onefamily
modern family finance

Annual Report and Consolidated Financial Statements 2020

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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 2020 and also to find out more about our exciting new vision; **Inspiring Better Futures**.

Strategic report

This Strategic report on pages 7 to 47 incorporates the following sections:

Over 2 million customers and over £7 billion worth of families money cared for*

Over 40 years' experience and experts in children's and young peoples' investments

Responsible investments are available through climate-impact funds

£4 million to support our customers and communities since 2015

*As of 1 January 2021

We have tried to use plain English throughout this annual report, however, due to the nature of our business some of the terms are quite technical, hence a glossary is provided on page 154.

Chair's review
Christina McComb

Welcome to our 2020 Annual Report and Financial Statements.

When I wrote my review for the 2019 Annual Report, the implications of the COVID-19 global pandemic were only just materialising. At that time, it was not possible to predict the fallout from a year of lockdowns, tiering systems and social distancing. I know from the feedback we have received from our members and customers during this period how challenging life has been for many families on many different levels. But I am proud that, despite everything the year threw at us, we at OneFamily reacted swiftly and decisively; prioritising the needs of our members and customers and the wellbeing of our colleagues.

Further on in this Annual Report you will read more detail about OneFamily's resilience during 2020; both operationally and in relation to our financial strength. What I also want you to know is that, as a mutual organisation owned by our members, we take our responsibility to helping our customers through these difficult times very seriously indeed. For example, we have supported those who have struggled to make scheduled payments to their policies and those with interest paying lifetime mortgages have been able to revert to non-interest paying without penalty. We provided funding to community organisations who have been supporting the vulnerable during the pandemic and also set up a new temporary hardship grant to help members and their families who may have been unable to pay for their next food shop or pay their utility bills.

With the vaccination roll-out now well underway, it is hoped that 2021 will begin to see a move back to what is being called the 'new normal'. However, we know this is not going to be the end of a difficult time for the country. Quite apart from the health impacts, the financial repercussions of the pandemic – through job losses, business closures, long COVID and government borrowing – are likely to be with us for much longer.

The economic environment

Any impact on the UK economy of the UK's exit from the EU at the end of January 2020 was very quickly overshadowed by the pandemic. 2020 saw huge stock market falls in the early part of the year, which have impacted those of you with policies linked to underlying investment assets. Looking at past market downturns, these tend to be followed by strong market recoveries over the medium to long-term. Whilst the markets recovered to some extent in the second half of the year, they remain volatile, albeit the release of positive news on vaccine trials gave a well needed boost towards the end of the year and into 2021.

The impact on the economy is not just evident through facts and figures about stock market indices. During 2020 almost 800,000 jobs were put at risk of redundancy and the unemployment rate as at November 2020 had risen to 5.0%. On the positive front, the UK and other governments reacted quickly and decisively to provide support to individuals and companies. The challenge now is for politicians and policy makers to decide how to unwind these schemes and to start to rebuild public finances. What is clear is that there is no short-term fix.

Finally, on the economic front, the transition period for Brexit came to an end on 31 December 2020 with the agreement of a trade deal between the UK and the EU having been reached only the day before. The full implications of the deal and the future of the UK's prospects outside the EU will emerge during 2021 and beyond. However, as you will read later in this report, we believe that our strategy with its focus on protecting our members' value and enhancing the sustainability of the business will ensure that we remain relevant for the future.

"As a member-owned business, we believe that our actions should have a positive impact on our workplaces, customers, communities and the wider world."

Our vision and strategy

At the beginning of 2020 our new CEO, Teddy Nyahasha, set out his new vision for the organisation: Inspiring Better Futures. Critically, this vision focusses not just on OneFamily continuing to offer good value products and excellent service to our customers but also emphasises our role in supporting the wider society and ecosystem in which we operate. We believe that this is entirely aligned with our status as a mutual business. For more about how we are bringing our vision to life, please see the section on Inspiring Better Futures on page 26. One area that the Board and executive have focussed on over the past year is our Environmental, Social and Governance (ESG) strategy. As many of our readers will know, ESG relates not only to our own internal business processes, but is also a consideration in how we deal with our customers, suppliers and other stakeholders. Throughout this report you will read more about various ESG topics including our climate-friendly funds, our role as a mutual organisation, and how we minimise our own environmental impact.

AGM

The Society's AGM will be held in June 2021 but due to the current circumstances in respect of COVID-19, once again we will not be able to invite members to attend the meeting in person. As usual, however, we encourage members to take part through our proxy voting arrangements either online or by post. We will also be encouraging members to submit questions in advance of the meeting as it is our intention that the meeting will be streamed online enabling members to view it live from their homes, with a facility for live voting and responses to questions. I hope that many of you will be able to join this virtual event.

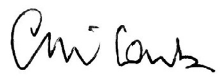
Board and governance

As noted in the 2019 Annual Report, 2020 saw a change in the roles and composition of our Board.

In addition to Teddy Nyahasha taking up the reins as CEO, Jim Islam, our Chief Finance Officer, and Nici Audhlam-Gardiner, our Chief Commercial Officer, both joined the Board as executive directors on 1 January 2020. Jackie Noakes was appointed as a non-executive director on 1 April 2020 adding to the depth of the Board's capability with her experience as Chief Operating Officer at Bank of Ireland and previously at Legal and General Assurance Society.

We also said farewell to Ian Buckley who served on the Board of Family Assurance Friendly Society for over nine years and was latterly Vice-Chair and Senior Independent Director. I would like to thank Ian for his devoted service to the Society.

Finally, I would like to thank my fellow Board members and all my colleagues at OneFamily for their continued hard work, perseverance and commitment throughout this most difficult of years.



Christina McComb
Chair

Chief Executive's report
Teddy Nyahasha

My first full year as Chief Executive Officer (CEO) has seen some unexpected challenges, but it has been heartening to see the resolve and positivity of my colleagues under very difficult circumstances.

Their determination to put our members first, in line with our mutual ethos, has enabled us to enhance the range of products and services we provide to modern families. Please see the section on Our strategy on page 20 for more details.

Whilst it's important to acknowledge how a year largely defined by the COVID-19 pandemic has affected OneFamily, we shouldn't let it overshadow the significant achievements that we've made during the year – which will be highlighted throughout this Annual Report.

2020 and the impact of COVID-19

We remain financially strong, despite the turbulent economy highlighted in the Chair's report. You will read more about this in the Chief Finance Officer's report. The resilience of the business both financially and operationally should provide comfort to our customers and members of the long-term nature and focus of OneFamily.

We appreciate that COVID-19 has had a significant financial impact on many of our members. As a mutual we see our role to be more than just that of a product provider, we want to support members where we can and be part of a community that can be relied upon in difficult times. During 2020 we've helped those who have struggled to make scheduled payments to their policies and lifetime mortgages and also provided grants to those who have been unable to pay for their next food shop. In addition, we've simplified the process for serious illness and terminal illness claims, both to make life easier for our customers and to reduce the pressure on NHS staff by not burdening them with paperwork.

One positive outcome from the pandemic has been the increased likelihood that some people will save. We've seen increased payments into both our own savings products and those that we administer for the Bank of Ireland during the course of this year.

The pandemic has inevitably led to a significant change in our ways of working. I am proud to report that we have, not only, continued to provide the high level of customer service that we are known for, but have also driven forward our strategy. However, the switch to remote working has been tough for many people therefore, we have put various initiatives in place to support our colleagues' wellbeing; more on this topic can be seen in the Inspiring Better Futures section on page 26.

As I've mentioned above, notwithstanding COVID-19, we have achieved great things in 2020. Our strategy report on pages 7 to 47 provides more detail on the launch of new products and enhancement of existing ones. It also explains the cost efficiencies we have made which in turn provides improved returns to our customers and members, further increasing our resilience and long-term sustainability.

Inspiring Better Futures

As noted by the Chair, in early 2020 I set out my new vision for OneFamily: 'Inspiring Better Futures'. Through our products, activities and charitable giving, we seek to positively impact the futures of our members and customers, our colleagues, our communities and the world at large. This isn't a new goal – throughout our history, OneFamily has

"The resilience of the business both financially and operationally should provide comfort to our customers and members of the long-term nature and focus of OneFamily."

been active in supporting education, caring for the environment and investing in our communities. Our vision gives renewed vigour to what's always been at the heart of our business.

Key to our vision is that it looks further than just the here and now, it considers the legacy we leave for future generations. As a mutual, we are in a much better position to achieve this, as we can take a longer-term view in our decisions and investments.

We are on a journey to make inspiring better futures part of everything we do, and you can read more about how we are achieving this on pages 26 to 39.

Child trust fund maturities

As the UK's biggest child trust fund (CTF) provider, we had carefully planned for the coming of age of the first of our CTF policyholders in 2020. We've worked hard to ensure that these young adults have a smooth journey through the maturation process with us; whether they choose to withdraw their money or reinvest it in one of our Stocks & Shares ISAs or a Lifetime ISA. A warm welcome to those of you who have chosen to stay invested with us and, in doing so, are now our newest members!

For those young people continuing to invest with us, there is the choice of two climate change funds to back their accounts; Global Mixed and Global Equity. Our research has shown that 72% of teenagers believe their generation has a duty to ensure their investments are not used to support companies that damage the environment. So, we have worked closely with our fund manager to ensure these funds will have a positive impact on our planet. This is a first step in putting pressure on other businesses to start working towards greener ways of operating.

Modernisation

I mentioned in my report last year that OneFamily was looking to invest further in its infrastructure as part of a wider modernisation programme. I'm pleased to report that we are making progress in line with our plan, with delivery in stages through to 2023. This is a significant investment for us, but it will mean substantial efficiencies from an operational perspective, including the provision of an IT platform, on which we can grow our business. It will also enhance our customers' experiences in dealing with us, allowing online access to their accounts at a time that works for them.

Diversity and Inclusion

Diversity and inclusion may have become buzz words in 2020, especially following the death of George Floyd in the US, however, as a socially responsible organisation this has been at the core of who we are for many years. But it's an active process – therefore, in 2020 we launched our Diversity and Inclusion strategy and programme. Our activities and initiatives have ranged from establishing an Inclusion Advocates Working Group to inviting guest speakers to talk to colleagues about their work and life experiences.

I believe that we all have a part to play in calling out intolerance and bigotry, in all its forms – whether it's racism, religious intolerance, sexism, class discrimination, derision of life-choices, homophobia or discrimination against people with disabilities. I feel lucky that we are based in

Brighton; a city that celebrates diversity and is a colourful, beautiful reminder of the joy of being an individual.

We absolutely believe that having a diverse workforce is the key to driving forward an innovative business. Embracing and supporting people from different backgrounds, with a wealth of ideas and experiences, will make OneFamily a better place to work and we'll be better placed to support our customers and our community. Our Diversity and Inclusion strategy is designed to support all of us. More about our ongoing work on this can be found in the Inspiring Better Futures section on page 26.

Outlook

As vaccines are gradually rolled out across the UK and the rest of the world, I am excited to see what the future holds. I believe that we've worked through these turbulent times with great resilience and fortitude, which has meant that we are now stronger than ever.

However, we will need to continue to push ourselves yet further to develop and deliver the products that families want and need – efficiently and effectively. More on Our strategy can be found on page 20.

I would like to record my thanks to the Board and my incredible team at OneFamily. This has been a most extraordinary year and I am very fortunate to have exceptional colleagues, who have pulled out all the stops to get the job done.

"I'm proud that we're owned by and run for you, our members. You are the people who are important and it's entirely right that our focus has continued to be firmly on you – even in the toughest of times"

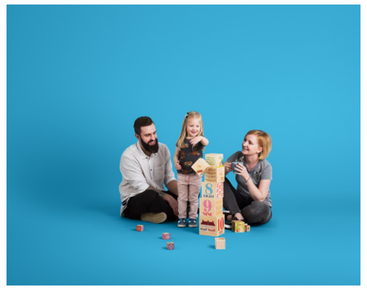
Finally, I'm proud that we're owned by and run for you, our members. You are the people who are important and it's entirely right that our focus has continued to be firmly on you – even in the toughest of times.

Teddy Nyahasha
Chief Executive

Our products

Investment, mortgage and insurance products to meet your family's needs

Investments for children



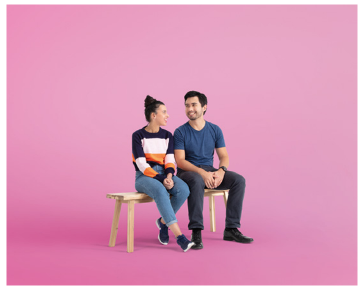
Every child needs a little help as they're growing up. And extra cash at those important times – like leaving home or starting work or further education – can come in very handy to help them on their way.

Child Trust Fund

Junior Bond

Junior ISA

Investments for adults



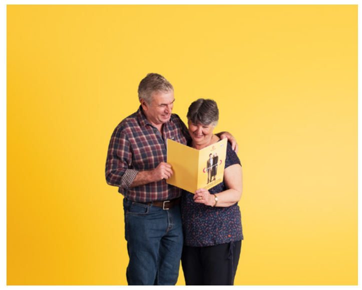
We offer simple, affordable ways to invest over the long-term. Whether it's for a first home, retirement or the holiday of a lifetime, you can take a step towards your savings goal.

Family Bond

Lifetime ISA

Stocks & Shares ISA

Options for later life



Whether you want to leave some money behind to cover the cost of your funeral, or release the equity in your home, we have a number of options that are available to those over 50 years of age.

Lifetime Mortgages

Over 50s Life Cover

What customers say about Onefamily

Excellent Customer Service

I have always found OneFamily customer services to be friendly, helpful and consistent. You know if you ask a question, you get the answer, showing they have actually taken in that which you are asking them. Keep up the good work! – Claire

Great company

Great company, look after my children's accounts. – Rebecca

I've been part of the OneFamily for 10 years

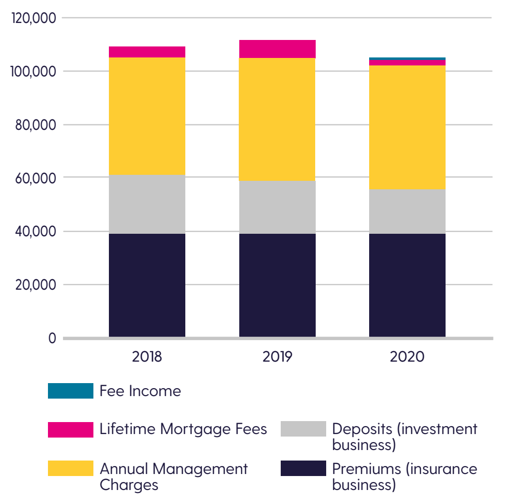
Just recently have started a new policy as the last one ended. I have trusted onefamily which was previously known as engage mutual hence I have returned. Hopefully it will continue to be good. – Molik

Equity Mortgage

I found James to be very helpful & friendly throughout all our emails & telephone conversations, explaining all the technical important points in a very positive way. – Scott

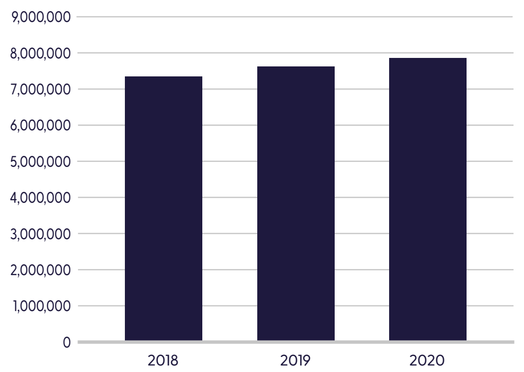
Group performance highlights

Income (£'000)



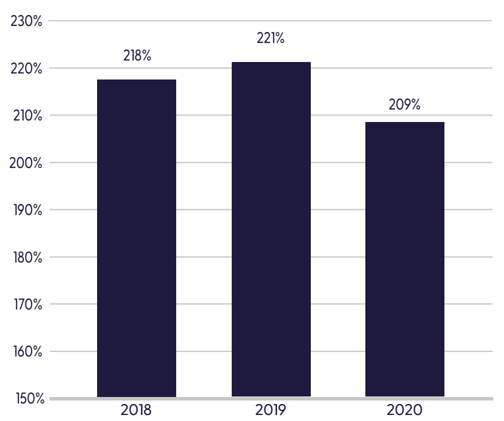
Income received through insurance premiums, investment deposits and annual management charges remains strong.

Customers' Funds Under Management (£'000)



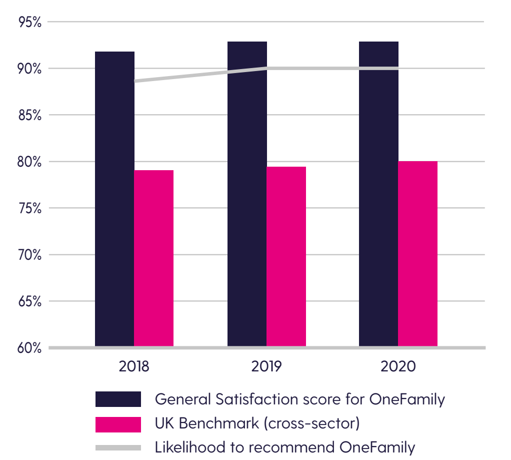
Falls in stock markets in 2020 have affected the level of funds under management, however, this has been offset by the increase in ISA sales through our partnership with the Post Office.

Non-Profit Fund Solvency II Coverage Ratio



The Society continues to have a strong capital position despite the falls in investment markets in the year.

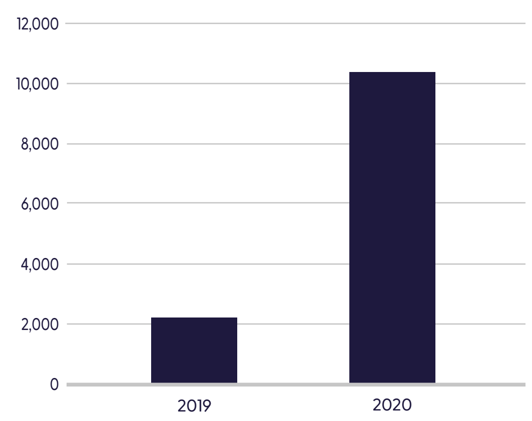
Customer satisfaction scores



The figures above are the average for the year.

OneFamily continues to far exceed the UK benchmark in respect of customer satisfaction and in 2020 an average of 90% of customers would recommend us to friends and family.

Operating Profit (£'000)

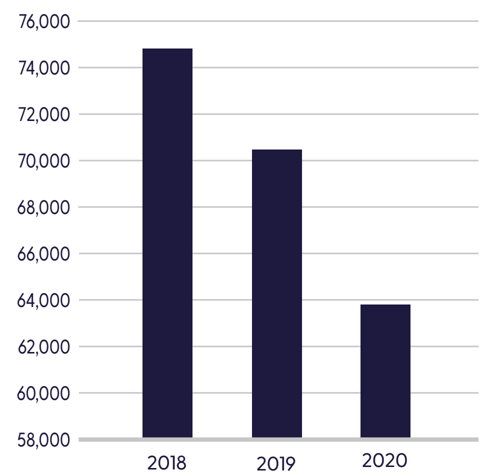


Operating profit is an alternative performance measure and is defined as controllable profit. It excludes the effect of market variances and other non-controllable and non-recurring elements. Please see the glossary for a full definition. A reconciliation of this figure can be seen below.

	Group 2020 £'000	Group 2019 £'000
Excess of expenditure over income on ordinary activities before tax	**(11,400)**	(5,005)
Goodwill and intangibles amortisation	**3,534**	7,535
Non-recurring model changes	**4,746**	(1,583)
Market variances (including revaluation of land & buildings)	**15,312**	2,754
Assumption changes	**(1,353)**	(1,526)
Operating profit	**10,839**	2,175

The increase in operating profit in the year is mainly due to the reduction in operating expenses.

Net Operating Expenses (£'000)



Operating expenses were reduced further in 2020 as we continued to review our third-party supplier contracts and look for opportunities to reduce costs.

Chief Finance Officer's report Jim Islam

Overview

2020 has demonstrated the resilience and long-term nature of OneFamily through the continued strength of our capital position despite the turbulent investment markets. Our non-profit fund capital coverage ratio under Solvency II is 209%, well in excess of regulatory requirements. Our surplus capital in absolute terms also remains extremely healthy at £77m.

Being a mutual we don't have any shareholders to pay dividends to. This means we can share our successes with the people that matter, our customers, and focus on reinvesting our retained profits to provide better products, services and member benefits. The section on Our strategy on page 20 talks more about how we have achieved this in 2020 and our plans for 2021 and future years.

We know that financial results are not the only measure of our success. You can read more about how we've considered the needs of our various stakeholders, for example our customers; our regulators; and the environment, and how this has influenced our actions on pages 24 to 25.

In 2020 we continued to invest in modernising our business which will ultimately result in reduced running costs, reduced operating risks and deliver efficiencies across the business. In addition, the new infrastructure will lead to a better customer experience and allow online access and self-service at a time that suits them. This is a medium-term initiative and we expect the whole programme to run across the next three years with delivery in stages.

Financial Performance

Financial strength

Maintaining a strong capital base well in excess of the regulatory minimum helps us to withstand turbulent years such as we have experienced in 2020. Our business is run with a long-term view to building value for our members and our non-profit fund has capital above the base level requirement of £77m, representing a capital coverage ratio of 209% compared to 221% at the end of 2019.

Operating profit

Our operating profit, which measures the underlying performance of the business, before the impact of market volatility compared to our business plan assumptions and other non-controllable and one-off items, showed an increase of £8.6 million to £10.8 million. This performance was largely due to the reduction in expenses delivered through a continued focus on operating efficiencies.

Income

Income levels in 2020 have seen a slight decline compared to 2019 driven largely by a reduction in lifetime mortgage income. The origination of lifetime mortgages was significantly impacted by the pandemic. New ways of working had to be implemented across the industry covering aspects such as valuations and legal advice. This was achieved in the second half of 2020 but affected the level of completions in the year. A reduction in investment business deposits was a further factor, however this was partially offset by increased sales of funeral plan provision on our Over 50s policies.

Operating expenses

2020 saw a continued reduction in operating expenses from previous years.

During 2020 we continued to review our third-party supplier contracts and look for opportunities to reduce costs. It is essential that we operate efficiently, so that we can remain competitive and provide services at a lower cost and gain a better return for our customers and members. This work is continuing into 2021 and we will continue to challenge ourselves on our expenditure and look for efficiencies where we can.

"Maintaining a strong capital base well in excess of the regulatory minimum ensures that we can withstand turbulent years such as we have experienced in 2020."

Across the technical account (Society related) and non-technical account (subsidiary related), operating expenses fell from £71m in 2019 to £64m in 2020.

Statutory result

Our total recognised loss in the year of £13.8m (2019: loss of £3.5m) differs from operating profit (as shown on page 15), largely because it reflects all rises and falls in markets and the resulting impact on our investments and liabilities. In 2020 the statutory result was significantly impacted by the fall in investment markets and UK gilt-yields in the year. Our business is long-term and whilst in year statutory losses may appear to be volatile, investment losses are not actually crystallised unless the assets are sold. Therefore, with the expected market improvements in 2021 and beyond, these unrealised investment losses would be reversed.

Investment fund performance

As mentioned by the Chair in her review of 2020, global investment markets in 2020 saw significant falls and continued volatility as the impact of COVID-19 spread. For our customers where their policy is linked to underlying assets, this has meant a fall in the value of their holding. We understand that this may be a worry and tempt customers to stop saving or convert their investment into cash (where this is permitted), but I would like to stress that investing in stocks and shares is typically for the longer term. As we have seen in 2020, and continue to see in the continued volatile markets, investment values can fall as well as rise. But over the long-term, stocks and shares have historically grown more than cash accounts.

The performance of our main funds over a one, three and five year timeframe is shown below.

Unit price growth*

Funds**	One Year	Three Years	Five Years
Family Investments Child Trust Fund	-2.36%	2.02%	33.94%
Family Sovereign Fund	-0.10%	6.06%	32.49%
OneFamily Stockmarket 100 Trust	-12.99%	-9.47%	16.22%
Family Balanced International Fund	-0.70%	4.52%	31.13%
Family Charities Ethical Trust	-12.93%	-5.42%	18.75%
OneFamily Global Equity Fund	-3.13%	2.30%	n/a
Family Asset Trust	-12.00%	-7.34%	18.94%
OneFamily Global Mixed Investment Fund	6.76%	16.90%	n/a

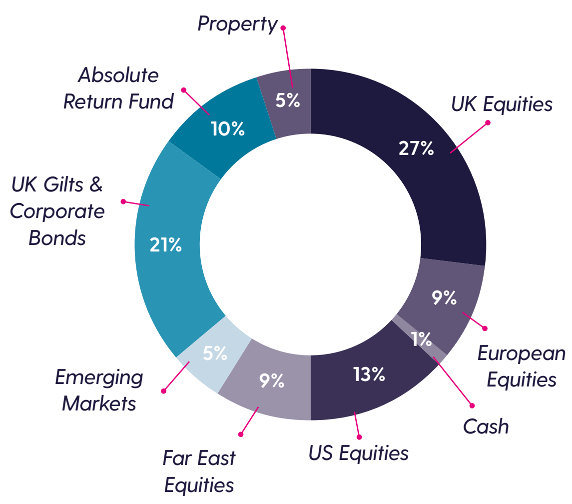
* Past performance should not be seen as an indication of future performance. Investors are reminded that the price of units, and the income from them, is not guaranteed and may go down as well as up. Growth shown is cumulative not annualised.

** The table above shows the performance of the eight largest funds managed by the Group. Funds are valued at bid price.

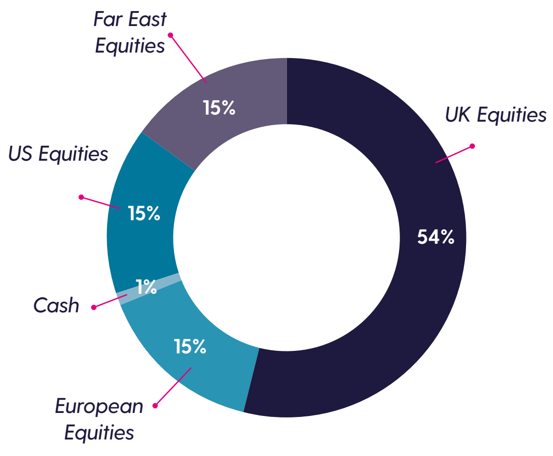
Our two largest funds, in which most of our customers are invested, continue to be the Family Investment Child Trust Fund and the Family Sovereign Fund.

The composition of these two funds as at 31 December 2020 is shown in the charts overleaf.

Family Sovereign Fund



Family Investments Child Trust Fund



Climate change funds and further ESG (Environment, Social, Governance) developments

In 2020 the objectives of the Global Equity and Global Mixed funds were amended to make them more focussed on climate change. These funds now invest 100% or up to 35% respectively in climate-friendly company shares. The remainder of the Global Mixed fund is invested in fixed interest investments. The climate-friendly aspect focuses on those companies that are making a difference to our environment through sustainable climate activities.

The portfolio of companies invested in are selected from the MSCI World Index and exhibit lower carbon emissions. Companies are selected that will help us achieve five climate sustainability targets for our portfolio relative to the MSCI World Index. These relate to carbon intensity; brown revenues; fossil fuels; green revenue and adaptation. More detail on these factors can be found in the Inspiring Better Futures section on page 26.

We are working closely with all our investment managers to understand how they are promoting ESG and climate change initiatives and how they can help us increase the ESG focus in our investment funds. For example, they are encouraging companies in which we invest to focus on material ESG issues and understand their impact on performance through the voting actions and board influence of their stewardship programme.

Investment market review

Overall

Global investment markets in 2020 were dominated by the COVID-19 pandemic and the effect of resultant social distancing, lockdowns, quarantines and mobility restrictions. The speed of the decline in the early part of 2020 was unprecedented even taking the Great Depression into account. Policies, such as furlough schemes and other support measures, were implemented by governments globally to try to limit the financial impact on individuals and businesses. In May/June 2020 as COVID-19 cases in many countries began to reduce and restrictions were relaxed, economic growth rebounded strongly. However, the level of growth differed across the globe, with Asia and the US outperforming Europe and the UK.

A second wave of the pandemic along with growing concerns that there would be a no-deal Brexit, led to the UK's recovery lagging others. The emergence of a new strain towards the end of 2020 and a sharp increase in infections in several countries led to the reintroduction of restrictions in many areas. But the end of the year brought hope through the approval of two vaccines – resulting in November becoming one of the strongest months for global equities in decades. The last-minute

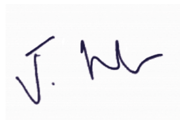
Brexit deal also gave a well needed boost to the UK market, with domestically-focussed areas of the market outperforming.

In addition to equity markets falling, Government-bond yields dropped to historic lows as bond prices rose and investors scrambled for safe assets in the midst of the COVID-19 pandemic.

Outlook

As a financial services organisation, we are impacted by the macro-economic uncertainties that remain and which will be heavily influenced by the extent of the economic damage from successive lockdowns, the scale and structure of government policies designed to 'cushion the blow' from the pandemic and the success of the roll out of vaccines in the UK and globally.

We have demonstrated the resilience of our business during the pandemic. As the post-pandemic economy gradually recovers, we will continue to deliver our strategy of a long-term financial services organisation with a strong capital position and improving efficiencies.



Jim Islam
Chief Finance Officer

> **"We are working closely with all our investment managers to understand how they are promoting ESG and climate change initiatives and how they can help us increase the ESG focus in our investment funds."**

Our strategy

Our Purpose

To create and protect value for members

Our Vision

Inspiring Better Futures

Our Group strategy sets out the path that we intend to take to deliver our purpose of creating and protecting value for our members. It focuses on the long-term sustainability of our business rather than just being focussed on the here and now.

There are two key elements underpinning our strategy of long-term sustainability.

1 **We want to retain and deepen our relationships with our existing customers by offering more products and services that meet the needs of modern families.**

2 **We are looking to attract new customers primarily by working with intermediaries and partners.**

In relation to the first element, we are focusing on developing new products and services that our customers are asking for, alongside promoting our existing product range. Our existing products include tax efficient investment products and life products and advice which will be promoted to both existing and potential new customers.

For the second element, we will broaden our relationships with intermediaries and build on the current product suite to offer a wider selection of protection, investment and lifetime mortgage products.

We have a strong heritage in working with partner organisations including, amongst others, the Bank of Ireland, Post Office, Barclays and Santander. We will continue to consider joint ventures and partnerships that align with our ethos, where we believe they will bring value and benefit to the business. This may be through activities such as offering our products for partners to sell under their brand, offering a partner's product to our customers or performing the administration for partners' policies.

Product developments in 2020 and 2021

2020 saw the launch of a new Stocks & Shares ISA which was initially available to those with maturing child trust fund (CTF) policies and has now been extended to all customers. This Stocks and Shares ISA allows customers to invest in climate friendly companies through one of two investment options, a Global Mixed fund and a Global Equity fund. More about these funds can be found in the Chief Finance Officer's report on page 16.

We are seeing increased investment into our Lifetime ISA from maturing child trust fund policyholders. This product is also backed by the climate change funds and is intended for those that are looking to save to buy their first home or for use in later life. It is tax efficient and earns an annual bonus from the government.

We have enhanced our Over 50s insurance to provide a new premium flexibility feature where policyholders have the ability to reduce premiums

(and associated benefits) once they have held their policy for at least four years. This product has been rated 5* by Defaqto for 2021, achieving this highest rating for the eighth consecutive year. It is the only Over 50s insurance product on the market to offer terminal illness cover as standard. As well as selling through advisers and directly to customers, it can also be found on price comparison sites.

Inevitably, COVID-19 had an impact on the number of lifetime mortgages completed in the year as new processes were needed to enable social distancing rules to be met. The new procedures became fully operational in the second half of 2020, however, we have seen a fall in our income from this product in 2020 compared to the previous year.

Despite the challenges in 2020 we continue to believe that lifetime mortgages are an important product for OneFamily customers. Now, more than ever, people are looking to release the equity in their homes to support both themselves and their families through these difficult times. With an increased demand for remote lifetime mortgage advice and an expected increase in overall market growth in 2021, we have expanded the size of the team that offers advice on whole of market lifetime mortgages through OneFamily Advice. In 2021 we hope to expand into the provision of advice on standard mortgages. As outlined in our strategy, we propose to expand our introducer and partner channels of business and have recently begun working with a home insurance provider so that we can offer their product alongside equity release mortgages.

Finally, we appreciate that our customers sometimes forget about the benefits of the policies that they have with us. Therefore, we have set up a new team to contact policyholders to remind them about the features of their product and other ways OneFamily can support them and their families. It's early days, but the team has received very positive Trustpilot reviews and satisfaction feedback, indicating that customers welcome this approach.

Taking care of our customers

OneFamily is member-owned which means that our customers have a say in our direction and the future of the Society at our Annual General Meeting. It also means that our decisions are based on what matters to our members and on what will add value for them over time. We seek customer views through regular surveys and through our OneVoice community.

We don't believe that taking care of our customers stops once they have taken up a product. We want to make sure that each and every contact that our policyholders have with us goes as smoothly as possible. Whilst we are usually Brighton based, the pandemic has meant that over the past year our customer operations team has largely been working remotely. However, during 2020 we managed to maintain a near normal level of service to all our customers, despite many other companies showing declining customer service and only accepting calls from the vulnerable. As a result, our call centre customer satisfaction survey has shown that, despite the transition to home working, we achieved 93% customer satisfaction on average throughout the year.

September 2020 saw the first of our CTF policyholders turning 18, allowing them to take charge of their policies and decide what they wanted to do with the investment. We have worked hard over the past few years to develop a smooth journey through the maturation process for these young adults, making it as simple as possible for them by launching an online service that meant they could access their accounts with a few taps on their phone.

Deciding what to do with a child trust fund is a big decision for an 18-year-old; it's likely to be the first significant financial decision that they will make. So, to help, we provide lots of information on our website, through newsletters and on social media platforms to tell them what their options are. Our research shows that 72% of teenagers believe that their generation has a duty to ensure their investments are not used to support companies that damage the environment. So, we worked closely with our fund manager and developed our two climate change funds, mentioned above, which back both our Stocks and Shares ISA and our Lifetime ISA. This allows policyholders to support climate friendly companies whilst investing in tax efficient products, with the Lifetime ISA attracting a government bonus if certain conditions are met.

COVID-19 has had a significant financial impact on many people and we appreciate that this made paying premiums a lower priority. To support our customers, we allowed all Over 50s policyholders an extension to our usual terms for missed payments. If you are continuing to struggle with paying your premiums, please do contact our customer service team.

Modernisation

As we announced in 2019, we are implementing a modernisation programme that will make life easier for both our customers and our team - putting efficiency at the heart of our business. This project has moved forward during 2020, as we sought a technology partner to work with us on simplifying and modernising our IT platform. We are pleased to announce that, in line with our plan, we have now selected a partner and work is underway on the build phase of this part of the programme. It will mean that we can pull together several different IT platforms for our investment and protection business, which will lead to a better customer experience and the saving of valuable time. The modernisation programme will be delivered in stages over the next three years.

2021 and beyond

OneFamily will build upon the foundations set in 2020 to continue to deliver a sustainable business. This will include expansion in our intermediary and partnership distribution, extension of our lifetime mortgages proposition – as providers and whole of market advisers, protection products and the growth of our Stocks & Shares ISA product.

Our focus will be to operate as efficiently and effectively as possible, primarily through the delivery of the new IT platform, whilst also identifying other structural and process efficiencies and continuing our general cost discipline across the business.

We will continue our progress in making our customer journeys digital, where possible, and we will be considering how we can reduce our impact on the environment, based on what we have learnt from our changed ways of working this year.

Alongside the focus areas mentioned we will continue to develop our operational resilience, reviewing our critical processes and ensuring that the decisions we make are within our risk appetite and adopt a forward-looking view.

Section 172 report – 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 stakeholder groups have been identified as key to us successfully delivering our strategy:

- Our members and customers
- Our colleagues
- The Regulators
- Third party partners and suppliers
- The wider community
- The environment

Each of these groups of stakeholders interacts with OneFamily in a different way. It is essential that the Board and management of OneFamily reflect on the views of these stakeholders, considering what further actions can be taken to align stakeholder concerns with OneFamily's strategy. In the tables below examples are provided of how the Board and management have engaged with, and considered the views of stakeholders when making decisions in 2020.

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 through the Foundation along with examples of how we look to minimise our environmental impact can be found in our Inspiring Better Futures report on page 26.

Members & Customers	Colleagues	The Regulators
How we engage		
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 Social media	'Talking Family' colleague engagement forum with elected individuals 'Breakfast with Teddy' virtual sessions with the CEO All colleague surveys Regular email newsletter Intranet, Yammer and other digital channels Team, departmental and all company meetings	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		
Good service and customer led engagement Clear, fair and transparent products that meet their needs and offer value for money Clear strategy Environmental and social issues Financial security Creation and protection of value How we distribute member value through the Foundation Good investment performance outcomes	Knowing their voice is heard Fair treatment for all colleagues Environmental and social issues Ensuring Health and Safety is taken seriously, including mental health and wellbeing Personal growth and career development The impact of home working due to COVID-19	That the Group has a long-term 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 2020		
Development of two climate change funds Development and launch of CTF maturity customer journey Extension of the premium holiday on Over 50s policies to acknowledge financial difficulties due to COVID-19 Enhanced premium flexibility feature added to Over 50s product Continuation of free OneFamily advice on lifetime mortgages for members Membership pilot Development of membership proposition Continued focus on environmental and social items Provision of hardship grants due to COVID-19 Distribution of personal and community grants through customer nominations Increased Board diversity	Rapid deployment of laptops, equipment and software to make working from home viable Enhanced programme to aid employee wellbeing More frequent company-wide communications following move to working from home Roll out of software such as MS Teams and Yammer so that colleagues can keep in touch and 'see' each other in video conferences Ensuring that the Brighton office was COVID-19 secure and that all social distancing measures were followed for those that were required to be in the office Payment of a £100 thank you to all colleagues Shorter more regular surveys throughout the year to check on colleagues and obtain feedback on how OneFamily had dealt with COVID-19 Diversity & Inclusion programme of activities	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

Third party partners and suppliers	Communities	The Environment
How we engage		**Parties influencing our actions**
Through allocated relationship managers Intermediary satisfaction research	Through the Foundation Through charities close to our Brighton office Colleague volunteering days (not in 2020 due to COVID-19)	Members and customers Colleagues The Regulators The wider community
What they care about		
Collaborative, long-term relationships **Partners:** Partnering for mutual success Delivery to agreed service level agreements Ring fenced data Dedicated partnership support Trusted partnerships **Suppliers:** Being paid on time	Local people and places Support of people in need	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 2020		
Widening of OneFamily Advice's permissions to open further partner opportunities Appointment of a dedicated senior manager for intermediaries and partners Continued training on supplier management for relationship managers	Launch of a new hardship grant for those affected by COVID-19 Donation of 200 'treat boxes' and 'bags of support' to local Age UK members in place of our usual Age UK Christmas event in our Brighton office Sponsoring the "We are Fabuloso" digital festival replacing the usual Brighton Pride festival for 2020 Community grants Personal grants to customers, friends or family Charitable donations in place of colleague Christmas party	Development of two climate change funds which can be invested in via our Stocks & Shares ISA and Lifetime ISA Planted 1,500 trees in conjunction with The Tree Appeal with more awaiting planting 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 Disclosure of the approach to managing financial risks associated with climate change within this annual report

Inspiring Better Futures

At OneFamily we are focused on realising our vision of Inspiring Better Futures for modern families. As a member-owned business, we believe that our actions should have a positive impact on our workplaces, customers, communities, and the wider world.

We aspire to do the right thing at every level – sustainably and responsibly – with social mobility, inclusivity, and education at the heart of our business. We're all about supporting the causes that matter to our customers and their communities, ensuring our products are financially accessible and investing their money in the right way. We're on a journey to make inspiring better futures an integral part of everything we do.

Our new vision is built on 6 pillars that define and underpin our strategy, with sustainability at the core.

Customers

Mutual organisations have a long history of doing what's right and OneFamily are firmly rooted in this ethos. Being owned by and for the good of our members and customers is what makes us different from the rest of the financial sector.

We believe that everyone should have the same opportunities to access financial products that allow them to save – regardless of how much money they have. This is why we use financial pooling to enable us to open up opportunities for smaller savers, rather than having high minimum investment levels that effectively discriminate against those who are less well off.

Managing our funds in this way also enables us to help investors who may lack the time or knowledge for managing their own investments entirely.

During 2020, we transformed our serious illness and terminal illness claims process for our Over 50s product. We recognised that severe pressure on GPs and clinicians, caused by the coronavirus pandemic, would likely delay claims at a time when seriously ill customers are most in need of support. So we simplified the process and significantly reduced the time required to progress claims, making life easier for our customers.

What Inspiring Better Future means

- A commitment to a shared global future based on sustainability and equality
- Continued and growing investment in companies that share our values
- Help for our customers, communities and charities through our Foundation
- Creating a progressive, inclusive and diverse work environment at OneFamily

As a member-owned business, we believe that our actions should have a positive impact on our workplaces, customers, communities, and the wider world.

Vulnerable customers

We are committed to treating all our customers with care and respect, ensuring that we fully understand their circumstances when responding to queries or handling a complaint. This is of upmost importance when dealing with our potentially vulnerable customers, who may need additional time and support. Here are some of the ways we continued to improve our processes in 2020, to give the best possible service to our vulnerable customers:

- We identified **12,000** vulnerable customers who might at any time require extra assistance
- We introduced a new enhanced quality checking process specifically for vulnerable customers, giving better insight into the quality of experience that we provide
- Our Customer Experience team ran workshops during National Customer Service Week, providing our colleagues with greater understanding of how to support all vulnerable customers

As our child trust fund (CTF) holders started to turn 18 from September 2020, we put in place support for families of children with learning difficulties, to help them access their funds, in many cases without having to go through a long and complex application to the Court of Protection. We've been campaigning to get our simple approach adopted more widely across the industry.

Supporting our members

Through the OneFamily Foundation we give our members the opportunity to make a positive impact to their communities and the people that matter to them.

Since 2015 we've awarded over **£4.0m** to our customers and the causes they're passionate about, helping over **350 different charities** and **community groups** and improving the lives of over **3,000 people** through our individual grants.

Since 2015 we've awarded over £4.0m to our customers and the causes they're passionate about, helping over 350 different charities and community groups and improving the lives of over 3,000 people through our individual grants.

Temporary Hardship Grants

In April 2020 we introduced a grant, to provide temporary support for our customers who had been affected by the COVID-19 pandemic.

Grants of up to £250 were made available to help with costs such as rent, bills, food shopping and home-schooling equipment in order to reduce the financial burden for customers whose income had been affected but weren't supported by government schemes. The OneFamily Board and Executive team made voluntary contributions to the Hardship Grant fund to enable us to distribute additional financial support to those most in need.

In 2020 we awarded over £126,000 to 466 customers who found themselves in financial hardship as a result of the pandemic.

In 2020 we awarded over £126,000 to 466 customers

"I am so grateful for your financial support during these difficult times. You have provided me so much relief over the last few weeks, not worrying about how I will feed my children."

OneFamily customer

Young Person's Education Grants

We have continued to award Young Person's Education Grants to young people aged 15-19, providing help towards meeting the expense of education and training and reducing the financial strain that many young people and their families are facing.

In 2020 we have awarded a total of £82,000 helping 164 young people to purchase items such as laptops, textbooks, train tickets and essential equipment for apprenticeship schemes.

Grant to go towards clothing and equipment for an electrical apprenticeship:

In 2020 we awarded £82,000 to 164 young people

"My son is over the moon with his tools and can't wait to start work! It has also taken the pressure off 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!"

OneFamily customer

We're changing how we award individual grants to our members in 2021 to further support our vision – **Inspiring Better Futures**. We'll focus on awarding **Young Person's Education Grants** to cover the essential costs of learning, increasing opportunities for future success for young people aged 15-19.

Creating Member Value

We continue to have a strong focus on customer/member engagement, and we listen to the voice of the customer in a number of ways:

Customer community: OneFamily Voice

Our customer community has been running since 2018 and has over 1,000 active members; these are customers with a range of our products, who have joined the community to take part in research activities. In the last year we have used feedback from community members to understand the impact of the pandemic on customers, to test ideas for new products, and to input to some key developments and initiatives such as:

- ESG (environmental, social and governance) proposition and funds
- CTF maturity proposition, process and communications
- Member benefits proposition

As well as structured research, the community take part in open discussions and can post comments. They also receive a newsletter twice a year, which thanks them for participating and highlights some of the ways in which their feedback has been used.

Smart Money teens panel

The Smart Money teens panel has 100 members and was set up to input to the design of the CTF maturity proposition and increase understanding of teens and their financial needs. This panel has provided sharp focus on the way teens think about ethical and ESG issues, and implications for the way we design and market our products to this younger audience.

AGM

We held our Annual General Meeting virtually in 2020 as a result of the coronavirus pandemic. Moving from a physical to an online event provided the opportunity for more of our members to engage with us without the need to travel. The required changes to the format in 2020 provided us with new ideas for how we'll host the event in future to make it as accessible to our members as possible.

Membership benefits

Mutuality remains at the heart of our business and we continually look for new ways to enhance the value of OneFamily membership.

During 2020, we launched a member benefit pilot, providing cinema and eating out discounts. Unfortunately, the outbreak of the coronavirus pandemic impacted both our members' ability to use the benefit and the learnings we could take from it. However, we obtained some useful feedback from the pilot which will inform how we develop our member benefits in future. In 2021 we'll be using this insight to develop an exciting new member benefit offering, which we'll be sharing with all members later in the year.

We also continued to provide free independent lifetime mortgage advice to our members, their friends and families through our OneFamily Advice service. 57 members took advantage of this benefit saving a combined total of over £30,000 in advice fees.

We ran two rounds of Community Grants in 2020, awarding a total of £180,000 to 73 customer-nominated community groups across the UK.

Communities

Our Community Grants are an excellent way for our customers to give back to the causes that they are passionate about by nominating them for a grant to support their work.

We ran two rounds of Community Grants in 2020, awarding a total of £180,000 to 73 customer-nominated community groups across the UK. In 2020 we reduced the funding amount from £5,000 to £2,500, allowing us to support more groups with the vital work they're doing in their local area. In response to COVID-19, the first round of Community Grants in May 2020 was modified to provide much needed funding to groups who had either been financially impacted by COVID-19, or who were providing support to those who have been affected. This included foodbanks, counselling services and disability charities.

Supporting our Brighton community

As a Brighton-based business, we're passionate about supporting the local community we live and work in. Here are some of the ways we've got involved in 2020:

Brighton and Hove Pride

We're proud supporters of the LGBTQi+ community, and in 2020 we partnered with Brighton and Hove Pride as one of its key supporters for the fifth year running. Although the parade and festival were cancelled due to the pandemic, we sponsored their "We Are Fabuloso" digital festival instead, as well as running our usual engagement activities with colleagues. We also partnered with local radio station Gaydio to sponsor their Pride Lives campaign, which featured the stories of local celebrities, MPs and organisations that support the LGBTQi+ community.

Case study Team Domenica

Team Domenica is a social enterprise charity that works with young people who have learning disabilities.

They provide a range of employment programmes, with progression to supported internships and wherever possible on to paid employment. Their vision is for young people with learning disabilities to be valued in the workplace, to reach their full potential and feel included as members of society.

The group received a Community Grant to contribute to training staff costs. This allowed them to provide their candidates with remote employment training and emotional support, while maintaining social connections at a time when they needed it the most.

"With the support of a OneFamily community grant, we developed and delivered a Virtual Training and Support Programme, allowing all of our young people with learning disabilities to continue with their employment training, maintain positive wellbeing and stay connected to their Team Domenica community."

Rosa Monckton, Founder & Chairman

Brighton and Hove Age UK

For a number of years, we've welcomed Brighton and Hove Age UK to our Brighton office for a Christmas event. As we were unable to offer this in 2020 due to the pandemic restrictions, instead we donated £2,500 to fund treat boxes and "Bags of Support" to lift the spirits of some of the most vulnerable and isolated older people in our community.

"On behalf of Age UK West Sussex, Brighton & Hove, I would like to say a sincere thank you to OneFamily for generously donating £2,500 to provide festive treats and Bags of Support to local older people in Brighton & Hove this Winter. This very kind donation is enabling us to offer 200 Festive Treat Boxes and Bags of Support to local older people feeling isolated and lonely this Christmas."

Clare Long, Head of Relationships, Age UK

KidsOut Wishing Tree and The Clock Tower Sanctuary

We weren't able to get together for a Christmas party this year, so we made sure the money we would have spent on food and drinks went towards creating a magical Christmas for children in need and towards inspiring better futures for young people in our community.

On behalf of all colleagues at OneFamily we donated £3,000 to the KidsOut Wishing Tree initiative so that hundreds of children who've escaped domestic violence and were living in refuges over Christmas received a present from Santa.

We also provided the same funding to The Clock Tower Sanctuary, who support 16-25 year olds dealing with homelessness in Brighton & Hove. Through one-to-one work and collaboration with partner agencies, The Clock Tower Sanctuary provides a network of support to move local young homeless people from crisis to stability.

"I wanted to send a personal thank you for your generous donation towards our work with young homeless people in Brighton & Hove this difficult winter... We can only continue to provide this ongoing vital help through the commitment of our incredible donors, such as yourself so, on behalf of all the young homeless people that my team works with, thank you."

Frances Duncan CEO, The Clock Tower Sanctuary

Fundraising and charity matching

We actively encourage our colleagues to support our local community through fundraising and volunteering their time and services. There were less opportunities to get involved during 2020, however a number of our colleagues raised funds for local charities. Our People Services team raised money to buy and deliver treats for our local NHS Ambulance Service supporting those who are helping our community during such a challenging time.

The future focus on our communities

We'll continue with our **Community Grants** in 2021 to provide much needed funding to the fantastic community groups nominated by our customers. We'll be supporting the causes that are working to create a better future for their communities and the wider world, with a particular focus on environmental and social initiatives.

In addition, we'll be creating new, meaningful partnerships with local charities, supporting them not only financially, but also in a more hands on way through employee volunteering and apprenticeships.

Colleagues and managing sustainability

Having a sustainable, supportive performance culture is fundamental to our success, and we're committed to ensuring that OneFamily is a great place to work. In 2020, we improved our organisational clarity and foundation of our culture with the launch of our new vision.

To support the new vision and begin to improve our culture, we started the tone from the top, namely at Board and Executive level. We launched a training programme for leaders and managers at the end of 2020 to support our Inspiring Better Futures vision and provide colleagues with a clear focus on our culture, strategy and roots as a local mutual. This programme will form an integral part of ensuring colleagues recognise the key role they play in OneFamily's success.

We continued to partner with Best Companies colleague engagement survey during 2020. In November 2019, we received 'One to Watch' accreditation. In 2020 Best Companies took the decision to postpone their survey until early 2021 due to COVID-19. In the meantime, we created a monthly internal pulse survey to ensure the colleague-voice was heard throughout the pandemic. Here are just some of the improvements made following colleague feedback:

- Changes to our people policies, so that they support our vision and enable managers and guidance for employees
- Removal of layers of governance and changes to committee structures to aid quicker decision making
- Clearer and more regular communication from our CEO and leadership team, providing organisational clarity

Our pulse surveys showed that that the vast majority of our colleagues, 82%, felt well supported, 87% felt they were just as effective working from home and 80% felt confident in the leadership of the organisation.

Our Values

We have 5 core values at OneFamily that help us to ensure we are all working towards a common purpose:

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

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

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

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

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

To embed our values as part of our everyday working life we have a **Values Award programme**, which allows colleagues to nominate those who have demonstrated real commitment to our values. In 2020 60 colleagues were recognised through the scheme.

Colleague wellbeing

The wellbeing of our colleagues has always been extremely important at OneFamily. Never more so than during the COVID-19 pandemic, which has had a significant impact on the lives of our customers and colleagues alike.

Safety has been our main priority, and we enabled the majority of our colleagues – including our call centre teams – to work from home since March 2020.

We've taken steps to help our colleagues stay healthy, happy and connected, including:

- Introducing technology to allow us to communicate and collaborate remotely
- Launching our new wellbeing programme, OneHealth, with free health benefits and activities including mental health workshops, external speakers, online yoga classes and access to the Headspace and MoveSpring apps
- Creating manager forums to provide support during the pandemic on key areas such as managing change, performance and building resilience
- Adding Medicash to our employee benefits – a cash plan for all colleagues which provides an enhanced employee assistance programme, optical, dental, virtual GP services and wellbeing information and activities

Talking Family

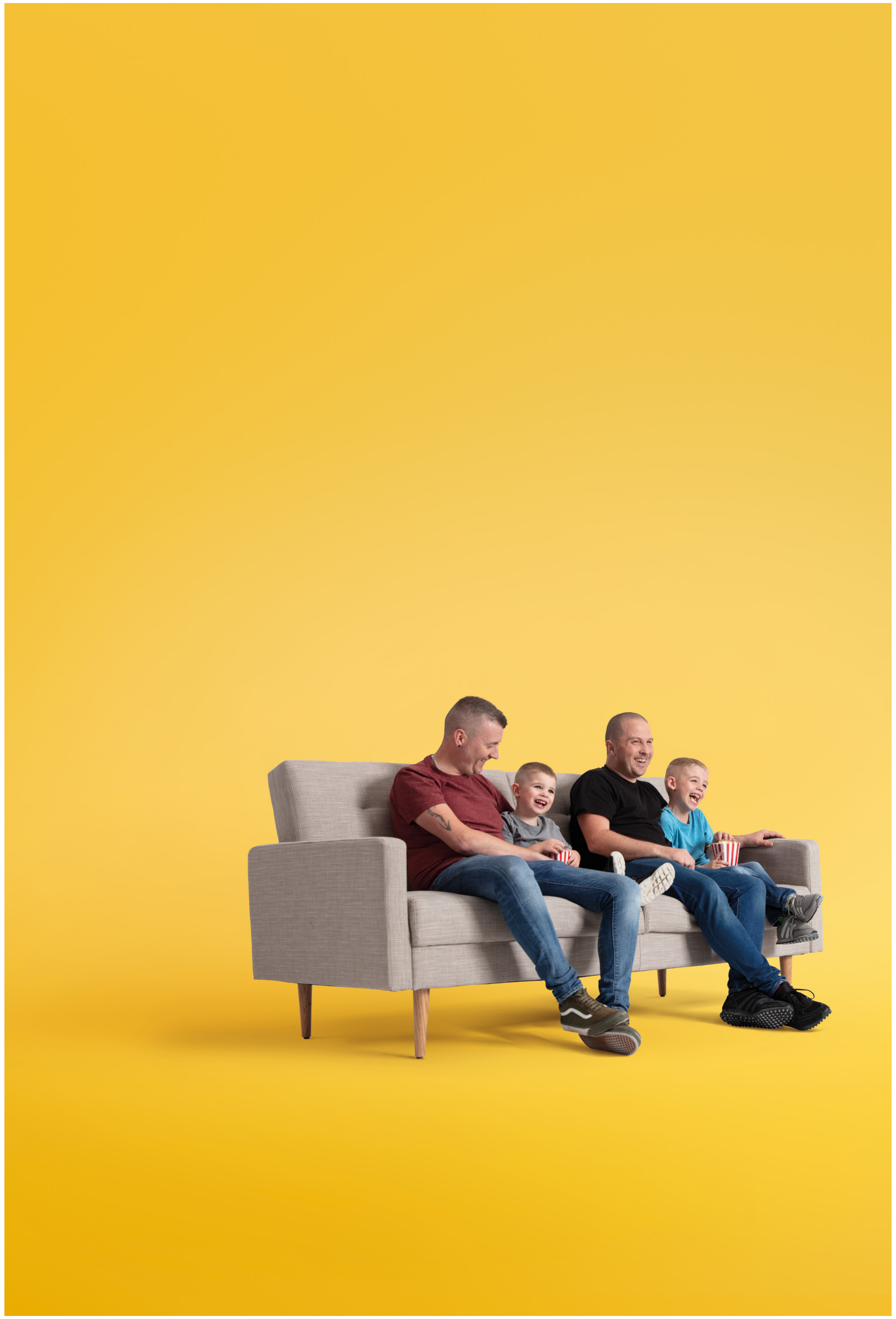
Talking Family is our colleague communications committee. Its role is to provide impartial representation, support and guidance to all colleagues at OneFamily on a wide variety of issues, and act as a voice between colleagues and the company.

The committee is made up of peer elected colleagues who represent the wider workforce. They meet regularly to discuss colleague feedback, wellbeing, corporate activities, equality and diversity support.

During 2020 Talking Family undertook a number of activities including;

- Operating as a formal ECF (employee consultation forum)
- Representing colleagues in the business response to the pandemic
- Holding virtual colleague 'drop-in' sessions for mental health and wellbeing as trained Mental Health First Aiders

Talking Family is sponsored by the HR Director and has the full support of the Board and Executive team. Non-Executive Director, Graham Lindsay, regularly meets Talking Family to gain insight into colleague views and ensure this is incorporated into Board discussions.



Employee benefits

We're making changes to our employee benefits for 2021, with increased focus on sustainability and supporting our Inspiring Better Futures vision.

- Our default pension scheme will be ESG-aligned. Changes will be made to the underlying fund to focus on climate change and the environment
- A new salary sacrifice scheme will be introduced to provide colleagues with the opportunity to purchase an electric car with deductions made directly from their pay

Diversity and Inclusion

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. Embracing diversity is at the core of our values. In 2020 we launched our Diversity and Inclusion strategy with pillars of focus on Race, Gender, Multigenerational, LGBT+, Disability and Social mobility. We created an Inclusion Advocate group of people from across OneFamily and welcomed guest speakers who have spoken on a range of issues relating to race and gender and taken steps to ensure that OneFamily is an inclusive place to work. We've installed gender neutral toilets in our offices and have signed up as a partner with Stonewall, the Race at Work Charter and the #10,000BlackInterns initiative and working towards the Disability Confident Employer Standards. We are continuing to explore inclusion and what it means to work at OneFamily. We aim to actively encourage our colleagues to be themselves at work, to respect different views and to value diversity.

Our ambition is to be an employer of choice and to represent our community. We embrace individuality and strive to make OneFamily a great place to work for all our colleagues.

Gender equality and pay

Our 2020 gender pay gap report can be found on our website at **www.onefamily.com/company-information/** This is a Government initiative which encourages organisations to promote the right practices and culture in the workplace. 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.

OneFamily's 2020 gender pay gap is an average of 19%, compared to our 2019 gender pay gap of 18.4%. Our gap remains lower than the majority of other financial services organisations, in some cases by a significant amount.

The gender pay gap reflects that OneFamily, like most financial services organisations, currently has more men in senior management roles (excluding our Board and Executive team). Financial services 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 early on in their careers, and offering a mentoring programme
- Continuing to resource fairly by providing a balance of both male and female candidates for advertised vacancies
- Rolling out development for our managers to improve awareness around unconscious bias during recruitment and remuneration processes
- Reviewing current return to work initiatives with the aim of improving retention rates of female colleagues after maternity/adoption leave

At the end of 2020 our Board comprised 50% female and 50% male directors.

At the senior management level, we now have 29% females and 71% males, and we will seek to improve the ratio of males and females across the team. In 2019, we signed up to the Women in Finance Charter as part of our initiatives to recruit, develop and retain a diverse workforce.

Suppliers

- Our rigorous due diligence process helps us to ensure that new suppliers share the same values and ethics as OneFamily through confirming appropriate human rights, anti-slavery and environmental protection policies are in place
- We endeavour to source local suppliers to support the local economy and reduce the environmental impact of travel

In 2021, we'll be launching more climate friendly investment ISA and Lifetime ISA products to help play our part in Inspiring Better Futures for everyone.

Environment

At OneFamily we're passionate about the people and environment around us. We're committed to doing the right thing at every level, sustainably and responsibly and playing our part in preventing climate change. During 2020 our Risk Management Framework was enhanced to cover our approach to assessing and managing the impact of climate change. More can be read about this on page 40 within our Risk management report.

New climate-friendly investment funds

In 2020, we launched our new climate-friendly investment funds. So, when we invest in shares, we are dedicated to choosing companies which have set an agenda to help tackle climate change.

This rewards businesses that are doing the right thing by the planet, while also sending a strong message of support to organisations that promote sustainable practises.

To ensure we're investing in the right businesses, each organisation is ranked on 5 different factors:

Carbon intensity
How much carbon emission the company is responsible for, from creating CO_2 themselves to relying on a supply chain that creates CO_2.
The less, the better.

Brown Revenues
What proportion of a company's income comes from non-climate friendly activities, like drilling and mining.
The less, the better.

Fossil Fuels
How much greenhouse gas emissions would result if the company used its fossil fuel reserves.
The less, the better.

Green Revenue
What percentage of the company's overall revenue comes from "green" business activities, such as low-carbon technology and renewable energy production.
The greater, the better.

Adaptation
How prepared the company is for managing their impact on climate change, by having a strategy and action plan to reduce greenhouse gas emissions. **The more focused on a greener future, the better.**

In 2021, we'll be launching more climate friendly investment ISA and Lifetime ISA products to help play our part in inspiring better futures for everyone.

Tree Planting

To mark the launch of our climate-friendly investment funds in 2020, we committed to plant 1,000 trees at schools in the Brighton area.

OneFamily has planted over 10,000 trees, across the UK, since we began working in partnership with the Tree Appeal in 2007. We'll continue this commitment in 2021 to support our vision and help tackle climate change.

Recycling

We have a wide range of recycling initiatives at our offices.

- Our policy is that no waste goes to landfill. We have a centralised collection point on all floors to enable efficient recycling for paper, plastic, glass, printer toners and IT equipment

Conserving energy

We have a number of energy saving initiatives for our offices and colleagues at OneFamily, including:

- A cycle-to-work scheme encourages colleagues to reduce their carbon footprint and promotes wellbeing
- Motion sensor (LED) lighting to reduce electricity consumption

Green energy

- We participate in an environmental initiative with non-profit organisation Cool Earth. They work alongside rainforest communities to halt deforestation and generating an economy that is not dependent on timber trade
- We comply with the Energy Savings Opportunity Scheme (ESOS) where we assess our energy use and consider all opportunities to improve our energy performance and efficiency

We've just begun our journey to bring our new vision to life. As a member-owned business, with a culture of doing what's right, we've already laid strong foundations, but there is much to aspire to in the future.

We believe that by remaining focussed on our 6 strategic pillars of customers, creating member value, communities, colleagues, managing sustainability and environment we can play our part in Inspiring Better Futures for us all.

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 exposure 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. The Remuneration Sub-Committee measures performance and guides remuneration with reference to 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)

The ORSA is an ongoing assessment of the risks to which OneFamily is exposed and an evaluation of the sufficiency of capital resources to sustain the business strategy over the plan horizon. The ORSA assesses:

- 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 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, deliver business efficiencies, 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. Emerging risks are identified and managed using established governance processes. Stress testing reflects the impact of strategy risks on the business plan and capital.
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 expenses, 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	This relates to the risk of higher contributions from adverse movements in the assets and liabilities of defined benefit staff pension schemes causing balance sheet strains. 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 colleague training.

Emerging risks

The ongoing identification and reporting of emerging risk is part of the risk management framework. During 2020 the Risk Sub-Committee reviewed an assessment of emerging risk undertaken by the Risk function, and the same assessment was used to inform the Board strategy process and business planning. This 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, pandemics, trade tensions, operational resilience, cyber threats, regulatory developments, adverse market factors such as prolonged subdued market valuations and volatility and housing market downturns, demographic changes, competitive pressures 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.

Risk Developments in 2020

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 2020 we enhanced the risk management framework to cover the approach to climate change, in line with guidance from the Prudential Regulation Authority (PRA), Financial Conduct Authority (FCA) and from the Taskforce on Climate-related Financial Disclosures. The capital management policy was also reviewed to help us to ensure that economic and regulatory capital continue to be managed in support of strategic objectives, the Board's risk appetite and regulatory compliance.

IT security/cyber framework

Many industry commentators (e.g. the National Cyber Security Centre and Interpol) have cited significant increases in malicious cyber acts taking advantage of the COVID-19 news flow in 2020. These included scams, data harvesting, malicious links and misinformation. We reviewed our IT security controls and capabilities to help ensure they remained appropriate as part of our response to the pandemic and we continue to prioritise our investment in IT and cyber security. This has included the replacement of soon to be end of life technology and the progress of the IT modernisation programme.

Operational resilience

The events of 2020 caused an unprecedented shift in people, process and technology towards remote working and new ways of doing business. Our response involved assessing our business processes and making adaptations to reduce customer effort and accommodate more digital ways of working. We also provided new technology, networking and physical infrastructure to move over 90% of our workforce to operate from home, at levels of service equivalent to the pre-pandemic position. In line with our plans to improve operational resilience a new policy to address Operational Resilience was developed and then approved by the Risk Sub-Committee.

Climate-related financial disclosure

Our business is likely to be impacted over the long-term by the effects of climate change. We continue to evolve our governance, risk management, measurement and target-setting as we take a strategic approach to addressing the impact of climate-related changes on our business.

This section follows the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

Governance

The Risk Sub-Committee of the Board is accountable for overseeing all aspects of risk management, including climate-related risks. During 2020 the Risk Management Framework was updated to capture the approach to assessing and managing the impact of climate change in line with the good practice highlighted by the Climate Financial Risk Forum[1]. To help ensure a comprehensive approach, this included treating climate change as a cross cutting risk which manifests across the established risk categories, in particular the more material risks such as Market, Operational and Strategic Risk. The Chief Risk Officer is responsible for ensuring climate change risks are fully assessed and incorporated into all Risk Management Systems, while the Chief Finance Officer is responsible for ensuring adequate capital is allocated to meet an up to date assessment of the risks posed by climate change and to help ensure investments held by the firm for its customers and within its own funds are managed to appropriately mitigate climate change risks.

In 2020, the Board and Risk Sub-Committee approved a change to the risk management framework to include an assessment of climate-related risks and opportunities as part of our overall strategy, decision-making, risk management, stress testing and reporting frameworks. During 2020 papers considering the impact of climate change on our business were prepared for the Risk Sub-Committee covering the identification, measurement, management and stress testing in relation to the financial risk arising from climate change.

[1] "Climate Financial Risk Forum" Co-chaired by the FCA and the PRA, aims to build capacity and share best practice across financial regulators and industry to advance the financial sector's responses to the financial risks from climate change.

Strategy

We are committed to playing our part in helping the UK become a sustainable, low carbon economy. Our aim is to reduce the carbon equivalent emissions of our business activities to net zero[2] by 2050 in line with the 2015 Paris Agreement targets.

Our approach is focussed on the key climate-related risks and opportunities (e.g. physical and transition) as they relate to our business, and as defined in the PRA 2015 report. 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 under development to further understand or mitigate these risks:

No.	Risk	Mitigation/Opportunities
1.	Shift in customer sentiment, demand and expectations for "greener" products, that we may not be able to fulfil	Climate-friendly funds developed for our maturing CTF and Lifetime ISA customers and launched in September 2020 The funds were made available to all customers at the start of 2021 Assessment of other products to determine the potential re-alignment to our climate strategy
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	Launch of climate-friendly funds which will gradually increase the proportion of climate positive assets Climate change considerations integrated into product development and investment decisions for own funds Consider divestment where necessary Stress and scenario testing to explore the financial impact of climate change Detailed portfolio analytics to explore risks and opportunities in greater detail
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	
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

The risk assessment is informed by regulatory, international and governmental sources including "The Committee on Climate Change"[3], PRA[4], the "Intergovernmental Panel on Climate Change (IPCC)"[5], The United Nations[6] and the FCA[7]. It is further informed by the size, complexity, composition and exposure of specific product lines and operational considerations.

[2] Net zero refers to achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere.

[3] "UK Climate Change Risk Assessment 2017" – The Committee on Climate Change.

[4] "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.

[5] "The IPCC's Fifth Assessment Report (AR5)", Intergovernmental Panel on Climate Change 2014.

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

[7] "Climate Change and Green Finance", DP18/8, FCA October 2018.

Risk management

The risk management framework covers climate related risks, and sets out how OneFamily identifies, measures, manages, monitors and reports on the risks to which it is, or could be, exposed.

As described in the section above, we progressed our risk management tools and techniques during 2020 to assess the potential impact of a range of scenarios aligned to both the PRA 2019 stress testing exercise and to the Intergovernmental Panel on Climate Change (IPCC) scenarios. The IPCC scenarios describe a potential trajectory for future levels of greenhouse gases and other air pollutants. These can be mapped to likely temperature rises: 1.5°C (aggressive mitigation), 2°C (strong mitigation), 3°C (some mitigation) and 4°C (business as usual).

We have started to develop our approach to estimating Climate Value-at-Risk (Climate VaR)[8] for these scenarios. The Climate VaR includes the financial impact of transition and physical risks. This covers the projected costs of policy action related to limiting greenhouse gas emissions as well as projected profits from green revenues arising from developing new technologies and patents. In addition, it captures the financial impact of physical risks from extreme weather (e.g. flood, windstorm and wildfires) as well as chronic effects (e.g. the impact of rising sea levels and temperature), although we recognise that the most extreme physical effects may only be felt over a much longer time horizon.

We have undertaken a more granular analysis of the alignment of our own and our customers' assets against the 2015 Paris Agreement Targets through the use of the Paris Agreement Capital Transition Assessment (PACTA) model (developed by 2 Degrees Investing Initiative (2°ii)). This provides insight into the alignment, over the next five years, of our portfolios to the International Energy Agency's 2°C scenario as well as how the portfolios compare to the market. The forward looking view is based on firm by firm intelligence on carbon reduction targets as captured by the MSCI All World Index.

Metrics and targets

In addition to Climate VaR, we use other metrics to manage, monitor and report our alignment with targets on climate change mitigation and the associated potential financial impact on our business. Whilst recognising the limitations of the metrics and tools used e.g. lack of consensus of methodology, the variable scope of emissions or sectors covered and that some are backward looking, we believe they are still valuable in supporting our climate-related governance, strategy and risk management.

- Climate VaR analysis indicates that the level of financial exposure to climate change will decrease over the next 5 years as the scale of the climate friendly funds increases and partially offsets the decline in the existing funds
- PACTA analysis indicates that business plans for power sector firms within our customer portfolios (while not currently aligned to Paris Agreement Targets) are anticipated to bring carbon production to levels consistent with the Paris Agreement Targets within 5 years and would be more aligned than the market as a whole. Continuous monitoring of these plans will be a key element of our risk management approach
- PACTA also indicates where there might be potential opportunities to reduce the carbon impact of our investments through exposure to other specific sectors and through the stewardship we expect from our asset managers
- Together with our asset managers, we are developing metrics to track the historic performance of our portfolios in relation to Carbon Intensity, Scope 1+2 Carbon Emissions, Weighted Average Carbon Intensity and Total Reserves Carbon Emissions.

As part of the development of the risk management framework, and as industry practices mature, we and our asset managers intend to develop new metrics and refine existing ones to assess material financial risks and opportunities in relation to climate change.

[8] Refer to Climate Financial Risk Forum Guide 2020 - Risk management chapter (fca.org.uk), Climate Value at risk is defined as the present value of climate costs or profits divided by market value.

Corporate Governance

Corporate governance on pages 49 to 83 incorporates the following sections:

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.

Board of Directors

Non-executive directors

Christina McComb OBE Chair

Christina was appointed as Chair of the Board in April 2015, having previously served on the Board of Engage Mutual Assurance since May 2005, including as Chair from April 2014. She is Chair 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 and Senior Independent Director at 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 Chair

Graham was appointed to the Board in July 2016 becoming Vice Chair from 1 January 2020 and Senior Independent Director in May 2020.

He is Chair of the Member & Customer and Remuneration Sub-Committees, and a member of the Risk, Audit and Nominations Sub-Committees. He is also Chair of trustees for OneFamily's closed staff retirement benefits schemes.

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 Chair 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 Chair of the Risk and With-Profits Sub-Committees and is a member of the Audit, Remuneration 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 Chair of the Risk Committee at Starling Bank Limited and also holds non-executive director roles with Pepper Money Group and Quilter Financial.

Steve is a Fellow of the Institute and Faculty of Actuaries.

Sally Williams Non-Executive Director

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

Sally is a Chartered Accountant and has extensive risk, compliance and governance experience, having held senior positions at Marsh, National Australia Bank and Aviva. Prior to that, she held a number of senior roles at PwC in both their risk management and audit teams over a period of 15 years.

Sally is a non-executive director of Close Brothers Group plc, Close Brothers Limited and Lancashire Holdings Limited. She is also chair of the governing body of her local secondary school.

Jackie Noakes Non-Executive Director

Jackie was appointed to the Board on 1 April 2020. She is a member of the Risk, Audit, With Profits, Nominations and Member & Customer Sub-Committees.

Jackie has extensive experience of leading and implementing technology enabled business transformation and has been Chief Operating Officer of Bank of Ireland since October 2018. She 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 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. He is a member of the Member & Customer Sub-Committee.

Teddy has an extensive range of experience from roles with a number of organisations. He has a strong track record of delivering results within start-ups and global multi-billion-pound organisations including Royal London and Aviva. Teddy has experience in policyholder and customer protection having also worked for industry regulator the Financial Services Authority. He has led diverse teams across different countries and cultures and has been accountable for multi-million-pound budgets.

Teddy is a 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

Compliance with AFM Governance Code

OneFamily continues to be committed to high standards of corporate governance. For the 2019 year-end we reported our compliance with the relevant provisions of the 2018 UK Corporate Governance Code and we continue to adopt its best practice. Having subsequently joined the Association of Financial Mutuals ('AFM'), we are now reporting against the principles of the AFM Corporate Governance Code for Mutual Insurers ("the Code").

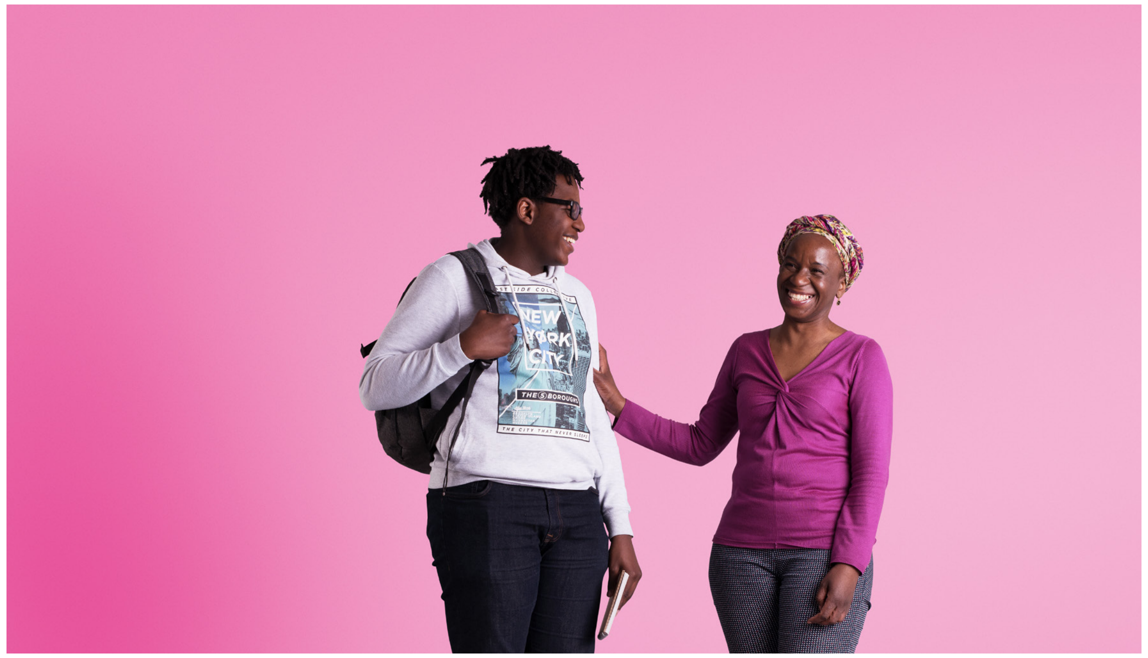
The main difference between the two codes is the approach to reporting. Whereas the UK Corporate Governance Code requires firms to 'comply or explain', under the AFM's Code its members are asked to explain in their annual reports how they've applied its six high-level principles in the way that is most appropriate for their organisation, and how this has contributed to better governance.

The six principles are set out below, followed by a summary of how we have applied each of them and the impact this has on our governance arrangements. (All quotations in italics are from Independent Audit's 2020 Board Evaluation Report.)

1. Purpose and Leadership

An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose.

How we have applied this principle	Impact on our governance
The Board is responsible for setting our strategy, which establishes the objectives we intend to follow in order to deliver our purpose and vision in the best interests of our members and stakeholders. The Executive team is responsible for implementing the agreed strategy and reporting progress against strategic objectives to the Board.	Clear articulation of strategy and strategic objectives helps ensure that resources are allocated in the most appropriate way in order to achieve them. Strategic objectives are then reflected in business plans and budgets. Monthly reports provide the information that the Board needs in order to monitor performance against those plans. The Board's annual Strategy Day, with interim checkpoints during the year, provides assurance that any changes to the agreed strategy are made at the appropriate time. This approach helps us continue to focus on creating and protecting value for members, in line with our purpose.
Our purpose ('To create and protect value for members'), vision ('Inspiring Better Futures') and strategic objectives are communicated to all employees and are very visible throughout the organisation.	Colleagues in all areas of the business understand what the organisation is focused on achieving and how their roles contribute. This increases levels of motivation and understanding, ensuring better outcomes for our members.
Through the Remuneration Sub-Committee, the Board ensures that strategic objectives are reflected in objectives and incentive scheme targets for our Executive team, senior managers and staff throughout the organisation. Performance is assessed to help ensure that strategic objectives are achieved in a way that is consistent with our values, risk appetite and culture.	There is alignment between the interests of members and employees, ensuring that excessive risk-taking is avoided and that a balance is struck between achieving corporate objectives and making the most of new opportunities, whilst maintaining a positive and open culture with appropriate governance within the organisation. This helps us achieve fair value outcomes for customers and better long-term value for members.



2. Board Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation.

How we have applied this principle	Impact on our governance
All non-executive directors and the Chief Executive Officer (CEO) have an annual performance review which is carried out by the Chair. The CEO reviews the performance of the other executive directors. The Chair's performance is reviewed by the Senior Independent Director who seeks feedback on her performance from the wider Board.	Director evaluations help identify any areas for further individual or Board development which can also be reflected in the topics for quarterly 'deep dive' sessions if appropriate. They also help inform whether any changes in Board membership may be needed. Independent Audit noted that *'Chairing is identified as a particular strength'.*

The Chair leads an annual evaluation of the Board and its sub-committees, including the Risk and Audit Sub-Committees, supported by the Company Secretary. This includes questions on the composition of the Board and the effectiveness of the Chair. The evaluation is normally facilitated externally every three years, as was the case in 2020 when Independent Audit carried out an evaluation based on questionnaires issued to Board members and other regular attendees of Board and sub-committee meetings. Independent Audit also observed a Board meeting and reviewed the meeting papers for that meeting; and presented their findings to the Board for discussion.	The Board self-evaluation process for 2019 identified a need for further external perspective. In response, the Board Strategy Day in 2020 included contextual sessions from external presenters on the impact of COVID-19 on investment markets, personal finances, and future ways of working. Externally facilitated sessions have also been held for Board members on remuneration trends and global perspectives on mutuality (the latter with input from ICMIF – The International Cooperative and Mutual Insurance Federation). The 2020 evaluation provided assurance that whilst there is a *'good level of cohesion'* on the Board, *'supported by a high degree of trust, openness and goodwill'*, there is also recognition of the need for continuous improvement. A small number of recommendations were made in respect of further improvements that could be made to a few aspects of how the Board operates. These are in the course of being actioned.
A skills and experience matrix is maintained for members of the Board. This is updated annually and when there are changes to Board composition.	This helps development of Board succession planning so that we have directors with the right skills and experience to implement our strategy and to oversee the organisation. The matrix helps inform Board succession planning and informs the person specification when we make new appointments to the Board. It helped identify that we should appoint a non-executive director with significant experience of technology enabled transformation, leading to the appointment of Jackie Noakes in April 2020.
The Board has a Diversity Policy which requires appointments to the Board to complement and expand the skills, knowledge and experience of the Board as a whole. It also requires that when identifying suitable candidates for appointment, the Nominations Sub-Committee will consider candidates against objective criteria with due regard for the benefits of diversity on the Board.	Following the changes outlined above, and the appointments to the Board in 2020 of our Chief Commercial Officer, Nici Audhlam-Gardiner on 1 January and Jackie Noakes as a non-executive director on 1 April (when Ian Buckley stepped down), our Board is 50% female and 50% male, including two BAME directors. Independent Audit observed that *'the Board exhibits a good degree of diversity'*.
Directors are required to disclose details of other significant appointments before joining the Board. Any subsequent changes must also be notified.	Disclosure of other significant roles prior to appointment and prior to accepting any further significant roles helps ensure that directors have sufficient time available to carry out their duties.

3. Directors

The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision making and independent challenge.

How we have applied this principle	Impact on our governance
Role descriptions are in place for each director reflecting their respective responsibilities, including designated positions held under the Senior Managers Certification Regime. There is a clear demarcation between the responsibilities of the CEO and the Chair. The CEO also has an apportionment letter which sets out the extent of his delegated authority. Induction programmes for new directors help provide them with an understanding of their responsibilities under S172 of the Companies Act.	There is consensus that *'Directors generally have a good understanding of their duties'* and that *'interactions are constructive and collegiate, while providing a good level of challenge to the Executive.'* Independent Audit also observed *'NEDs offering constructive challenge and helpful suggestions which were well received by the Executive'*. The 2020 Board evaluation report noted that *'Directors generally have a good understanding of their duties.'*
Directors are required to disclose details of any factors that could lead to an actual or perceived conflict of interests before joining the Board. Any subsequent changes must also be notified, with an annual attestation required from each director of the disclosures recorded in the register of interests. Conflicts of interest is a standing agenda item at each Board and sub-committee meeting.	The independent integrity of non-executive directors ensures independence of decision making.
The Board has its own Terms of Reference and Schedule of Matters Reserved to the Board. These documents are kept under regular review and updated as required. Terms of reference are also in place for each of the Board's sub-committees and are subject to annual review with any recommended changes submitted for Board approval.	These documents help ensure that the Board can focus on key issues including development and review of strategy, as well as responding to major opportunities and threats (such as the pandemic); leaving the Executive team to manage the organisation and implement the agreed strategy. This has enabled the Board to be flexible in response to the COVID-19 pandemic *'which has helped to facilitate timely decision-making'*.
The secretariat function facilitates the timely flow of decision-making information to the Board.	This approach has been effective as *'the right topics are covered and are given enough time'* at Board meetings.

4. Opportunity and Risk

A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

How we have applied this principle	Impact on our governance
The Board has a clearly articulated and communicated strategy of optimising the business for sustainability through a diversified product and increased operational efficiency, whilst managing the organisation within our risk appetite. This supports the organisation's vision of 'Inspiring Better Futures' and its purpose 'to create and protect value for members'.	There is a clear sense of purpose and strategic direction within the organisation, ensuring alignment of objectives and priorities, supported by appropriate allocation of resource. This has enabled the business to identify and implement operational efficiencies whilst maintaining high levels of customer service and developing our product lines in 2020.
The Board regularly reviews progress against strategic plans, to assess success of implementation and determine whether changes may be needed. This is supported by key metrics to enable early identification of any emerging issues.	The Board reassessed the business's strategic plans during Q1 2020 as a result of the external changes arising from the pandemic. This included reviewing the resilience of our business from a financial, capital and operational perspective in the light of the pandemic and determining if any tactical or strategic changes were required. This approach helped ensure that long term value was preserved and helped avoid taking short term decisions that could be detrimental to the longer term.
A risk management framework is used to manage the business and assess strategic opportunities, overseen by the Risk Sub-Committee on behalf of the Board. This is supported by a capital management policy and the ongoing Own Risk and Solvency Assessment which is an iterative process reflecting changes in the business and business planning updates.	Consideration of risk management and the ongoing Own Risk and Solvency Assessment process helps inform how we manage the business and review implementation of our strategy.

5. Remuneration

A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation.

How we have applied this principle	Impact on our governance
As detailed in the Directors' Remuneration Report on page 72, our executive remuneration policy, overseen by the Remuneration Sub-Committee, reflects the organisation's purpose of creating and preserving value for members.	The policy helps ensure that rewards are in line with performance, whilst discouraging undue risk taking.
The Directors' Remuneration Report provides detail regarding the approach to base salaries, incentive plans and other benefits (such as pensions); showing that there is consistency in the approach taken to awards for executives and other staff (e.g. all salaries linked to responsibilities of the role, annual performance and are externally benchmarked.)	This helps provide an alignment of interests and promotes relative fairness. The different elements of executive award, aligned with the award structures for other staff enable us to attract, motivate and retain personnel with the relevant skills to drive the long-term sustainable success of the organisation, without making excessive payments and whilst discouraging excessive risk taking.

6. Stakeholders

Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions.

How we have applied this principle	Impact on our governance
The Board has resolved to nominate a non-executive director for colleague engagement. Graham Lindsay currently fulfils this role. During 2020, he attended all meetings of the employee consultative group, Talking Family. He provided updates to the Board on key themes and matters of concern. During 2020 changes were made to help ensure the safety and wellbeing of our staff in the light of the pandemic. A number of shorter "pulse" staff surveys were also conducted to help understand issues or current concerns. The Board received reports of the key themes from these staff surveys and any changes made in response to the findings.	The Board has greater awareness of the issues of importance to colleagues, including the impact of significant changes in ways of working in response to the pandemic. This provides context when receiving reports from management and when making decisions that impact colleagues directly.
The Board's Member & Customer Sub-Committee reviews recommendations from the executive team which directly impact members, and customers, including any significant changes to products and services.	This approach has helped to shape our membership strategy and attain fair customer outcomes.
For further information about how we engage with our key stakeholders (including third party suppliers, regulators, the local community and the environment) please see pages 24-25.	

Attendance at board meetings

The table on page 66 shows the number of Board and standing sub-committee meetings held in 2020 and directors' attendance at those meetings.

Independence of non-executive directors

Other than the Chair, by virtue of her holding this office only, all the current non-executive directors and those who served on the Board in 2020 are considered to be independent of OneFamily. 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 were no circumstances that prohibited him from being considered independent of the Society. In line with the Board's succession plan, Ian Buckley left the Board on 1 April 2020. The Chair was considered independent on appointment.

Board diversity

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

In identifying suitable candidates for appointment to the Board, the Nominations 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 CEO. As anticipated under the Board's succession plan, Ian Buckley retired from the Board on 1 April 2020, with Graham Lindsay succeeding him as Vice-Chair and Senior Independent Director, and Jackie Noakes also joined the Board on 1 April 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 OneFamily as part of its rolling five-year plan, which are based on the objectives outlined in the report on Our strategy on pages 20 to 25. The Board monitors performance against these objectives at regular intervals.

In compliance with the Code, the Board conducts a formal evaluation annually, as explained under 'Compliance with the AFM Code' above. 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 Chair and identification of any development needs. In addition, the Chair 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 Chair, taking into account feedback from other Board members.

Assessing and monitoring culture

The Board continues to develop its approach to assessing and monitoring culture in the organisation, recognising that this is a subjective area. Insight into the culture in the organisation is provided via Graham Lindsay's role as the designated non-executive director for engagement with colleagues and review of the results of staff surveys, which all colleagues were encouraged to take part in.

Internal Audit periodically reviews the organisation's culture, with the results and monitoring of any agreed actions in respect of significant findings 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 OneFamily. 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 2020, and up to the date of signing this Annual Report and Consolidated Financial Statements, the Board comprised:

Non-Executive Directors
Christina McComb (Chair)
Ian Buckley (resigned 1 April 2020)
Steve Colsell
Graham Lindsay (Vice Chair from 1 January 2020 and Senior Independent Director from 19 May 2020)
Jackie Noakes (appointed 1 April 2020)
Sally Williams
Executive Directors
Teddy Nyahasha (Chief Executive Officer)
Jim Islam (Chief Finance Officer)
Nici Audhlam-Gardiner (Chief Commercial Officer)
Secretary
Simon Allford

Sub-Committees

The Board 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 (Chair)
Steve Colsell
Graham Lindsay
Jackie Noakes (appointed 1 April 2020)
Sally Williams
Ian Buckley was also a member until his retirement from the Board on 1 April 2020.

The Nominations Sub-Committee comprises all non-executive directors, with the CEO normally in attendance at meetings at the discretion of the Chair. The Board appoints its Chair. It may obtain such outside legal or other independent professional advice as it deems necessary. The Sub-Committee usually meets at least twice 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 diverse representation and views this as an essential element in maintaining an effective Board.

The Sub-Committee oversees the development of appropriate succession plans for all directors and other senior management positions, and reviews whether 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, as was the case during 2020 when Ian Buckley left the Board and Jackie Noakes joined. The Sub-Committee also considered longer-term succession planning for the Board and Executive team.

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 (Chair)
Christina McComb
Steve Colsell
Ian Buckley was a member until his retirement from the Board on 1 April 2020.

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 Chair, 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 CEO) 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 relevant corporate governance codes and associated guidance.

The Sub-Committee is responsible for the design of executive directors' remuneration so that it promotes 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 to benchmark its remuneration arrangements and practices against those of comparative organisations and best practice.

Other areas of consideration of the Sub-Committee during 2020 included:

- Review of gender pay reporting results
- Review of incentive scheme principles and distribution of awards for employees throughout the organisation
- Review of methodology for identifying Material Risk Takers in the organisation
- Review of the impact of the pandemic on remuneration and working arrangements

Details of the directors' remuneration can be found in the Directors' remuneration report on pages 72 to 83. The Chief Risk Officer (CRO) 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 (Chair)
Graham Lindsay
Jackie Noakes (appointed 1 April 2020)
Sally Williams
Ian Buckley was also a member until his retirement from the Board on 1 April 2020.

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 CEO, Chief Finance Officer (CFO) and CRO.

The CRO and Company Secretary support the Sub-Committee by assisting the Chair 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 OneFamily'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 OneFamily's overall risk appetite and strategy
- Recommend to the Board, and oversee, OneFamily'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 2020 have been focused on:

- Reviews of operational resilience
- Recovery and Resolution plans
- Impact of the COVID-19 pandemic including changed ways of working and the control environment
- Climate risk management
- 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 OneFamily's response to cyber security threats
- The assessment of the impact of legislative and regulatory changes on conduct risk and policyholder outcomes

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 (Chair)
Steve Colsell
Graham Lindsay
Jackie Noakes (from 1 April 2020)
Ian Buckley was also a member until his resignation from the Board on 1 April 2020.

Sally Williams is a Chartered Accountant with significant relevant practical experience, as detailed on page 50. Accordingly, the Board is satisfied that she has recent and relevant financial services experience and is well qualified to chair this committee. Sally's experience is complemented by the wide range of financial and commercial expertise of the other members of the Sub-Committee.

The Sub-Committee normally meets at least four times a year. 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 OneFamily
- Oversee 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 OneFamily'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
- 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 OneFamily'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
- Review and approve the annual external audit plan and consider the findings of the audit with the external auditor

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 2020 Annual Report • Reviewed and challenged the actuarial methodology and key 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 • At the 18 March 2021 meeting the committee reviewed the final draft of the 2020 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 2020 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
Internal control and risk management systems	The internal control environment is underpinned by a robust system of governance and risk management framework. OneFamily operates a three lines of defence model to provide assurance 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: • The review and challenge of the activities of the Compliance team (as second line) and Internal Audit (as third line) • 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
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: • Quarterly reports detailing progress of the audit plan and results of internal audit activity • The internal audit charter setting out the authority and scope of the internal audit • 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: • Reviewed, challenged and approved the CASS policy and risk framework • Received regular reports in relation to client assets • 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	Outcomes
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 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 our West Street property.	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. 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.

Area of focus	Audit Sub-Committee action in year	Outcomes
Potential impact of COVID-19 pandemic	The Audit Sub-Committee received updates on the impact of COVID-19 on the Society, to enable appropriate consideration of this and relevant disclosures in the Annual Report and regulatory returns.	The Sub-Committee carefully considered accounting, actuarial and auditing judgements as a result of the impact of COVID-19. This included consideration of the impact on markets and gilt yields, potential impacts on mortality and longevity, and operational impacts on the control framework as a result of the Society adapting to working remotely.

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).

During 2020 the Sub-Committee reviewed the 2019 year-end audit process, concluding that the audit was effective. 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 2020 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 help ensure that the external audit firm is not engaged in other services which could compromise its independence as external auditor.

KPMG was appointed as auditor to OneFamily 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 statutory and Client Assets audits for the year-ended 31 December 2019 was at an acceptable level, and that the level of fees charged for 2020 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 OneFamily'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.

With-Profits Sub-Committee

Steve Colsell (Chair)
Jackie Noakes (appointed 1 April 2020)
Sally Williams
Ian Buckley was a member until his retirement from the Board on 1 April 2020

The Sub-Committee meets four times a year. It comprises at least three independent non-executive directors and meetings are attended, by invitation, by the CEO, CFO and CRO, 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 2020 the Sub-Committee focused on the run-off plans, the Market Value Adjustment Framework and the investment strategy review for the with-profits funds.

Member & Customer Sub-Committee

Graham Lindsay (Chair)
Nici Audhlam-Gardiner
Philippa Herz – CRO
Christina McComb
Jackie Noakes (appointed 1 April 2020)
Teddy Nyahasha (appointed 1 March 2020)
Sally Williams

The Sub-Committee meets at least three times each year and its objectives are to:

- Receive and review recommendations from the executive team in relation to the Society's membership proposition, customer and Foundation plans
- Receive and review updates against key indicators for membership, customer and Foundation objectives including treating customers fairly and customer satisfaction reporting
- Give assurance that 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 2020 the Sub-Committee also considered the product development approach for products sourced from third parties and the impact of COVID-19 on members and customers.

Additional sub-committees

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.

Governance of subsidiary companies

OneFamily's 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. Family Investment Management Limited had non-executive director representation throughout 2020.

Attendance at meetings in 2020

The Chair 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	Remuneration Sub-Committee	Risk Sub-Committee	Audit Sub-Committee	With-Profits Sub-Committee	Member & Customer Sub-Committee
Christina McComb	10 (10)	2 (2)	4 (4)				4 (4)
Ian Buckley[1]	2 (3)	1 (1)	1 (1)	1 (1)	1 (1)	1 (1)	
Steve Colsell	10 (10)	2 (2)	4 (4)	4 (4)	4 (4)	4 (4)	
Graham Lindsay	10 (10)	2 (2)	4 (4)	4 (4)	4 (4)		4 (4)
Jackie Noakes[2]	8 (8)	1 (1)		2 (3)	2 (3)	1 (3)	2 (3)
Sally Williams	10 (10)	2 (2)		4 (4)	5 (5)	4 (4)	4 (4)
Nici Audhlam-Gardiner	10 (10)						4 (4)
Jim Islam	10 (10)						
Teddy Nyahasha	10 (10)						4 (4)

[1] Ian Buckley resigned 1 April 2020
[2] Jackie Noakes was appointed 1 April 2020

The Society's AGM

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, as per the approach adopted in 2020, 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. We are also proposing rule changes that will enable members to take part in fully interactive virtual meetings (as well as physical meetings) in future which would enable members to vote during the meeting itself and to raise questions via a moderator. It is our current intention to provide an online facility for members to ask questions in advance and also to stream this year's 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 helps ensure appropriate focus on membership issues, and its remit includes considering arrangements for canvassing members' views.

Details of OneFamily'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 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', stewardship program is based on the following beliefs:

- Stewardship extends beyond voting on proposals and requires engagement with companies
- Impact can be driven by thought leadership, engagement, proxy voting and client disclosure
- Companies embracing environmental, social and governance ("ESG") best practices have strong, effective independent boards and incorporate sustainability into their long-term strategy

In addition to issues related to long-term strategy and board composition, they also incorporate material ESG concerns into their engagement efforts which are split across sector and thematic priorities. These priorities are designed to identify material topics deemed to have the most material impact on long term value of the companies they own on our behalf. Throughout 2020 thematic priorities were:

- Corporate Culture
- Board Accountability
- Gender Diversity
- Human Capital
- Climate-related Reporting
- Environmental Management

In addition to the above and following the unprecedented global COVID-19 outbreak, State Street Global Advisors contacted boards to discuss issues such as employee health, protecting customers, supply chain safety and financial resiliency; helping them to think through the short and long-term impact to business and the communities in which they operate.

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 2025. A five-year period is appropriate for this viability assessment because OneFamily's internal strategic planning process also covers this time frame. Our business model and strategy are integral to understanding OneFamilly'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 OneFamily'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 OneFamily'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 2021-2025 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 OneFamily's financial resilience (including solvency and liquidity) and operational resilience in light of the COVID-19 pandemic during 2020, helping to keep the directors informed of the sensitivities of OneFamily's capital strength to equity, interest rate and credit spread changes.

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 OneFamily 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 OneFamily 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 OneFamily as detailed on pages 41 to 44 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 OneFamily will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 December 2025. This is considered an appropriate time horizon as it is the period used for business planning.

Christina McComb
Chair
25 March 2021

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 2020 a Board of Directors comprising the Chair, four independent non-executive directors and three executive directors governed the Group.

The Board is led by the Chair 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.

Directors' biographies can be found on pages 50 to 51.

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
- Assess the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern
- 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 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. They are also responsible for the maintenance and integrity of the corporate and financial information included on the Group's website.

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 60 to 64). 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.

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 2020, the Group's margins of solvency comfortably exceeded the minimum requirements, as prescribed by the Prudential Regulation Authority.

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 for a period of at least 12 months from the date of approval of these financial statements.

OneFamily's business activities, financial performance and solvency, as well as future outlook, are summarised in the Our strategy report on pages 20 to 25.

Principal risks faced by OneFamily, including liquidity risk, are summarised in the Risk management report on pages 40 to 47. 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 of the Society and the Group, the Board has also taken account of the continuing impact of the COVID-19 pandemic into 2021. The Board has considered the consequences of interest rate and stock market falls, continued stock market volatility as experienced in 2020, potential changes to mortality rates 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. 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 40 to 47.

As a result of the Board's consideration of the above factors, the directors are confident that the Group has adequate financial resources to continue in operation as a going concern for a period of at least 12 months from the date of approval of these financial statements 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. OneFamily 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 40 to 47 and in note 1 to the financial statements.

Internal control

The Board has overall responsibility for OneFamily'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 2020 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 452 full time equivalent employees during 2020 (2019: 486) at a total cost of £27.4 million (2019: £31.4 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 enable effective management of OneFamily, and provision of appropriate service to customers. As at 31 December 2020 the gender mix at management levels is:

	2020		2019	
	Male	Female	Male	Female
Board of Directors	50%	50%	71%	29%
Senior Managers and their direct reports	71%	29%	65%	35%

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

For more information on how we engage with our colleagues, please see the Section 172 report on page 23.

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 2020 we resolved 77% of complaints within four weeks, down from 99% in 2019. This decrease was largely due to a period of increased business volumes coinciding with the introduction of remote working due to the global pandemic. However, despite this, all complaints received during this challenging period were completed within the FCA's 8-week deadline.

Appointment of auditor

A resolution to re-appoint the external auditor to the Group will be proposed at the 2021 AGM. KPMG LLP 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 until his resignation on 1 July 2020, with Paul Simmons replacing him. Michael Green was With-Profits Actuary throughout 2020.

Charitable and political donations

Separate to the OneFamily Foundation, during the year OneFamily made charitable donations of £6,000 (2019: £15,293), to a local charity providing support for young homeless people and a national charity providing support at Christmas for children living in refuge homes. 2019's donations were primarily to match those raised by staff for charities of their choice. No political donations were made (2019: nil).

Directors' interests

None of the directors had any interests in the Society or its subsidiary companies, other than those interests in respect of fees or salaries paid to them as directors, those interests in respect of the policies which they hold with the 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.

S. J. Allford

Simon Allford
Secretary
25 March 2021

Directors' remuneration report

Annual statement from the Remuneration Sub-Committee Chair

Foreword

Dear Members,

I am pleased to present the Directors' remuneration report for the year ending 31 December 2020. This year has been challenging as undoubtedly it has been for everyone. However, thanks to the skilled leadership of OneFamily's Executive team and our colleagues, we have not only fulfilled our purpose of creating and protecting value for our members, but we have also built upon our solid foundations helping us to ensure the long-term sustainability of the business.

We have had a strong focus on our values as a mutual through these uncertain times, providing support to our members, our colleagues, and our community. We have funded community projects that have made a positive difference to the lives of those impacted by COVID-19 and we quickly instigated our new hardship grants to help members who needed urgent support. Additionally, our new Chief Executive Officer (CEO), Chair, Board Members and Executive team all took voluntary salary and fee reductions, and these funds were given to the Foundation to support those who were most in need.

The Sub-Committee is proud of the support to our local communities. We also remain increasingly aware of the importance of Environmental, Social and Governance (ESG) issues in the world today and the key role that organisations like OneFamily should play in driving positive change. Our ESG Strategy is a focus for OneFamily, please refer to our Inspiring Better Futures section on page 26 for more information.

Ensuring the health, safety and wellbeing of our colleagues has also been a key focus throughout the pandemic. We have not placed any of our colleagues on the Government Job Retention Scheme, also known as furlough. For those colleagues who have returned to the office, we have taken every possible precaution ensuring that appropriate social distancing and health and safety measures are in place to protect them. We recognise that the wellbeing of our colleagues is paramount and to support this we increased and promoted physical and mental health strategies to help everyone as they face the challenges that this year has brought. This included a new health portal benefit offering enhanced benefits such as virtual GP services, free counselling, dental cover and complementary therapies. We also held regular virtual events, talks and online exercise classes. This has been appreciated by colleagues as they navigate through these difficult times.

Good communication is also critical during times of uncertainty. Therefore we increased our internal communications from the onset of the pandemic in March 2020, with daily updates to all our colleagues from our CEO, conversations with colleagues at our virtual monthly CEO Breakfast meetings and regular discussion with team representatives through Talking Family, our Employee Representation Forum – please refer to page 35 for more information. We also created a monthly internal survey to give our colleagues a voice and the opportunity to provide anonymous feedback.

Remuneration Sub-Committee governance

The purpose of the Sub-Committee continues to be to ensure that remuneration practices and outcomes support our long-term business performance and our strategy, purpose and values. OneFamily continues to be committed to high standards of corporate governance. For the 2019 year-end we reported our compliance with the relevant provisions of the 2018 UK Corporate Governance Code and we continue to adopt its best practice. Having subsequently joined the Association of Financial Mutuals ('AFM'), we are now reporting against the principles of the AFM Corporate Governance Code for Mutual Insurers ("the Code").

The current Remuneration Policy ('Policy') remains consistent from last year and the Sub-Committee is not proposing to make any changes to the Policy in 2021. The current Policy is disclosed in full on pages 80 to 83.

2020 performance and incentive outcomes

Although there have been many challenges through 2020 OneFamily has continued to remain resilient, allowing us to navigate these unprecedented times. The organisation has invested in our people to enable them to work remotely and our strong business delivery has continued in supporting our key business partnerships, delivering on our child trust fund maturity process, including launching our new Environment and Social Governance product offerings for the Lifetime ISA and ISA. We have taken the opportunity to expand our sales capability through the growth and development of the OneFamily Advice and outbound sales team, and out-performed our competitors in challenged markets such as Over 50s.

The Sub-Committee considered OneFamily's underlying performance, aligned with the pay and conditions of the wider workforce and the interventions taken by management to protect the health and wellbeing of our colleagues. It was, therefore, determined that pay was aligned with performance, purpose and values.

Diversity & Inclusion focus

As I stated last year, one of the key focus areas of the Remuneration Sub-Committee was continuing the support of diversity, equality, and inclusion. 2020 has seen the launch of our Diversity and Inclusion (D&I) Strategy, which highlights initiatives to support equality and diversity across the organisation. Our D&I Strategy aims to enable a diverse workforce by building a culture and infrastructure that provides a welcome and safe working environment that promotes diversity of thinking with a sense of belonging and community, which supports our vision of inspiring better futures. The Remuneration Sub-Committee also oversees the annual Gender Pay Gap reporting which we have continued to report publicly, albeit the deadline was delayed nationally due to the pandemic. We are continuing to identify and develop our female talent and have committed to the Women in Finance Charter.

Key decisions and other matters considered by the Remuneration Sub-Committee

We conducted an evaluation of the Remuneration Sub-Committee effectiveness and all Sub-Committee members and Executive attendees contributed to the evaluation. The findings were reviewed and actions to improve effectiveness from 2021 were agreed.

A key requirement for Boards is to ensure the views of all stakeholders are considered, including colleagues. I therefore took on the role as designated non-executive director for colleagues in 2020 and I met regularly with all elected members of the employee consultation forum, Talking Family, and kept up to date on matters with the HR Director, reporting back regularly to the Board. Engagement with colleagues has been a key focus, and there have been a range of formal and informal channels available for colleagues to share feedback, ideas and concerns with all members of the OneFamily Board. You can read more about this on page 35.

Looking forward

Our focus in 2021 is to further develop the relationships with our existing customers through the development of new products and services alongside promoting our existing product range. The Remuneration Sub-Committee will continue to ensure our remuneration policy and practices supports the delivery of this strategy in both the short and long term.

Graham Lindsay
Chair of the Remuneration Sub-Committee
25 March 2021

Annual report on remuneration

Single total figure remuneration for each director

The remuneration of the directors of OneFamily for the year-ended 31 December 2020 and the previous year is set out in the tables below.

Board of Directors Remuneration

	Salary/Fees		Short-Term Incentive Scheme		Long-Term Incentive Scheme		Other benefits[3]		Total remuneration	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Executives										
Teddy Nyahasha	353	300	237	168	118	120	51	38	759	626
Jim Islam[2]	266	–	114	–	–	–	32	–	412	–
Nici Audhlam-Gardiner[2]	222	–	95	–	–	–	40	–	357	–
Simon Markey[1]	–	460	–	313	–	347	–	86	–	1,206
Non-executives										
Christina McComb	111	115	–	–	–	–	–	–	111	115
Peter Box[4]	–	25	–	–	–	–	–	–	–	25
Ian Buckley[5]	12	62	–	–	–	–	–	–	12	62
Steve Colsell	58	61	–	–	–	–	–	–	58	61
Graham Lindsay	73	63	–	–	–	–	–	–	73	63
Jackie Noakes	34	–	–	–	–	–	–	–	34	–
Sally Williams	56	54	–	–	–	–	–	–	56	54
	1,185	1,140	446	481	118	467	123	124	1,872	2,212

[1] See the section below on payments to past directors
[2] Jim Islam and Nici Audhlam-Gardiner were employed by the Group in 2019 but were not appointed as Directors until 1 January 2020
[3] Other benefits include pension costs, private medical insurance, taxable expenses and a grossed-up payment of the associated tax due on these taxable expenses claimed (taxable expenses include for example travel between offices)
[4] Resigned 05/06/2019
[5] Resigned 01/04/2020

In 2020, directors agreed to a contractual reduction in their salaries and fees. This saving was used by OneFamily to fund additional hardship grants to help members and their families during the COVID-19 pandemic.

Incentive schemes

The Sub-Committee considered OneFamily's underlying performance, pay and conditions of the wider workforce during the year and determined that pay was well aligned with performance. No discretion was exercised on either the annual or long-term incentive scheme.

Long-Term Incentive Scheme

	Value of deferred bonus as at 31 Dec 2019 £'000	Bonus paid during 2020 £'000	Bonus vested in 2020 to be paid in 2021 £'000	Bonus vested in 2020 but payment deferred to 2022/2023 £'000	Value of deferred bonus at 31 Dec 2020 £'000
Teddy Nyahasha Performance period					
2016-2018	45	(23)	–	–	22
2017-2019	120	(60)	–	–	60
2018-2020	–	–	59	59	118
	165	(83)	59	59	200
Total	**165**	**(83)**	**59**	**59**	**200**

Short-Term Incentive Scheme

	Value of deferred bonus as at 31 Dec 2019 £'000	Bonus paid during 2020 £'000	Bonus vested in 2020 to be paid in 2021 £'000	Bonus vested in 2020 but payment deferred to 2022/2023 £'000	Value of deferred bonus at 31 Dec 2020 £'000
Teddy Nyahasha Performance period					
2017	21	(21)	–	–	–
2018	62	(31)	–	–	31
2019	168	(101)	–	–	67
2020	–	–	142	95	237
	251	(153)	142	95	335
Jim Islam Performance period					
2020	–	–	68	46	114
	–	–	68	46	114
Nici Audhlam-Gardiner Performance period					
2020	–	–	57	38	95
	–	–	57	38	95
Total	**251**	**(153)**	**267**	**179**	**544**

Total Bonuses Vested in the year		
	2020 £'000	2019 £'000
Teddy Nyahasha		
Long-Term Incentive Scheme	**118**	120
Short-Term Incentive Scheme	**237**	168
	355	288
Jim Islam		
Long-Term Incentive Scheme	**–**	–
Short-Term Incentive Scheme	**114**	–
	114	–
Nici Audhlam-Gardiner		
Long-Term Incentive Scheme	**–**	–
Short-Term Incentive Scheme	**95**	–
	95	–
Total Executive Directors Bonuses vested in year	**564**	288

Payments to past directors

During 2020 Simon Markey, the CEO until 31 December 2019, was paid £418k for his contractual notice period and this includes his contractual benefits associated with his payment. In addition, a long-term incentive bonus of £158k vested in relation to the period he was employed during the 2018-2020 performance period. This will be paid out in 2021 and deferral payments in 2022 and 2023.

All other payments made to past directors in 2020 related to:

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

CEO pay ratio and pay across the workforce

This is the second year that we are voluntarily disclosing our CEO pay ratio. This ratio compares the total remuneration of the CEO to that of the lower quartile, median and upper quartile of the wider workforce. As the remuneration of the CEO is primarily performance driven results can vary on a year-on-year basis.

The Sub-Committee selected Option A calculation method, as set out in the UK Corporate Governance Code Regulations, as the most appropriate for the Company, on the basis that it provides the most robust and statistically accurate means of identifying the lower quartile, median and upper quartile colleagues on a full-time equivalent basis. The pay ratio is calculated with reference to colleague pay data as at 31 December 2020. No element of pay was excluded from the calculation.

Pay ratio results

Total Remuneration:

Year	Method	Lower quartile	Median	Upper quartile
2020	Option A	29:1	21:1	13:1
2019	Option A	34:1	23:1	15:1

Fixed pay:

Year	Method	Lower quartile	Median	Upper quartile
2020	Option A	16:1	11:1	8:1
2019	Option A	22:1	15:1	11:1

- Total remuneration and fixed pay calculations use colleague pay data as at 31 December 2020
- 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 2020, sales incentive scheme, STIP 2020 Bonus and LTIP Bonus (2018-2020 scheme only). The figures do not factor in deductions for salary sacrifice schemes

Pay across the workforce and our commitment to the real living wage

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 are important factors 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.

OneFamily is proud to offer a valued total reward package that includes a staff bonus scheme that allows our colleagues to share in the success of the Group. The majority of colleagues are a part of the staff bonus scheme paying out a range up to 20% of base pay. Against the backdrop of the uncertainty created by COVID-19, the Sub-Committee believes the reward practices to be fair and consistent with the reward policies for all OneFamily's colleagues.

The Sub-Committee reviews a whole range of data related to remuneration fairness across the group such as the gender pay gap results and broader diversity and inclusion initiatives such as set out in our Inspiring Better Futures section. Overall, the Sub-Committee is satisfied that the processes behind pay decisions in relation to the wider workforce are effective in delivering OneFamily's commitment to equal pay that is free from discrimination. The Sub-Committee is encouraged by the various initiatives taken by management and will continue to monitor progress in diversity and fair pay.

Relative importance of spend on pay

Colleague costs form a significant element of Group expenditure, representing 43% of the net operating expenses.

Relative importance of spend on pay	2020 £m	2019 £m	Change %
Net operating expenses	63.7	70.6	-9.8%
Overall staff costs	27.4	31.4	-12.7%

Non-Executive director fees for 2021

Non-executive directors' fees are reviewed annually in light of responsibilities and with reference to market competitive ranges. The table below sets out the fee levels for non-executive director roles which are in place for 2021.

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

Non-executive director fees structure	2021 £m
Chair	115
Base fee	48
Vice chair	60
Audit Sub-Committee chair	10
Risk Sub-Committee chair	10
Remuneration Sub-Committee chair	10
Member and Customer Sub-Committee chair	5
With-Profits Sub-Committee chair	2.5

Non-executive directors fees for 2021 remain at the same level as 2020 (prior to the agreed reduction in fees to help fund hardship grants).

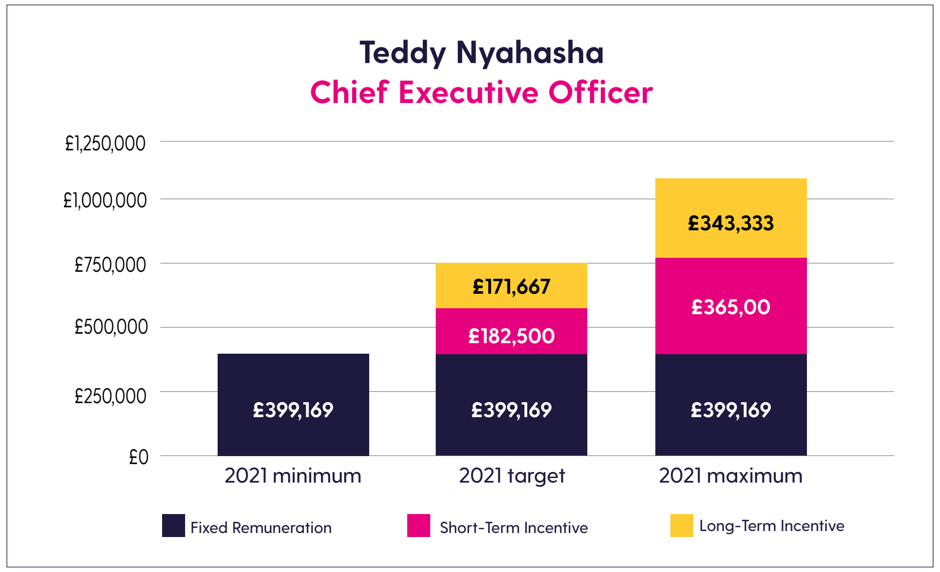
Executive director minimum and maximum projected targets for 2021

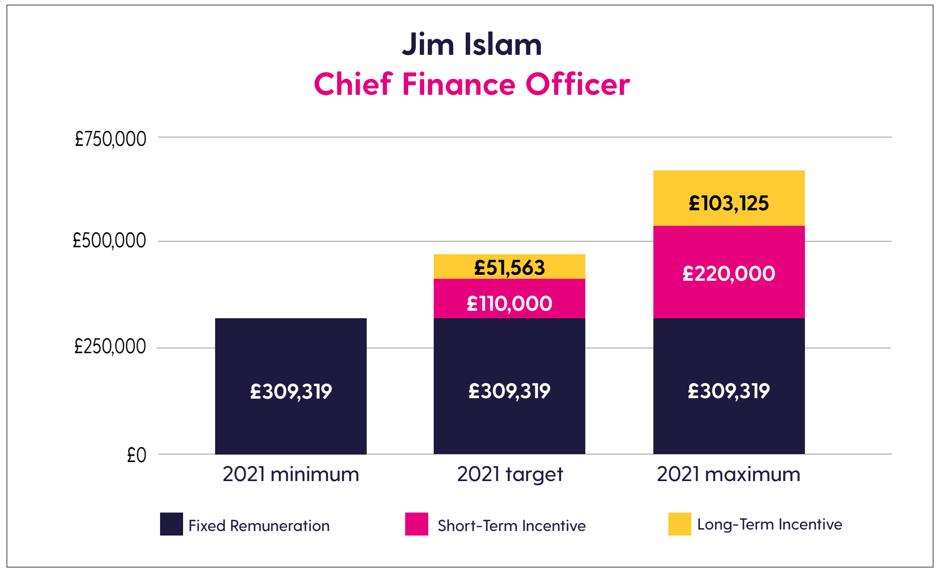
The charts opposite illustrate the amounts that executive directors would be paid under different performance scenarios:

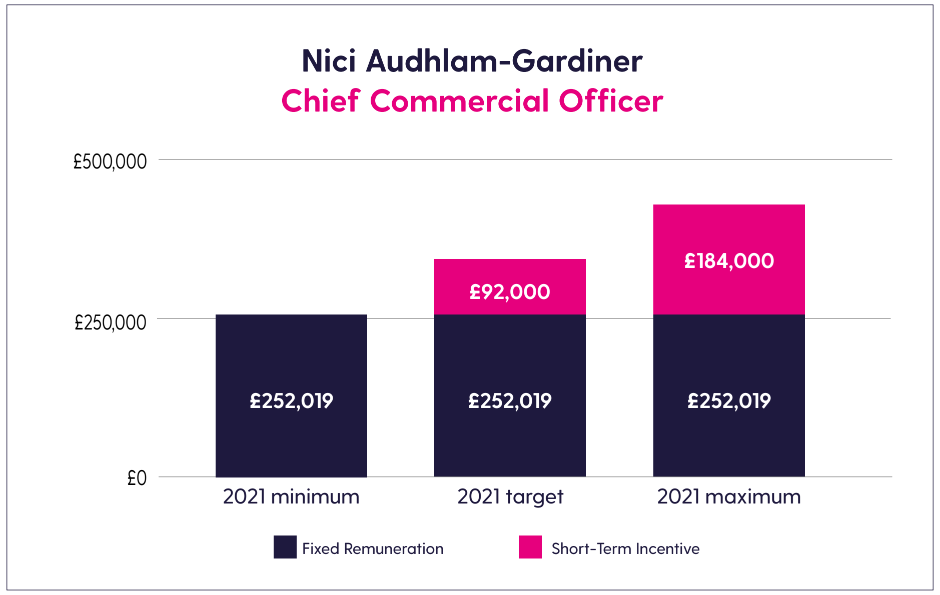
Minimum – fixed remuneration elements only (base salary, benefits and pension)

Target – assumes target levels of performance are achieved

Maximum – assumes that stretch levels of performance are achieved







STIP and LTIP incentives represent the target and maximum opportunities that may vest in the year.

External advisors

Throughout the year the Sub-Committee drew upon the advice of EY as an independent external remuneration advisor. As members of the Remuneration Consultants Group, EY operates under the Voluntary Code of Conduct in relation to executive remuneration consulting in the UK. The Sub-Committee is satisfied that the advice received is both objective and independent. EY does not have any connection with any of the executive or non-executive directors at OneFamily.

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 is 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 discouraging 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.
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 aligned to OneFamily's purpose, values and strategy.	Short-term incentive awards are linked to annual individual performance against agreed objectives and business performance. 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 claw back provisions. Malus provisions will apply to an unvested award and claw back 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 and executive directors – 100% 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 claw back 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 aligned to 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 claw back provisions. Malus provisions will apply to an unvested award and claw back 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 and executive Directors – 100% 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 claw back 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.

Element	Potential value
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 Chair 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 Chair 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 chairship 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.

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 2020 which comprise the Group and Society Statement of Income and Expenditure accounts, the Group and Society Statement 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 the Group's and of the Society's affairs as at 31 December 2020 and of the Group's and Society's income and expenditure 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 prepared in accordance with the requirements of 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 six financial years ended 31 December 2020.

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 as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£3.1m (2019:£3.5m) 1.8% (2019: 1.8%) of retained earnings and funds for future appropriations	
Coverage	96% (2019:93%) of Group retained earnings and funds for future appropriations	
Key audit matters		**vs 2019**
Recurring risk	Valuation of long term business provision (key audit matter)	◄►

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 those matters 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 these matters.

	The risk	Our response
Valuation of long term business provision (£311 million; 2019: £284 million) *Refer to page 63 - 64 (Audit Committee Report), page 105 (accounting policy) and page 139 - 141 (financial disclosures)*	**Subjective valuation:** The Group has significant liabilities for long term insurance business representing 19.6% of the Group's total liabilities based on 31 December 2020 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 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 (VIR), which are determined using risk-adjusted yields in line with INSPRU rules and an allowance for credit default. • The expected level of future expenses of protection products which is based on the expected future costs of administering the underlying policies.	We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: — **Control design:** We tested the design and implementation of key controls over management's valuation processes. We performed the detailed tests below rather than seeking to rely on the Group's controls because our knowledge of the related IT controls indicated that we would not be able to obtain the required evidence to support reliance on controls. — **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 — **Historical comparison and benchmarking assumptions:** We evaluated the appropriateness of the demographic assumptions by comparing to the Group's experience, 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, to externally sourced data. We independently calculated the valuation interest rates using these key inputs, 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. We also performed a retrospective review of expenses by comparing 2020 actual balances against the 2020 budget

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

	The risk	Our response
Valuation of long term business provision £311 million; 2019: £284 million *Refer to page 63 - 64 (Audit Committee Report), page 105 (accounting policy) and page 139 - 141 (financial disclosures)*	**Data capture** There is a risk that incomplete and inaccurate data is used in the calculation of policyholder liabilities because data does not transfer appropriately from the policyholder system to the extracts used in the actuarial models. **Calculation error** Management uses complex actuarial models to calculate policyholder liabilities. There is a risk that unauthorised or erroneous changes to the models may occur leading to an incorrect calculation of the policyholder liabilities. This key audit matter, along with our corresponding response and findings, applies to both the Group and Society financial statements.	— **Model testing:** Using our independent models, we have calculated the long term business provision balance for a sample of policies across the reserves and compared to the balances recorded by management. — **Test of details:** We have performed test of details over the completeness and accuracy of the data used in the valuation of the long term business provision. — **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 (2019 result: acceptable).

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 £3.1m (2019: £3.5m), determined with reference to a benchmark of retained earnings and Funds for Future Appropriations ("FFA") of which it represents 1.8% (2019: 1.8%).

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 £3.0m (2019: £3.4m), determined with reference to a benchmark of retained earnings and FFA, of which it represents 1.7% (2019: 1.7%).

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 75% (2019: 75%) of materiality for the financial statements as a whole, which equates to £2.3m (2019: £2.6) for the Group and £2.2m (2019: £2.6) for the Society. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.15m (2019: £0.2m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 reporting components, we subjected 4 to full scope audit for Group purposes. Component materialities ranged from £3.0m to £35k (2019: £3.4m to £0.1m), having regard to the mix of size and risk profile across the components.

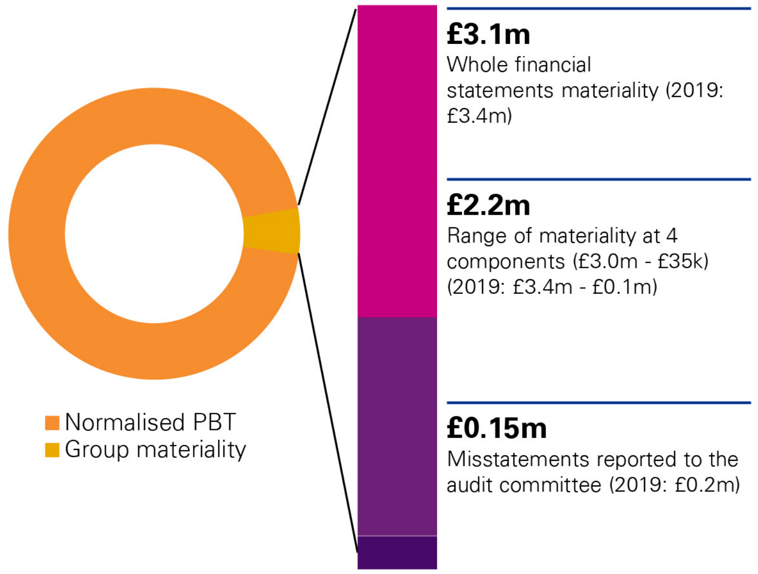
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 0.1% of total group revenue, 4.1% of total net assets and 0.1% of total group assets are represented by eight reporting components, none of which individually represented more than 10% of any of total group revenue, total group net assets 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.

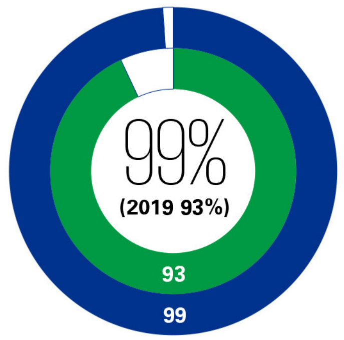
The work on these components was performed by the Group team.

Retained earnings and FFA
£173.5m (2019: £193.4m)

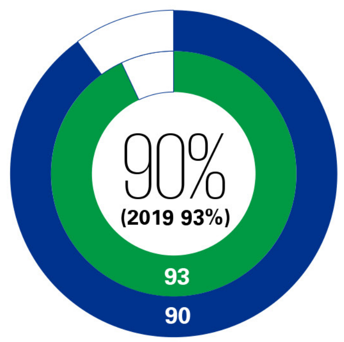
Group materiality
£3.1m (2019: £3.5m)



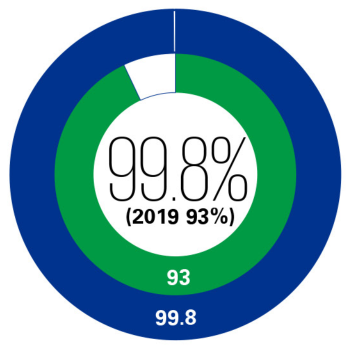
Group revenue



Group profit before tax



Group total assets



Full scope for group audit purposes 2020
Full scope for group audit purposes 2019
Residual components

4. **Going concern**

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Society or to cease their operations, and as they have concluded that the Group's and the Society'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").

We used our knowledge of the Group, its industry and the general economic environment to identify the inherent risks to its 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:

— Business model underperformance; and
— Adverse impacts arising from fluctuations or negative trends in the economic environment including but not limited to a decline in the value of financial investments, wider credit spreads and defaults which might negatively affect the solvency capital position.

We considered whether these risks could plausibly affect the liquidity in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources indicated by the Group's financial forecasts.

We considered whether the going concern disclosure in the statement of accounting policy section C of the notes the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

— we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Society's ability to continue as a going concern for the going concern period; and
— we have nothing material to add or draw attention to in relation to the Directors' statement in the statement of accounting policy section C of the notes the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Group's or Society's use of that basis for the going concern period, and we found the going concern disclosure in the statement of accounting policy section C of the notes the financial statements to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Society will continue in operation.

5. **Fraud and breaches of laws and regulations – ability to detect**

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors, the audit committee, and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board, audit committee, and risk committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, we perform procedures to address the risk of management override of controls, in particular the risk that Group management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of long term business provision.

On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited management judgment involved in the recognition of all material revenue streams.

We also identified fraud risks related to the valuation of long-term business provision in response to management's opportunity to manipulate the assumptions considering its nature being highly judgmental. Further detail in respect of the valuation of long-term business provision is set out in the key audit matters in section 2 of this report.

We performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included, but were not limited to, journals containing specific key words, searching for journals posted by unauthorized personnel, those posted to accounts that contain significant estimates and period end adjustments.
- Assessing significant accounting estimates for bias.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

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, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondences, and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

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 companies legislation), and taxation 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 liquidity requirements and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

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 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 fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. **We have nothing to report on the strategic report and the directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report 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 those reports;
— in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
— in our opinion those reports have been prepared in accordance with the Friendly Societies Act 1992.

7. **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 and returns; or
— certain disclosures of directors' remuneration specified by law are not made; or
— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. **Respective responsibilities**

Directors' responsibilities

As explained more fully in their statement set out on page 69, the Directors are responsible for: the preparation of the financial statements including being satisfied that they 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.

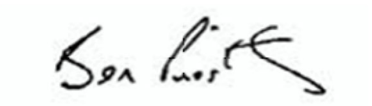
Auditor's responsibilities

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 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 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.

9. 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 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
25 March 2021

onefamily
modern family finance

Consolidated Financial Statements 2020

Group and Society statement of income and expenditure accounts
for the year ended 31 December 2020

Technical account Long-term business	Notes	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Earned premiums, net of reinsurance					
Gross premiums written	3	**38,221**	39,293	**38,221**	39,293
Outward reinsurance premiums	3	**(11,792)**	(11,505)	**(11,792)**	(11,505)
Investment income	4	**48,708**	107,174	**58,808**	113,215
Unrealised (losses)/gains on investments	4	**(47,844)**	88,520	**(56,311)**	83,591
Other technical income	11	**5,783**	3,571	**8,951**	6,916
Claims incurred, net of reinsurance					
Gross claims incurred	5	**(38,278)**	(40,962)	**(38,278)**	(40,962)
Outward claims reinsurance	5	**14,746**	12,197	**14,746**	12,197
Change in long-term business provision, net of reinsurance	20	**(23,784)**	(8,489)	**(23,784)**	(8,489)
Change in gross liability for investment contracts	21	**18,489**	(163,956)	**18,489**	(163,956)
Other technical charges		**(4,284)**	(2,954)	**(4,284)**	(2,954)
Goodwill and intangibles amortisation	14, 20	**(2,673)**	(2,784)	**(2,673)**	(2,784)
Net operating expenses	7	**(16,856)**	(23,633)	**(16,856)**	(23,633)
Investment expenses and charges	4	**(2,616)**	(3,068)	**(2,616)**	(3,068)
Taxation credit	13	**627**	828	**627**	828
Transfer from/(to) the fund for future appropriations		**6,146**	(2,765)	**6,146**	(2,765)
Balance on the long-term business technical account		**(15,407)**	(8,533)	**(10,606)**	(4,076)

The notes to the financial statements on pages 109 to 153 are an integral part of these financial statements.

Group and Society statement of income and expenditure accounts (continued)
for the year ended 31 December 2020

Non-technical account	Notes	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Balance on the long-term business technical account		**(15,407)**	(8,533)	**(10,606)**	(4,076)
Other income	12	**51,662**	55,269	**–**	–
Net operating expenses	7	**(46,794)**	(46,990)	**–**	–
Goodwill and intangibles amortisation	14	**(861)**	(4,751)	**–**	–
Excess of expenditure over income on ordinary activities before tax		**(11,400)**	(5,005)	**(10,606)**	(4,076)
Tax on excess of expenditure over income on ordinary activities	13	**(287)**	(33)	**–**	–
Excess of expenditure over income after tax		**(11,687)**	(5,038)	**(10,606)**	(4,076)

The notes to the financial statements on pages 109 to 153 are an integral part of these financial statements.

Group and Society statement of other comprehensive income
for the year ended 31 December 2020

	Notes	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Excess of expenditure over income after tax		**(11,687)**	(5,038)	**(10,606)**	(4,076)
Remeasurement of defined benefit scheme	26	**(500)**	(400)	**(500)**	(400)
Unrealised (loss)/gain on property revaluation		**(1,574)**	1,964	**(426)**	1,964
Total recognised loss in the year	25	**(13,761)**	(3,474)	**(11,532)**	(2,512)

Group and Society statement of changes in equity
for the year ended 31 December 2020

Retained earnings	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Reported at 1 January	**157,455**	160,929	**162,066**	164,578
Total recognised loss in the year	**(13,761)**	(3,474)	**(11,532)**	(2,512)
As at 31 December	**143,694**	157,455	**150,534**	162,066

The notes to the financial statements on pages 109 to 153 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2020

Assets **Financial Position**	Notes	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Intangible assets					
Goodwill	14	**1,403**	1,689	**487**	602
Other intangible assets	14	**3,075**	3,902	**321**	458
Investments					
Investment in land and buildings	15	**6,708**	11,770	**8,651**	11,770
Investment in group undertakings	16	**–**	–	**24,238**	21,336
Non-linked financial investments	17	**270,858**	272,577	**270,858**	272,577
Assets held to cover linked liabilities	17	**1,114,214**	1,211,259	**1,114,214**	1,211,259
Debtors	17, 18	**20,769**	15,045	**17,753**	19,471
Reinsurers' share of technical provisions					
Long-term business provision	20	**118,766**	115,783	**118,766**	115,783
Other assets					
Tangible assets	19	**518**	454	**512**	410
Cash at bank	17	**55,679**	49,929	**42,648**	33,905
Deferred taxation	13	**–**	287	**–**	–
Prepayments and accrued income					
Accrued interest and rent		**2,035**	2,978	**897**	979
Other prepayments and accrued income		**1,811**	1,516	**1,811**	1,516
Total assets		**1,595,836**	1,687,189	**1,601,156**	1,690,066
Net pension asset	26	**–**	–	**–**	–
Total assets including the pension asset		**1,595,836**	1,687,189	**1,601,156**	1,690,066

The notes to the financial statements on pages 109 to 153 are an integral part of these financial statements.

Group and Society statement of financial position (continued)
as at 31 December 2020

Liabilities Financial Position	Notes	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Retained earnings	25	**143,694**	157,455	**150,534**	162,066
Fund for future appropriations (FFA)	24	**29,793**	35,939	**29,793**	35,939
Technical provisions					
Long-term business provision	20	**275,888**	246,700	**275,888**	246,700
Claims outstanding	20	**6,363**	6,391	**6,363**	6,391
Technical provision for linked liabilities	21	**1,114,214**	1,211,241	**1,114,214**	1,211,241
Deposits from reinsurers		**–**	3,448	**–**	3,448
Creditors					
Creditors arising out of insurance operations	22	**991**	982	**991**	982
Other creditors including taxation and social security	23	**7,099**	6,050	**8,654**	7,338
Accruals and deferred income		**17,794**	18,983	**14,719**	15,961
Total liabilities		**1,595,836**	1,687,189	**1,601,156**	1,690,066

The notes to the financial statements on pages 109 to 153 are an integral part of these financial statements.

The financial statements were approved at a meeting of the Board of Directors on 25 March 2021 and signed on its behalf by:

Teddy Nyahasha
Chief Executive

Christina McComb
Chair

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 2020.

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 of the Society and the Group, the Board have taken account of the COVID-19 pandemic which started in early 2020. The Board have considered the consequence of stock market falls, continuing stock market volatility 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, unless otherwise stated.

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 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. Fair value is determined with reference to net asset value or internal valuation bases.

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, unless otherwise stated. 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.

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

Until 2020, the Group received reinsurance financing on sales of its Over 50s life cover from reinsurers. The financing repayment was contingent upon margins emerging on the business in future years. The advances were receivable at the inception of a policy and included as income within other technical income in the Technical account – Long-term business. The repayment of the financing advance was repayable as the margins emerge and was included in other technical charges. The amount of refinancing repayable at the statement of financial position date was included on the statement of financial position as deposits from reinsurers. This liability was classified as an insurance liability under FRS103.

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 2020

1. Management of financial and insurance risk

Set out below is the Group's exposure and management of financial and insurance risk. For more details on all risk exposures and how we manage them, including events such as COVID-19 and climate change, please see the Risk management report on page 40.

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.

1. Management of financial and insurance risk (continued)

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.

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 2020 £'000**	Group 2019 £'000	**Society 2020 £'000**	Society 2019 £'000
Non-linked financial investments subject to credit risk	**91,559**	97,041	**91,559**	97,041
Debtors	**20,769**	15,045	**17,753**	19,471
Cash at bank	**55,679**	49,929	**42,648**	33,905
Reinsurers share of technical provisions	**120,380**	115,783	**120,380**	115,783
Total assets bearing credit risk	**288,387**	277,798	**272,340**	266,200
Debt and other assets rated as:				
UK government	**55,506**	56,607	**55,437**	56,607
A rated and above	**199,357**	191,370	**180,260**	169,176
B rated – BBB	**17,850**	19,773	**17,850**	19,773
Not rated	**15,674**	10,048	**18,793**	20,644
Total assets bearing credit risk	**288,387**	277,798	**272,340**	266,200

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 2020					
Long-term business					
Non profit fund	**121,428**	**8,280**	**26,462**	**43,828**	**42,858**
With-profits fund 1	**43,476**	**8,660**	**19,126**	**14,675**	**1,015**
With-profits fund 2	**27,489**	**4,263**	**10,714**	**9,819**	**2,693**
Total	**192,393**	**21,203**	**56,302**	**68,322**	**46,566**
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

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 £1,114,214k (2019: £1,211,241k) 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 2020.

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

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 through annual bonuses 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.

1. Management of financial and insurance risk (continued)

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).

2020	Mortality		Lapse	Expenses		Fixed Interest Yield		Equities/ Property	
	5% £'000	-5% £'000	10% £'000	10% £'000	-10% £'000	20bp £'000	-20bp £'000	10% £'000	-10% £'000
Impact on long-term business provision (LTBP)									
Fund									
Non profit fund	(4,139)	4,944	(1,992)	2,827	(2,808)	(6,226)	6,966	–	–
With-profits fund 1	(39)	46	–	240	(233)	(325)	350	–	4
With-profits fund 2	(25)	28	–	–	–	(268)	289	(15)	4
Change in LTBP	(4,203)	5,018	(1,992)	3,067	(3,041)	(6,819)	7,605	(15)	8
Impact on asset valuations									
Fund									
Non profit fund	–	–	–	–	–	(4,190)	4,401	3,335	(3,335)
With-profits fund 1	–	–	–	–	–	(500)	500	1,155	(1,155)
With-profits fund 2	–	–	–	–	–	(359)	359	1,170	(1,170)
Change in asset valuations	–	–	–	–	–	(5,049)	5,260	5,660	(5,660)
Impact on retained earnings and the FFA									
Retained earnings (non-profit fund)	4,139	(4,944)	1,992	(2,827)	2,808	2,036	(2,565)	3,335	(3,335)
FFA (with-profits funds)	64	(74)	–	(240)	233	(266)	220	2,340	(2,333)

1. Management of financial and insurance risk (continued)

The application of the interest rate sensitivities has been amended in 2020, to reflect changes to the risk variables that were reasonably possible at the end of the reporting period.

The non-profit mortality assumptions impact both annuity and non-annuity business. The 5% increase in mortality shows the impact of increasing mortality rates across both annuity and non-annuity business to 105% of the expected rate. The 5% fall in mortality sensitivity shows the impact of reducing mortality rates on both annuity and non-annuity business to 95% of the expected rate. Within these increases and decreases there would be an element of offset across product types. 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 was not included below.

In addition, the fixed interest yield sensitivity has been amended to be stated in absolute terms (Basis Points) rather than a percentage to reflect the current low interest rate environment.

It has not been possible to reanalyse the 2019 sensitivities on the same basis as those used for 2020.

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)

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 2020.

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	**2020 £'000**	2019 £'000
Gross premiums written	**38,221**	39,293
Less: reinsurers' share	**(11,792)**	(11,505)
Net earned premiums – insurance business	**26,429**	27,788

Long-term business only includes premiums in respect of insurance business. Consideration received in respect of investment contracts of £16,006k (2019: £18,194k) 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 2020 £'000	Group 2019 £'000	**Society 2020 £'000**	Society 2019 £'000
Income from other investments	**28,460**	38,878	**38,560**	44,874
Interest income	**442**	850	**442**	844
Realised gains on investments	**19,806**	67,446	**19,806**	67,497
Total investment income	**48,708**	107,174	**58,808**	113,215
Unrealised (losses)/gains on investments	**(47,844)**	88,520	**(56,311)**	83,591
Investment management expenses	**(2,616)**	(3,068)	**(2,616)**	(3,068)
Total net investment return	**(1,752)**	192,626	**(119)**	193,738

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	**2020 £'000**	2019 £'000
Gross claims paid	**38,307**	40,194
Change in provision for claims outstanding at year-end	**(29)**	768
Gross claims incurred	**38,278**	40,962
Outward claims reinsurance	**(14,746)**	(12,197)
Total claims incurred, net of reinsurance	**23,532**	28,765

Policies defined as investment rather than insurance contracts are accounted for on a deposit basis. The claims analysis above excludes £94,544k (2019: £125,128k) 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 £4,698k (2019: £4,446k).

7. Net operating expenses

Technical account – long-term business	**Group 2020 £'000**	Group 2019 £'000	**Society 2020 £'000**	Society 2019 £'000
Acquisition costs	**6,975**	7,268	**6,975**	7,268
Administrative expenses (including auditor's remuneration)	**9,881**	16,365	**9,881**	16,365
Net operating expenses	**16,856**	23,633	**16,856**	23,633
Non-technical account				
Acquisition costs	**9,986**	10,339	**–**	–
Administrative expenses	**36,808**	36,651	**–**	–
Net operating expenses	**46,794**	46,990	**–**	–
Total net operating expenses	**63,650**	70,623	**16,856**	23,633

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

Total commission paid by the Group on new business was £4,994k (2019: £5,829k).

8. Auditor's remuneration

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

Audit services	**Group 2020 £'000**	Group 2019 £'000	**Society 2020 £'000**	Society 2019 £'000
Fees payable to the Society's auditor for the audit of the annual accounts	**395**	383	**395**	383
Audit of the accounts of subsidiaries	**68**	87	**–**	–
Audit-related assurance services	**122**	111	**–**	–
Other assurance services	**21**	18	**21**	18
Total	**606**	599	**416**	401

Excluded from the numbers above is £89k (2019: £89k) incurred in connection with audits of the unit trusts and open ended investment company managed by a subsidiary company, of which £39k (2019: £30k) was borne by the Society.

9. Operating lease rentals

Group and Society	**2020 £'000**	2019 £'000
Operating lease amounts payable:		
– less than one year	**180**	463
– between one and five years	**57**	248
Total	**237**	711
Payments made under operating leases (recognised as an expense)		
Hire of fixtures and fittings – rental under operating leases	**177**	351
Property rental expenses in the year	**246**	246
Total	**423**	597

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

10. Staff costs

Group and Society	**2020 £'000**	2019 £'000
Wages and salaries	**23,384**	26,779
Social security costs	**2,492**	2,840
Defined contribution pension costs	**1,535**	1,740
Total staff costs	**27,411**	31,359

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	**2020 FTE**	2019 FTE
Administration	**360**	407
Management	**38**	41
Marketing	**54**	38
Total number of staff	**452**	486

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 2020, the total remuneration paid to the directors was £1,872k (2019: £2,529k) and the total remuneration paid to the highest paid director was £759k (2019: £1,530k). 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.

The 2019 FTE has been reanalysed in line with the 2020 categories.

Key management compensation

Compensation to key management personnel (including executive directors) in the year was £2,767k (2019: £4,338k).

11. Other technical income

	Group 2020 £'000	Group 2019 £'000	**Society 2020 £'000**	Society 2019 £'000
Annual management rebates	**359**	722	**359**	722
Fee income	**1,138**	–	**1,138**	–
Mortgage interest receivable	**39**	36	**39**	36
Reassurance financing advance	**4,247**	2,813	**4,247**	2,813
Other income	**–**	–	**3,168**	3,345
Total other technical income	**5,783**	3,571	**8,951**	6,916

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 2020 £'000	Group 2019 £'000
Annual management charges	**48,301**	48,140
Lifetime mortgage income	**1,375**	5,264
Other operating income	**1,986**	1,865
Total other income	**51,662**	55,269

13. Taxation

Analysis of the tax charge for the year:

The tax credit for the Group is £340k (2019: tax credit £795k).

The applicable UK corporation tax rate is 19% (2019: 19%).

A reduction in the UK corporation tax rate from 19% to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. The March 2020 Budget announced that a rate of 19% would continue to apply with effect from 1 April 2020, and this change was substantively enacted on 17 March 2020.

The Society 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% (2019: 20%).

Tax (credit)/charge	**Group 2020 £'000**	Group 2019 £'000	**Society 2020 £'000**	Society 2019 £'000
Technical account	**(627)**	(828)	**(627)**	(828)
Non-technical account	**287**	33	**–**	–
Total tax credit	**(340)**	(795)	**(627)**	(828)
Analysed as follows:				
Corporation tax				
Tax credit	**(627)**	(828)	**(627)**	(828)
Deferred tax				
Timing differences, origination and reversal	**287**	33	**–**	–
Total tax credit	**(340)**	(795)	**(627)**	(828)

At 31 December 2020, the Group did not hold any provisions for uncertain tax positions.

13. Taxation (continued)

Reconciliation of current year tax charge	**Group 2020 £'000**	Group 2019 £'000	**Society 2020 £'000**	Society 2019 £'000
Excess of expenditure over income	**(11,400)**	(5,004)	**(10,606)**	(4,077)
Tax on result (2020: 19%, 2019: 19%)	**(2,166)**	(951)	**(2,015)**	(775)
Factors affecting tax charge:				
Accounting result not subject to tax	**2,478**	1,011	**2,015**	775
Items taxed on a different basis	**3**	(16)	**–**	–
Adjustments in respect of prior periods	**193**	–	**–**	–
Utilisation of unrecognised losses	**(221)**	(44)	**–**	–
Losses utilised during the year	**–**	33	**–**	–
Tax on excess of expenditure over income on ordinary activities	**287**	33	**–**	–

From 2020, the above table shows the reconciliation from the excess of income over expenditure on ordinary activities before tax, to the tax on excess of income over expenditure on ordinary activities; both measures as shown in the non-technical account. The reconciliation for 2019 has been reanalysed to show the comparatives on the same basis.

Items taxed on a different basis include profits taxed in subsidiaries.

13. Taxation (continued)

	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Losses recognised	–	287	–	–
Total recognised deferred tax asset	–	287	–	–
Unrecognised deferred tax assets	**6,890**	7,730	**5,590**	5,737
Total	**6,890**	8,017	**5,590**	5,737

The deferred tax asset includes £nil (2019: £287k) 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 £6,890k (2019: £7,730k) with £1,300k (2019: £1,993k) of the deferred tax asset being in relation to the subsidiary companies and the remaining £5,590k (2019: £5,737k) relating to the Society.

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	IT, systems & project development £'000	Acquired funds under management £'000	Total £'000
Cost				
At 1 January 2020	2,863	6,208	5,000	**14,071**
At 31 December 2020	**2,863**	**6,208**	**5,000**	**14,071**
Amortisation				
At 1 January 2020	1,174	5,749	1,557	**8,480**
Provided in the year	286	138	689	**1,113**
At 31 December 2020	**1,460**	**5,887**	**2,246**	**9,593**
Net book value at 31 December 2020	**1,403**	**321**	**2,754**	**4,478**
Net book value at 31 December 2019	1,689	459	3,443	5,591

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 six years.

In 2017 and 2018 the Society capitalised the system and project development costs relating to new product development, within IT systems & project 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	IT, systems & project development £'000	Total £'000
Cost			
At 1 January 2020	1,147	1,371	**2,518**
At 31 December 2020	**1,147**	**1,371**	**2,518**
Amortisation			
At 1 January 2020	545	913	**1,458**
Provided in the year	115	137	**252**
At 31 December 2020	**660**	**1,050**	**1,710**
Net book value at 31 December 2020	**487**	**321**	**808**
Net book value at 31 December 2019	602	458	1,060

15. Land and buildings

Group	Current value investment £'000	Total £'000	Historical cost investment £'000	Total £'000
At 1 January 2020	11,770	11,770	7,703	7,703
Disposal	(2,693)	(2,693)	(816)	(816)
Revaluation/fair value adjustment	(2,369)	(2,369)	–	–
Balance at 31 December 2020	**6,708**	**6,708**	**6,887**	**6,887**
Group				
At 1 January 2019	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

Of the revaluation deficit of £2,369k in the year, £1,574k has been recognised in the statement of other comprehensive income as it reverses revaluation surpluses previously taken to the statement of other comprehensive income, with the remaining £795k recognised in the income statement.

Society	Current value investment £'000	Total £'000	Historical cost investment £'000	Total £'000
At 1 January 2020	11,770	11,770	7,703	7,703
Disposal	(2,693)	(2,693)	(816)	(816)
Revaluation/fair value adjustment	(426)	(426)	–	–
Balance at 31 December 2020	**8,651**	**8,651**	**6,887**	**6,887**
Society				
At 1 January 2019	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

Of the revaluation deficit of £426k in the year, £426k has been recognised in the statement of other comprehensive income as it reverses revaluation surpluses previously taken to the statement of other comprehensive income.

Land and buildings at 1 January 2020 related 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 2020. The valuation in the Society for West Street reflects an intergroup lease, however for Group purposes this lease must be disregarded and the property is valued on a vacant possession basis.

The property in Kew was sold during 2020 for a value of £2,793k.

16. Investment in Group undertakings

The Society investment in subsidiaries can be analysed as follows:	**Society 2020 £'000**	Society 2019 £'000
Fair value at 1 January	**21,336**	24,266
Dividends paid to Society	**(11,144)**	(6,000)
Investments during year	**6,000**	2,000
Other fair value changes	**8,046**	1,070
Fair value as at 31 December	**24,238**	21,336

During 2020, the Society made investments of £4m into OneFamily Lifetime Mortgages Limited and £2m into OneFamily Advice Limited.

Investments are carried at fair value.

Set out below are the Society's investments in subsidiary undertakings as at 31 December 2020 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	In liquidation
Engage Mutual Funds Limited	Child Trust Fund management
Engage Mutual Services Limited	In liquidation
Family Enterprise Limited	In liquidation
Family Equity Plan Limited	Child Trust Fund management
Family Investment Management Limited	Fund management
Family PEP Managers Limited	ISA fund management
Governor Finance Limited	In liquidation
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	In liquidation

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.

The financial investments held by the Group are valued as:	**2020 £'000**	2019 £'000
Linked financial investments	**1,114,214**	1,211,259
Non-linked financial investments	**270,858**	272,577
Debtors	**20,769**	15,045
Cash at bank	**55,679**	49,929
Total financial investments	**1,461,520**	1,548,810
Financial liabilities		
Financial liabilities held at fair value through profit and loss	**1,114,214**	1,211,241
Financial liabilities held at amortised cost	**8,090**	7,032
Total Group financial liabilities	**1,122,304**	1,218,273

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 2020 £'000	Fair value 2019 £'000	Cost 2020 £'000	Cost 2019 £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,202,137	1,282,197	938,965	972,756
Debt securities and other fixed income securities	96,757	100,703	81,312	87,908
Share of investment property	7,599	7,973	5,091	5,091
Derivatives held at fair value through profit and loss	(12)	27	–	–
Financial assets held at fair value through profit and loss	**1,306,481**	1,390,900	**1,025,368**	1,065,755
Loans and receivables				
Loans secured by mortgage	384	456	384	456
Deposits with credit institutions	131,235	131,997	131,235	131,997
Accrued income and receivables	23,420	25,457	23,420	25,457
Loans and receivables	**155,039**	157,910	**155,039**	157,910
Total Group financial assets (excluding land & buildings)	**1,461,520**	1,548,810	**1,180,407**	1,223,665

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 2020 £'000	Non-linked fair value 2020 £'000	Total fair value 2020 £'000	Linked fair value 2019 £'000	Non-linked fair value 2019 £'000	Total fair value 2019 £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,028,420	173,717	1,202,137	1,110,779	171,418	1,282,197
Debt securities and other fixed income securities	–	96,757	96,757	–	100,703	100,703
Shares of investment property	7,599	–	7,599	7,973	–	7,973
Derivatives held at fair value through profit and loss	(12)	–	(12)	27	–	27
Financial assets held at fair value through profit and loss	**1,036,007**	**270,474**	**1,306,481**	1,118,779	272,121	1,390,900
Loans and receivables						
Loans secured by mortgage	–	384	384	–	456	456
Deposits with credit institutions	75,556	55,679	131,235	82,068	49,929	131,997
Accrued income and receivables	2,651	20,769	23,420	10,412	15,045	25,457
Loans and receivables	**78,207**	**76,832**	**155,039**	92,480	65,430	157,910
Total Group financial assets	**1,114,214**	**347,306**	**1,461,520**	1,211,259	337,551	1,548,810
Financial liabilities						
Financial liabilities held at fair value through profit and loss	1,114,214	–	1,114,214	1,211,241	–	1,211,241
Financial liabilities held at amortised cost	–	8,090	8,090	–	7,032	7,032
Total Group financial liabilities	**1,114,214**	**8,090**	**1,122,304**	1,211,241	7,032	1,218,273

17. Financial instruments (continued)

The financial investments held by the Society are valued as:	2020 £'000	2019 £'000
Linked financial investments	**1,114,214**	1,211,259
Non-linked financial investments	**270,858**	272,577
Debtors	**17,753**	19,471
Cash at bank	**42,648**	33,905
Total financial investments	**1,445,473**	1,537,212
Financial liabilities		
Financial liabilities held at fair value through profit and loss	**1,114,214**	1,211,241
Financial liabilities held at amortised cost	**9,645**	8,320
Total Society financial liabilities	**1,123,859**	1,219,561

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 2020 £'000	Fair value 2019 £'000	Cost 2020 £'000	Cost 2019 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,202,137**	1,282,197	**938,965**	972,756
Debt securities and other fixed income securities	**96,757**	100,703	**81,312**	87,908
Shares of investment property	**7,599**	7,973	**5,091**	5,091
Derivatives held at fair value through profit and loss	**(12)**	27	**–**	–
Financial assets held at fair value through profit and loss	**1,306,481**	1,390,900	**1,025,368**	1,065,755
Loans and receivables				
Loans secured by mortgage	**384**	456	**384**	456
Deposits with credit institutions	**118,204**	115,973	**118,204**	115,973
Accrued income and receivables	**20,404**	29,883	**20,404**	29,883
Loans and receivables	**138,992**	146,312	**138,992**	146,312
Total Society financial assets	**1,445,473**	1,537,212	**1,164,360**	1,212,067

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 2020 £'000	Non-linked fair value 2020 £'000	Total fair value 2020 £'000	Linked fair value 2019 £'000	Non-linked fair value 2019 £'000	Total fair value 2019 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,028,420**	**173,717**	**1,202,137**	1,110,779	171,418	1,282,197
Debt securities and other fixed income securities	**–**	**96,757**	**96,757**	–	100,703	100,703
Shares of investment property	**7,599**	**–**	**7,599**	7,973	–	7,973
Derivatives held at fair value through profit and loss	**(12)**	**–**	**(12)**	27	–	27
Financial assets held at fair value through profit and loss	**1,036,007**	**270,474**	**1,306,481**	1,118,779	272,121	1,390,900
Loans and receivables						
Loans secured by mortgage	**–**	**384**	**384**	–	456	456
Deposits with credit institutions	**75,556**	**42,648**	**118,204**	82,068	33,905	115,973
Accrued income and receivables	**2,651**	**17,753**	**20,404**	10,412	19,471	29,883
Loans and receivables	**78,207**	**60,785**	**138,992**	92,480	53,832	146,312
Total Society financial assets	**1,114,214**	**331,259**	**1,445,473**	1,211,259	325,953	1,537,212
Financial liabilities						
Financial liabilities held at fair value through profit and loss	**1,114,214**	**–**	**1,114,214**	1,211,241	–	1,211,241
Financial liabilities held at amortised cost	**–**	**9,645**	**9,645**	–	8,320	8,320
Total Society financial liabilities	**1,114,214**	**9,645**	**1,123,859**	1,211,241	8,320	1,219,561

17. Financial instruments (continued)

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

2020 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	497,625	703,960	552	1,202,137
Debt securities and other fixed income securities	72,020	23,020	1,717	96,757
Shares of investment property	–	–	7,599	7,599
Derivatives held at fair value through profit and loss	(12)	–	–	(12)
Financial assets held at fair value through profit and loss	**569,633**	**726,980**	**9,868**	**1,306,481**
Financial liabilities held at fair value through profit and loss	**–**	**1,114,214**	**–**	**1,114,214**

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

Level 3 assets consist of investment property, venture capital and certain debt securities.

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)

2020 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	497,625	703,960	552	1,202,137
Debt securities and other fixed income securities	72,020	23,020	1,717	96,757
Shares of investment property	–	–	7,599	7,599
Derivatives held at fair value through profit and loss	(12)	–	–	(12)
Financial assets held at fair value through profit and loss	**569,633**	**726,980**	**9,868**	**1,306,481**
Financial liabilities held at fair value through profit and loss	**–**	**1,114,214**	**–**	**1,114,214**

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

18. Debtors

Group and Society	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Amounts owed from Group undertakings	–	–	7,198	13,072
Amounts owed from policyholders	478	625	478	625
Amounts owed from intermediaries	408	140	408	140
Debtors arising out of reinsurance operations	3,039	1,884	3,039	1,884
Other debtors	16,844	12,396	6,630	3,750
Total	**20,769**	15,045	**17,753**	19,471

Amounts owed from Group undertakings in the Society include £nil (2019: £7,653k) 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 2020	418	1,171	1,589
Additions	375	–	375
At 31 December 2020	**793**	**1,171**	**1,964**
Depreciation			
At 1 January 2020	374	761	1,135
Provided in the year	77	234	311
As at 31 December 2020	**451**	**995**	**1,446**
Net book value at 31 December 2020	**342**	**176**	**518**
Net book value at 31 December 2019	44	410	454

The charge for depreciation for the Group in the year ended 31 December 2020 was £311k (2019: £339k).

Depreciation is included in operating expenses.

19. Tangible assets (continued)

Society Cost	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
At 1 January 2020	–	1,171	1,171
Additions	375	–	375
At 31 December 2020	**375**	**1,171**	**1,546**
Depreciation			
At 1 January 2020	–	761	761
Provided in the year	39	234	273
As at 31 December 2020	**39**	**995**	**1,034**
Net book value at 31 December 2020	**336**	**176**	**512**
Net book value at 31 December 2019	–	410	410

The charge for depreciation for the Society in the year ended 31 December 2020 was £273k (2019: £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 2020	284,349	(37,649)	(115,783)	6,391
Amortisation of PVIF	–	2,421	–	–
Movement in provision for outstanding claims	–	–	–	(28)
Change in long-term business provision	26,767	–	(2,983)	–
At 31 December 2020	**311,116**	**(35,228)**	**(118,766)**	**6,363**

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 – assumptions for current mortality are based on the latest relevant industry standard tables published by the Continuous Mortality Investigation (CMI). For protection business, the permanent assurances rates from the CMI's '00' series are used, with adjustments to fit historic and future expected experience. For annuitants, the pensioners rates from the same '00' series are used, also with adjustments to reflect the Group's own experience. For the annuitants, improvements in future mortality are allowed for via the industry standard rates published by the CMI.

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. The expense investigation performs a detailed analysis of budgeted costs and allocation of these costs across products based on appropriate cost drivers. It is performed on an annual basis.

20. Technical provisions (continued)

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.

The LTBP has been calculated on the basis of the following principal interest assumptions for 2020:

Class of business	2020
Non-linked Annuities tax exempt/taxable	0.52% gross/1.03% net
Index-linked Annuities tax exempt/taxable	(2.48)% gross/(2.48)% net
Term Assurance/whole of life	0.52%
With-Profits 1 unitised with-profits tax exempt/taxable	0.52% gross/0.21% net
With-Profits 1 conventional with-profits tax exempt/taxable	0.02% gross/0.42% net
With-Profits 2 with-profits bond taxable	1.65% net
With-Profits 2 conventional with-profits tax exempt/taxable	0.97% gross/0.25% net

The mortality assumptions have been based on actual experience with the addition of prudent margins.

With-Profits bonuses

The LTBP includes £0.1m (2019: £0.1m) 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	2020 £'000	2019 £'000
At 1 January	**1,211,241**	1,154,219
Deposits received from policyholders	**16,006**	18,194
Withdrawals by policyholders	**(94,544)**	(125,128)
Annual management charges	**(11,090)**	(11,973)
Change in fair value of gross liabilities	**(7,399)**	175,929
At 31 December	**1,114,214**	1,211,241

22. Creditors arising out of insurance operations

Group and Society	2020 £'000	2019 £'000
Amounts owed in respect of reinsurance	**991**	982
Total	**991**	982

23. Other creditors including taxation and social security

	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
Amounts owed to group undertakings	**–**	–	**1,997**	1,252
Other taxes and social security costs	**770**	635	**740**	746
Other creditors	**6,329**	5,415	**5,917**	5,340
Total	**7,099**	6,050	**8,654**	7,338

All other creditors are payable within one year.

24. Fund for Future Appropriations

Group and Society	2020 £'000	2019 £'000
At 1 January	**35,939**	33,174
Transfer (to)/from the long-term business technical account	**(6,146)**	2,765
At 31 December	**29,793**	35,939

25. Retained earnings

	Group 2020 £'000	Group 2019 £'000	Society 2020 £'000	Society 2019 £'000
At 1 January	**157,455**	160,929	**162,066**	164,578
Recognised losses in the year	**(13,761)**	(3,474)	**(11,532)**	(2,512)
At 31 December	**143,694**	157,455	**150,534**	162,066

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 2020 were £1,530k (2019: £1,740k).

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

Details in respect of the Scheme are provided below in accordance with FRS102.

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 2019 it was agreed that the Society would pay contributions of £33,333 per month until 31 December 2020. No further contributions are due in respect of periods after 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 Family Scheme at this date, updated to the accounting data by an independent qualified actuary in accordance with FRS102, allowing for contributions, benefit payments made and changes in market conditions. As required by FRS 102, the defined benefit liabilities have been measured using the projected unit method.

The Society has not recognised an additional provision as a result of the 2020 High Court judgement on the Lloyds Bank GMP Inequalities case, in respect of transfers out, as the estimated costs are expected to be immaterial. 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. An estimate of the costs arising as a result of the 2018 High Court judgement has previously been recognised.

The following table sets out the key FRS102 assumptions used for the Family Scheme. The table also sets out, as at 31 December 2020 and 2019, 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	**2020**	2019
Retail prices index inflation	**2.85%**	2.90%
Consumer prices index inflation	**2.35%**	2.10%
Revaluation in deferment	**2.35%**	2.10%
Pension increases:		
- pre April 1997 pension	**0.00%**	0.00%
- post April 1997 pension	**2.80%/2.35%***	2.80%/2.10%*
- post April 2005 pension	**1.85%***	1.70%*
Salary growth	**N/A**	N/A
Discount rate	**1.25%**	2.10%
Life expectancy:		
- male aged 65 at the statement of financial position date	**22.1 years**	22.3 years
- male aged 65 in 2044 (25 years from the statement of financial position date)	**23.8 years**	24.0 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	**2020 £'000**	2019 £'000
Equities	**13,973**	13,069
Diversified growth/absolute return on funds	**4,838**	4,417
LDI portfolio (including liquidity fund)	**23,770**	24,789
Asset-backed securities	**5,751**	–
Buy-in policy	**12,905**	12,234
Cash	**82**	151
Other net assets	**(357)**	(60)
Total fair value of assets	**60,962**	54,600
Present value of defined benefit obligations	**(56,942)**	(47,280)
Pension surplus	**4,020**	7,320
Adjustment for asset limit	**(4,020)**	(7,320)
Recognised pension asset	**–**	–

The Scheme 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	**2020 £'000**	2019 £'000
Opening defined benefit obligation	**47,280**	42,361
Interest on obligation on funds	**977**	1,211
Actuarial loss	**10,160**	4,905
Benefits paid	**(1,475)**	(1,197)
Closing defined benefit obligation	**56,942**	47,280

26. Pension commitments (continued)

Changes in the fair value of the scheme assets are as follows:

Family Scheme change in fair value	2020 £'000	2019 £'000
Opening value of scheme assets	**54,600**	51,945
Interest on scheme assets	**1,135**	1,495
Actuarial gain	**6,302**	1,957
Contributions by the employer	**400**	400
Benefits paid	**(1,475)**	(1,197)
Closing value of scheme assets	**60,962**	54,600

The actual return on the Family Scheme's assets over the year was a gain of £7,437k (2019: £3,452k gain).

Changes in the value of the asset limit are as follows:

Family Scheme change in value of asset limit	2020 £'000	2019 £'000
Opening asset limit	**(7,320)**	(9,584)
Net interest on asset limit	**(158)**	(284)
Change to asset limit	**3,458**	2,548
Closing asset limit	**(4,020)**	(7,320)

There are no amounts included within income and expenditure under FRS 102 (2019: £nil).

26. Pension commitments (continued)

The following amounts are recognised in the statement of other comprehensive income:

Family Scheme change in comprehensive income	2020 £'000	2019 £'000
Experience gain on scheme assets	**6,302**	1,957
Experience gain on scheme liabilities	**574**	58
Actuarial loss due to the changes in assumptions of the DBO	**(10,734)**	(4,963)
Actuarial losses	**(3,858)**	(2,948)
Gain due to movement in the statement of financial position limitation	**3,458**	2,548
Loss recognised outside income and expenditure	**(400)**	(400)

Family Scheme sensitivity of defined benefit obligation to alternative assumptions as at 31 December 2020	Increase £'000	Decrease £'000
Discount rate – Effect of 0.5% change	**(5,500)**	**6,400**
Inflation – Effect of 0.5% change	**4,400**	**(4,100)**
Life expectancy – Effect of one year change	**2,100**	**(2,100)**

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

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 2019 it was agreed that the Society would pay contributions of £8,333 per month until 31 December 2020. No further contributions are currently due in respect of periods after 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, updated to the accounting data by an independent qualified actuary in accordance with FRS102, allowing for contributions, benefit payments made and changes in market conditions. As required by FRS102, 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 2020 and 2019, 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	**2020**	2019
Retail prices index inflation	**2.85%**	2.90%
Consumer prices index inflation	**2.00%**	2.10%
Revaluation in deferment	**2.00%**	2.10%
Pension increases:		
- pre April 1997 pension (Homeowners Friendly Society Limited)	**0.00%**	0.00%
- post April 1997 pension (Homeowners Friendly Society Limited)	**2.80%**	2.85%
- post April 2005 pension (Homeowners Friendly Society Limited)	**1.95%**	2.00%
- pre April 1997 pension (UKCS)	**3.00%**	3.00%
- post April 1997 pension (UKCS)	**3.55%**	3.55%
- post April 2005 pension (UKCS)	**3.55%**	3.55%
Salary growth	**N/A**	N/A
Discount rate	**1.25%**	2.10%
Life expectancy:		
- male aged 60 at the statement of financial position	**27.2 years**	27.4 years
- male aged 60 in 2039 (20 years from balance sheet date)	**28.7 years**	28.9 years

26. Pension commitments (continued)

Engage Scheme fair value of assets	**2020 £'000**	2019 £'000
Equities	**4,541**	4,252
Fixed interest gilts	**6,773**	5,915
Index linked gilts	**12,615**	10,860
Buy-in policy	**11,624**	10,998
Cash and net current assets	**(1,979)**	(1,744)
Other net assets	**151**	151
Total fair value of assets	**33,725**	30,432
Present value of defined benefit obligations	**(27,732)**	(24,410)
Pension surplus	**5,993**	6,022
Adjustment for asset limit	**(5,993)**	(6,022)
Recognised pension asset	**–**	–

The Scheme does not invest directly in property occupied by the Society or in financial securities issued by the Society.

Changes in the present value of the defined benefit obligation are as follows:

Engage Scheme change in present value	**2020 £'000**	2019 £'000
Opening defined benefit obligation	**24,410**	22,708
Interest on obligation on funds	**506**	628
Actuarial loss	**3,419**	3,199
Benefits paid	**(603)**	(2,125)
Closing defined benefit obligation	**27,732**	24,410

26. Pension commitments (continued)

Changes in the fair value of the scheme assets are as follows:

Engage Scheme change in fair value	2020 £'000	2019 £'000
Opening value of scheme assets	**30,432**	32,335
Interest on scheme assets	**634**	907
Actuarial gain/(loss)	**3,162**	(685)
Contributions by the employer	**100**	–
Benefits paid	**(603)**	(2,125)
Closing value of scheme assets	**33,725**	30,432

The actual return on the Engage Scheme's assets over the year was a gain of £3,796k (2019: £222k gain).

Changes in the value of the asset limit are as follows:

Engage Scheme change in value of asset limit	2020 £'000	2019 £'000
Opening asset limit	**(6,022)**	(9,627)
Net interest on asset limit	**(128)**	(279)
Change to asset limit	**157**	3,884
Closing asset limit	**(5,993)**	(6,022)

26. Pension commitments (continued)

There are no amounts included within income and expenditure under FRS 102 (2019: nil).

The following amounts are recognised in the statement of other comprehensive income:

Engage Scheme change in comprehensive income	2020 £'000	2019 £'000
Experience gain/(loss) on scheme assets	**3,162**	(685)
Experience gain/(loss) on scheme liabilities	**214**	(721)
Actuarial loss due to the changes in assumptions of the DBO	**(3,633)**	(2,478)
Actuarial losses	**(257)**	(3,884)
Gain due to movement in the statement of financial position limitation	**157**	3,884
Loss recognised outside income and expenditure	**(100)**	–

Engage Scheme sensitivity of defined benefit obligation to alternative assumptions as at 31 December 2020	Increase £'000	Decrease £'000
Discount rate – Effect of 0.5% change	**(2,300)**	**2,700**
Inflation – Effect of 0.5% change	**1,600**	**(1,500)**
Life expectancy – Effect of one year change	**1,100**	**(1,100)**

The total amount included in the Statement of other comprehensive income for the year is:

Group Schemes change in comprehensive income	2020 £'000	2019 £'000
Loss outside the income and expenditure account for the Family Scheme	**(400)**	(400)
Loss outside the income and expenditure account for the Engage Scheme	**(100)**	–
Total scheme change in comprehensive income	**(500)**	(400)

27. Statement of information relating to the Chief Actuary

From 19 August 2020 the Chief Actuary of the Group is Mr P Simmons of Willis Towers Watson plc. Prior to 1 July 2020 the position was held by Mr P Whitlock of Willis Towers Watson plc. Between 1 July 2020 and 19 August 2020 the position was held in a temporary capacity by Teddy Nyahasha who is also Chief Executive Officer of the Group.

The following information has been provided, in accordance with Section 77 of the Friendly Societies Act 1992:

In respect of Mr P Simmons and Mr P Whitlock

- Neither Mr P Simmons nor Mr P Whitlock were a member of the Group at any time during 2020;
- No other member of their families was a member of the Group during 2020;
- Willis Towers Watson were paid fees for the year of £1,691k (2019: £1,729k) for the services of the Chief Actuary and other actuarial services.

In respect of Mr T Nyahasha

- Mr T Nyahasha has been a member of the Group throughout 2020;
- Details of directors' remuneration are provided in the Directors' Remuneration Report. No additional remuneration was paid in respect of the actuarial position held during the year.

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.

28. Related party transactions (continued)

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	**2020 £'000**	2019 £'000
Group and Society		
Family Asset Trust	**29,169**	33,366
Family Charities Ethical Trust – Accumulation Units	**8,436**	9,906
Family Balanced International Fund – Share Class C	**10,018**	7,770
Family Balanced International Fund – Share Class F	**612,105**	660,672
OneFamily Global Equity Fund – Share Class C	**51,400**	52,350
OneFamily Global Mixed Investment Fund – Share Class C	**40,390**	37,695
OneFamily Stockmarket 100 Trust	**23,779**	26,939
Total	**775,297**	828,698

During 2020, 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	**2020 £'000**	**2020 Units**	2019 £'000	2019 Units
Group and Society				
Family Balanced International Fund – Share Class C	**2,194**	**1,471,667**	2,063	1,353,221
Family Balanced International Fund – Share Class F	**13,491**	**3,120,365**	298	71,823
OneFamily Stockmarket 100 Trust	**–**	**–**	26,000	11,448,701
Total	**15,685**		28,361	

Details above for the OneFamily Stockmarket 100 Trust in 2019 relate to purchases made following the transfer of management of the unit trust to a Group company.

Glossary

BAME	Black, Asian and Minority Ethnic
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.
Climate Value-at-Risk (Climate VaR)	Aims to assess the potential financial sensitivity to climate risks and opportunities
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
Intergovernmental Panel on Climate Change (IPCC)	The United Nations body for assessing the science related to climate change
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
MSCI World Index	The MSCI World Index captures large and mid cap representation across 23 Developed Markets countries. With 1,585 constituents, the index covers approximately 85% of the free float-adjusted market capitalisation in each country. It is used as a common benchmark for 'world' or 'global' stock funds intended to represent a broad cross-section of global markets

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
Operating profit	This is an alternative performance measure and is the excess of income over expenditure on ordinary activities before tax adjusted for: o **Goodwill and intangibles amortisation** – As disclosed in the Income and Expenditure account o **Non-recurring model adjustments** – Movements in the Long-Term Business Provision as a result of one-off changes to either the model, for example enhancements; or one-off business decisions, for example changes to financing reassurance o **Market variances (including the revaluation of land and buildings)** – Removal of non-controllable market variances on assets and insurance liabilities where this differs to the business plan o **Assumption changes** – Removal of the impact on the Long-Term Business Provision of non-controllable assumption changes such as inflation and mortality
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
Paris Agreement Capital Transition Assessment (PACTA)	A model which allows investors to assess the overall alignment of their portfolios with various climate scenarios and with the Paris Agreement
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
Taskforce on Climate-related Financial Disclosures (TCFD)	An organisation with the goal of developing a set of voluntary climate-related financial risk disclosures so that companies can inform investors and other members of the public about the risks they face related to climate change
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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