insurance contracts the Group regularly considers whether the technical provisions are adequate. The assumptions that are considered include the expected number and timing of deaths, other claims and investment returns, over the period of risk exposure. A reasonable allowance is made for the uncertainty within the contracts.

The principal assumptions underlying the calculation of the long-term business provision are:

Mortality – a base mortality table and, where relevant, mortality improvement factors are selected which are most appropriate for each type of contract taking into account rates charged to the Group by reinsurers.

Valuation Rates of Interest – these are set in relation to the risk adjusted yields on the underlying assets as per the regulations and guidance under the Prudential source book for Insurers (INSPRU) as at 31 December 2015.

Expenses – these assumptions are determined from the results of an internal expenses investigation with additional margins for prudence.

Persistency – assumptions about the rate at which policyholders will stop paying premiums and lapse their policy are determined primarily based on actual experience with the inclusion of a prudent margin.

20. Technical provisions (continued)

The LTBP has been calculated on the basis of the following principal interest assumptions for 2019:

Class of business	2019
Non-linked Annuities tax exempt/taxable	1.13% gross/2.33% net
Index-linked Annuities tax exempt/taxable	(1.92)% gross/(1.92)% net
Term Assurance/whole of life	1.13%
With-Profits 1 unitised with-profits tax exempt/taxable	1.13% gross/0.90% net
With-Profits 1 conventional with-profits tax exempt/taxable	0.63% gross/0.90% net
With-Profits 2 with-profits bond taxable	2.23% net
With-Profits 2 conventional with-profits tax exempt/taxable	1.53% gross/0.76% net

The mortality assumptions have been based on actual experience with the addition of prudent margins.

With-Profits bonuses

The LTBP includes £0.1m (2018: £0.2m) for reversionary bonuses already declared. The cost of any bonuses is included in "Change in long-term business provision" in the Long-term business – Technical account. The cost of terminal bonuses on with-profits policies is included in "Gross claims incurred" in the Long-term business – Technical account.

21. Technical provisions for linked liabilities

Policies defined as investment, rather than insurance contracts are accounted for on a deposit basis.

Group and Society	2019 £'000	2018 £'000
At 1 January	**1,154,219**	1,359,043
Deposits received from policyholders	**18,194**	20,661
Withdrawals by policyholders	**(125,128)**	(131,493)
Annual management charges	**(11,973)**	(12,654)
Change in fair value of gross liabilities	**175,929**	(81,338)
At 31 December	**1,211,241**	1,154,219

22. Creditors arising out of insurance operations

Group and Society	2019 £'000	2018 £'000
Amounts owed in respect of reinsurance	**982**	1,126
Other creditors	**–**	1,980
Total	**982**	3,106

23. Other creditors, including social security and taxation

	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
Amounts owed to group undertakings	**–**	–	**1,252**	184
Other taxes and social security costs	**635**	754	**746**	760
Other creditors	**5,415**	6,335	**5,340**	6,247
Total	**6,050**	7,089	**7,338**	7,191

All other creditors are payable within one year.

24. Fund for Future Appropriations

Group and Society	2019 £'000	2018 £'000
At 1 January	**33,174**	43,581
Transfer from/(to) the long-term business technical account	**2,765**	(10,407)
At 31 December	**35,939**	33,174

25. Retained earnings

	Group 2019 £'000	Group 2018 £'000	Society 2019 £'000	Society 2018 £'000
At 1 January	**160,929**	160,630	**164,578**	162,906
Recognised (losses)/gains in the year	**(3,474)**	299	**(2,512)**	1,672
At 31 December	**157,455**	160,929	**162,066**	164,578

26. Pension commitments

Defined Benefit Schemes

Following the merger of Homeowners Friendly Society Limited and Family Assurance Friendly Society Limited on 1 April 2015, the Group operates two defined benefit pension schemes. The following note summarises the pension valuation and commitments under FRS 102 for each Scheme individually.

Defined Contribution Schemes

Following the closure of these defined benefit schemes to future accrual, the Group makes pension contributions to a defined contribution stakeholder pension scheme on behalf of staff when they become eligible for pension benefits. The stakeholder scheme is provided by Legal and General Assurance Society Limited. The defined pension contributions for 2019 were £1,740k (2018: £1,505k).

Family Assurance Friendly Society Defined Benefit Scheme (the Family Scheme)

The Society operates a defined benefits pension scheme, the Family Assurance Staff Pension Scheme (the Family Scheme). The Family Scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the Family Scheme in accordance with the recommendations of an independent actuary. The Family Scheme closed to all further benefit accrual with effect 31 December 2009.

The funding plan is for the Family Scheme to hold assets equal to the value of the benefits earned by employees, based on a set of assumptions used for funding the Family Scheme. The funding assumptions differ from the assumptions used to calculate the figures for these accounts, and therefore produce different results. If there is a shortfall against this funding plan, then the Society and trustees agree on deficit contributions to meet this deficit over a period. As part of the actuarial valuation with an effective date of 31 December 2016 it was agreed that the Society would pay contributions of £166,667 per month until 31 December 2017 and £33,333 per month from 1 January 2018 until 31 December 2019. The Society has agreed to continue to pay contributions of £33,333 per month until 31 December 2020.

Our calculations are based on membership data as at 31 December 2019 provided by the LCP administration team for the formal valuation of the Family Scheme at this date which is currently in progress. As required by FRS 102, the defined benefit liabilities have been measured using the projected unit method.

26. Pension commitments (continued)

The following table sets out the key FRS102 assumptions used for the Family Scheme. The table also sets out, as at 31 December 2019 and 2018, the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS102 liabilities and the surplus or deficit of the assets over the FRS102 liabilities (the gross pension asset or liability).

Under FRS102, a pension asset can only be recognised on the balance sheet to the extent that is recoverable by the employer through reduced contributions for future pensionable service or refunds (either over the course of the Scheme's life, or when it is ultimately wound up), and where that is within the control of the employer. The Trustees of the Scheme have full control over all investment and benefit decisions of the Scheme and therefore the Society does not have the necessary control to support recognition of the net surplus on the balance sheet. The impact of this limit on the balance sheet, profit and loss, and the actuarial gains and losses entries are shown in the figures below.

Family Scheme assumptions	**2019**	2018
Retail prices index inflation	**2.90%**	3.40%
Consumer prices index inflation	**2.10%**	2.30%
Revaluation in deferment	**2.10%**	2.30%
Pension increases:		
- pre April 1997 pension	**0.00%**	0.00%
- post April 1997 pension	**2.80%/2.10%***	3.20%/2.30%*
- post April 2005 pension	**1.70%***	1.80%*
Salary growth	**N/A**	N/A
Discount rate	**2.10%**	2.90%
Life expectancy:		
- male aged 65 at the statement of financial position date	**22.3 years**	22.5 years
- male aged 65 in 2044 (25 years from the statement of financial position date)	**24.0 years**	24.3 years

* assumptions for members who transferred into the scheme from the Family Assurance Friendly Society Limited staff pension scheme

26. Pension commitments (continued)

Family Scheme fair value of assets	**2019 £'000**	2018 £'000
Equities	**13,069**	10,684
Diversified growth/absolute return on funds	**4,417**	4,072
LDI portfolio (including liquidity fund)	**24,789**	37,138
Buy-in policy	**12,234**	–
Cash	**151**	68
Other net assets	**(60)**	(17)
Total fair value of assets	**54,600**	51,945
Present value of defined benefit obligations	**(47,280)**	(42,361)
Pension surplus	**7,320**	9,584
Adjustment for asset limit	**(7,320)**	(9,584)
Recognised pension asset	**–**	–

The plan does not invest directly in property occupied by the Society or in financial securities issued by the Society.

Changes in present values of the defined benefit obligations (DBO) are as follows:

Family Scheme change in present value	**2019 £'000**	2018 £'000
Opening defined benefit obligation	**42,361**	48,423
Past service cost	**–**	600
Interest on obligation on funds	**1,211**	1,117
Actuarial gain/(loss)	**4,905**	(4,882)
Benefits paid	**(1,197)**	(2,897)
Closing defined benefit obligation	**47,280**	42,361

The past service cost in 2018 of £0.6m relates to a provision for the estimated costs arising as a result of the 2018 High Court judgement on the Lloyds Bank GMP Inequalities case. The Family Scheme was contracted-out between 17 May 1990 and 5 April 1997, and therefore has accrued GMP benefits for all active members during that period. From the data available as at 31 December 2016, which was used for the most recent actuarial valuations, the amount of the GMP liability in the Family Scheme, applicable for each member for this period of service, has been estimated.

26. Pension commitments (continued)

Changes in the fair value of the scheme assets are as follows:

Family Scheme change in fair value	2019 £'000	2018 £'000
Opening value of scheme assets	**51,945**	56,354
Interest on scheme assets	**1,495**	1,312
Actuarial gain/(loss)	**1,957**	(3,224)
Contributions by the employer	**400**	400
Benefits paid	**(1,197)**	(2,897)
Closing value of scheme assets	**54,600**	51,945

The actual return on the Family Scheme's assets over the year was a gain of £3,452k (2018: £1,912k loss).

Changes in the value of the asset limit are as follows:

Family Scheme change in value of asset limit	2019 £'000	2018 £'000
Opening asset limit	**(9,584)**	(7,931)
Net interest on asset limit	**(284)**	(195)
Change to asset limit	**2,548**	(1,458)
Closing asset limit	**(7,320)**	(9,584)

The following amounts are included within income and expenditure under FRS 102.

Family Scheme amounts included in income and expenditure	2019 £'000	2018 £'000
Past service (cost)/credit	**–**	(600)
Loss recognised in income and expenditure	**–**	(600)

26. Pension commitments (continued)

The following amounts are recognised in the statement of other comprehensive income:

Family Scheme change in comprehensive income	2019 £'000	2018 £'000
Experience gain/(loss) on scheme assets	**1,957**	(3,224)
Experience gain on scheme liabilities	**58**	160
Actuarial (loss)/gain due to the changes in assumptions of the DBO	**(4,963)**	4,722
Actuarial gains/(losses)	**(2,948)**	1,658
Gain/(loss) due to movement in the statement of financial position limitation	**2,548**	(1,458)
(Loss)/gain recognised outside income and expenditure	**(400)**	200

Family Scheme sensitivity of defined benefit obligation to alternative assumptions as at 31 December 2019	Increase £'000	Decrease £'000
Discount rate – Effect of 0.5% change	**(4,200)**	**4,800**
Inflation – Effect of 0.5% change	**3,300**	**(3,000)**
Life expectancy – Effect of one year change	**1,500**	**(1,500)**

Homeowners Friendly Society Defined Benefit Scheme (the Engage Scheme)

The Society operates a second defined benefits pension scheme, the Homeowners Friendly Society Pension Scheme (the Engage Scheme). The Engage Scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the Engage Scheme in accordance with the recommendations of an independent actuary.

The Engage Scheme closed to all further benefit accrual with effect 31 December 2012.

Details in respect of the Engage Scheme are provided below in accordance with FRS102.

The funding plan is for the Engage Scheme to hold assets equal to the value of the benefits earned by employees, based on a set of assumptions used for funding the Engage Scheme. The funding assumptions differ from the assumptions used to calculate the figures for these accounts, and therefore produce different results. If there is a shortfall against this funding plan, then the Society and trustees agree on deficit contributions to meet this deficit over a period. As part of the actuarial valuation with an effective date of 31 December 2016 it was agreed that the Society would pay contributions of £56,083 per month until 31 December 2017 and £8,333 per month from 1 January 2018 until 31 December 2018. No contributions were paid in 2019. The Society has agreed to pay contributions of £8,333 per month between 1 January 2020 and 31 December 2020.

26. Pension commitments (continued)

Our calculations are based on membership data as at 31 December 2019 provided by the LCP administration team for the formal valuation of the Engage Scheme at this date which is currently in progress. As required by FRS 102, the defined benefit liabilities have been measured using the projected unit method.

The following table sets out the key FRS102 assumptions used for the Engage Scheme. The table also sets out, as at 31 December 2019 and 2018, the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS102 liabilities and the surplus or deficit of the assets over the FRS102 liabilities (the gross pension asset or liability).

Under FRS102, a pension asset can only be recognised on the balance sheet to the extent that is recoverable by the employer through reduced contributions for future pensionable service or refunds (either over the course of the Scheme's life, or when it is ultimately wound up), and where that is within the control of the employer. The Trustees of the Scheme have full control over all investment and benefit decisions of the Scheme and therefore the Society does not have the necessary control to support recognition of the net surplus on the balance sheet. The impact of this limit on the balance sheet, profit and loss, and the actuarial gains and losses entries are shown in the figures below.

Engage Scheme assumptions	**2019**	2018
Retail prices index inflation	**2.90%**	3.40%
Consumer prices index inflation	**2.10%**	2.30%
Revaluation in deferment	**2.10%**	2.30%
Pension increases:		
- pre April 1997 pension (Homeowners Friendly Society Limited)	**0.00%**	0.00%
- post April 1997 pension (Homeowners Friendly Society Limited)	**2.85%**	3.20%
- post April 2005 pension (Homeowners Friendly Society Limited)	**2.00%**	2.15%
- pre April 1997 pension (UKCS)	**3.00%**	3.00%
- post April 1997 pension (UKCS)	**3.55%**	3.75%
- post April 2005 pension (UKCS)	**3.55%**	3.75%
Salary growth	**N/A**	N/A
Discount rate	**2.10%**	2.90%
Life expectancy:		
- male aged 60 at the statement of financial position	**27.4 years**	26.8 years
- male aged 60 in 2039 (20 years from balance sheet date)	**28.9 years**	28.4 years

26. Pension commitments (continued)

It is assumed that members commute 25% of their benefits on retirement as a cash lump sum.

Engage Scheme fair value of assets	**2019 £'000**	2018 £'000
Equities	**4,252**	3,477
Fixed interest gilts	**5,915**	11,738
Index linked gilts	**10,860**	16,952
Buy-in policy	**10,998**	–
Cash and net current assets	**(1,744)**	–
Other net assets	**151**	168
Total fair value of assets	**30,432**	32,335
Present value of defined benefit obligations	**(24,410)**	(22,708)
Pension surplus	**6,022**	9,627
Adjustment for asset limit	**(6,022)**	(9,627)
Recognised pension asset	**–**	–

Changes in the present value of the defined benefit obligation are as follows:

Engage Scheme change in present value	**2019 £'000**	2018 £'000
Opening defined benefit obligation	**22,708**	26,151
Interest on obligation on funds	**628**	607
Actuarial gain/(loss)	**3,199**	(2,319)
Benefits paid	**(2,125)**	(1,731)
Closing defined benefit obligation	**24,410**	22,708

26. Pension commitments (continued)

Changes in the fair value of the scheme assets are as follows:

Engage Scheme change in fair value	2019 £'000	2018 £'000
Opening value of scheme assets	**32,335**	34,762
Interest on scheme assets	**907**	815
Actuarial loss	**(685)**	(1,611)
Contributions by the employer	**–**	100
Benefits paid	**(2,125)**	(1,731)
Closing value of scheme assets	**30,432**	32,335

The actual return on the Engage Scheme's assets over the year was a gain of £222k (2018: £796k loss).

Changes in the value of the asset limit are as follows:

Engage Scheme change in value of asset limit	2019 £'000	2018 £'000
Opening asset limit	**(9,627)**	(8,611)
Net interest on asset limit	**(279)**	(208)
Change to asset limit	**3,884**	(808)
Closing asset limit	**(6,022)**	(9,627)

26. Pension commitments (continued)

There are no amounts included within income and expenditure under FRS 102 (2018: nil).

The following amounts are recognised in the statement of other comprehensive income:

Engage Scheme change in comprehensive income	2019 £'000	2018 £'000
Experience loss on scheme assets	**(685)**	(1,611)
Experience loss on scheme liabilities	**(721)**	(56)
Actuarial (loss)/gain due to the changes in assumptions of the DBO	**(2,478)**	2,375
Actuarial (loss)/gain	**(3,884)**	708
Loss due to movement in the statement of financial position limitation	**3,884**	(808)
Loss recognised outside income and expenditure	**–**	(100)

Engage Scheme sensitivity of defined benefit obligation to alternative assumptions as at 31 December 2019	Increase £'000	Decrease £'000
Discount rate – Effect of 0.5% change	**(1,945)**	**2,217**
Inflation – Effect of 0.5% change	**1,297**	**(1,242)**
Life expectancy – Effect of one year change	**831**	**(827)**

The total amount included in the Statement of Other Comprehensive income for the year is:

Group Schemes change in comprehensive income	2019 £'000	2018 £'000
(Loss)/gain outside the income and expenditure account for the Family Scheme	**(400)**	200
Loss outside the income and expenditure account for the Engage Scheme	**–**	(100)
Total Scheme change in comprehensive income	**(400)**	100

27. Statement of information relating to the Chief Actuary

The Chief Actuary of the Group is Mr P Whitlock of Willis Towers Watson plc.

The following information has been provided, in accordance with Section 77 of the Friendly Societies Act 1992:

- Mr P Whitlock was not a member of the Group at any time during 2019;
- No other member of his family was a member of the Group during 2019;
- Willis Towers Watson were paid fees for the year of £1,729k (2018: £1,782k) for the services of the Chief Actuary and other actuarial services.

28. Related party transactions

Transactions or balances between Group Entities

Family Assurance Friendly Society Limited and its subsidiaries (collectively the Group) have a number of transactions between themselves all of which are undertaken in the normal course of business. As these accounts cover the Society and the Group, no transactions or balances between Group entities, which eliminate on consolidation, require disclosure in accordance with the exemption given in FRS 102.

No members of the Board of FAFSL or its key management had material transactions with any of the Group's related parties. No member of key management personnel, being any person having authority and responsibility for planning, directing or controlling the activities of the Society and Group, directly or indirectly, including any director (whether executive or otherwise) of the Society, nor their close family, had a material transaction with the Group.

The Society and Group had the following investment in Collective Investment Schemes managed by a subsidiary, Family Investment Management Limited, as at 31 December:

Related party transactions	2019 £'000	2018 £'000
Group and Society		
Family Asset Trust	**33,366**	30,264
Family Charities Ethical Trust - Accumulation Units	**9,906**	8,877
Family Balanced International Fund - Share Class C	**7,770**	4,878
Family Balanced International Fund - Share Class F	**660,672**	634,473
OneFamily Global Equity Fund - Share Class C	**52,350**	44,840
OneFamily Global Mixed Investment Fund - Share Class C	**37,695**	33,712
OneFamily Stockmarket 100 Trust	**26,939**	–
Total	**828,698**	757,044

28. Related party transactions (continued)

During 2019, the Society and the Group made the following investments. All purchases of units were made at arm's length based on the buying price:

Purchase of Investments	2019 £'000	2019 Units	2018 £'000	2018 Units
Group and Society				
Family Balanced International Fund - Share Class C	**2,063**	**1,353,221**	1,803	1,202,878
Family Balanced International Fund - Share Class F	**298**	**71,823**	24,067	5,642,534
OneFamily Global Equity Fund - Share Class C	**–**	**–**	50,000	50,000,000
OneFamily Global Mixed Investment Fund - Share Class C	**–**	**–**	35,000	35,000,000
OneFamily Stockmarket 100 Trust	**26,000**	**11,448,701**	–	–
Total	**28,361**		110,870	

Details above for the OneFamily Stockmarket 100 Trust relate to purchases made following the transfer of management of the unit trust to a Group company.

Glossary

Best Companies	An employee engagement survey which generates the list of the top 100 companies to work for, published annually in the Sunday Times
Bond Spread	The bond spread will show the additional yield (return) that could be earned from a bond which has a higher risk than a gilt
Bonds	Generally corporate bonds, this is debt issued by a company to raise capital. Interest is paid through the term of the bond and at a set date the nominal value is returned to the investor
Child Trust Fund	Government backed product given to all children born between September 2002 and 2011. The first policies will mature in September 2020
Conduct risk	The risk of failure to conduct business fairly and properly in relation to customers and other stakeholders
Coverage ratio	Under Solvency II the ratio of eligible own funds to the solvency capital requirement
Deferred tax asset	Usually occurs as a result of net losses which can be carried forward and used in future years to reduce taxable income
Equities	A shareholding in a company
ESG	Environmental, social and governance
Executive director	A working director of the Group who is also an employee, and has a specified decision making role on an on-going basis
Financial Conduct Authority (FCA)	The body that regulates the conduct of retail and wholesale financial services firms in the UK
Fund for Future Appropriations (FFA)	This balance represents all with-profits surpluses, the allocation of which to individual policies has not yet been determined by the end of the financial year
GDPR	The General Data Protection Regulation (GDPR) is an EU privacy and security law
Gilts	Government issued bonds considered to be lower risk than corporate bonds
Lapse risk	The risk that an insurance policy is cancelled before the end of the policy term, often because a policyholder ceases to pay premiums
Lifetime ISA	An investment product for customers under 40 saving for a first home or retirement
Lifetime mortgage	Mortgage for homeowners aged 55 and over who want to release capital in their property
Long-term business provision (LTBP)	The value of insurance liabilities calculated in line with the Prudential Sourcebook for Insurers (INSPRU) as at 31 December 2015
LTV – Loan to value	The ratio of the amount borrowed compared to the value of the property as a whole
Market risk	The risk associated with changes in the market price of investment assets
Minimum Capital Requirement (MCR)	The base capital level for a business that, in the event it is breached, triggers ultimate supervisory measures from the Prudential Regulation Authority
Morbidity risk	The risk associated with the likelihood that a policyholder will fall ill during the period of insurance cover
Mortality risk	The risk associated with the likelihood that a policyholder will die during the period of insurance cover
Non-executive director	A non-executive director is a member of the Board of directors who is not part of the executive team. A non-executive director typically does not engage in the day-to-day management of the Group but is involved in policymaking and planning
Non-profit fund	A fund where the investing policyholders do not share in the surplus in the fund
Non-technical account	The non-technical account reflects the income and expenditure of subsidiary companies
Operational risk	The risk associated with a failing in internal processes, personnel or systems, or from external events
Own Risk and Solvency Assessment (ORSA)	An internal assessment of risk and capital requirements
Own funds	Surplus of assets over liabilities under Solvency II regulations
Present Value of In-Force (PVIF)	The expected future profits from an existing book of insurance business
Prudential Regulation Authority (PRA)	Responsible for prudential regulation within the UK of banks, insurers, building societies, credit unions and major investment firms
Reinsurance recoverables	The amount paid by reinsurers to cover losses for insurance
Retained earnings	The retained profits in the non-profit fund
Reversionary bonus	An annual bonus paid to with-profits policyholders
Risk appetite statement	A statement setting out the Society and Group attitude to risk
Risk management framework	The Risk Management Framework sets out principles, policies, minimum standards and requirements which are designed to manage risk within the Board's risk appetite
Solvency II (SII)	The capital adequacy regime for the European insurance industry that establishes a comprehensive framework for insurance supervision and regulation
Solvency Capital Requirement (SCR)	The amount of capital to be held by an insurer to meet the Pillar I requirements under the Solvency II regime
Surplus assets	Assets which are in excess of Solvency II capital requirements
System of governance	The governance framework under which the Society is operated to enable the Board and the Executive team to discharge its responsibilities
Technical account	The technical account reflects the income and expenditure of the Society
Technical Provision for Linked Liabilities (TPLL)	A provision reflecting the amounts due to policyholders invested in linked funds
Terminal bonus	A discretionary maturity bonus paid to with-profits policyholders
With-profits fund	A ring-fenced fund where the policyholders participate in the surplus of the fund

General information

Family Assurance Friendly Society Limited (FAFSL or the Society) is incorporated under the Friendly Societies Act 1992. FAFSL, together with its subsidiaries, forms the consolidated Group known as OneFamily.

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