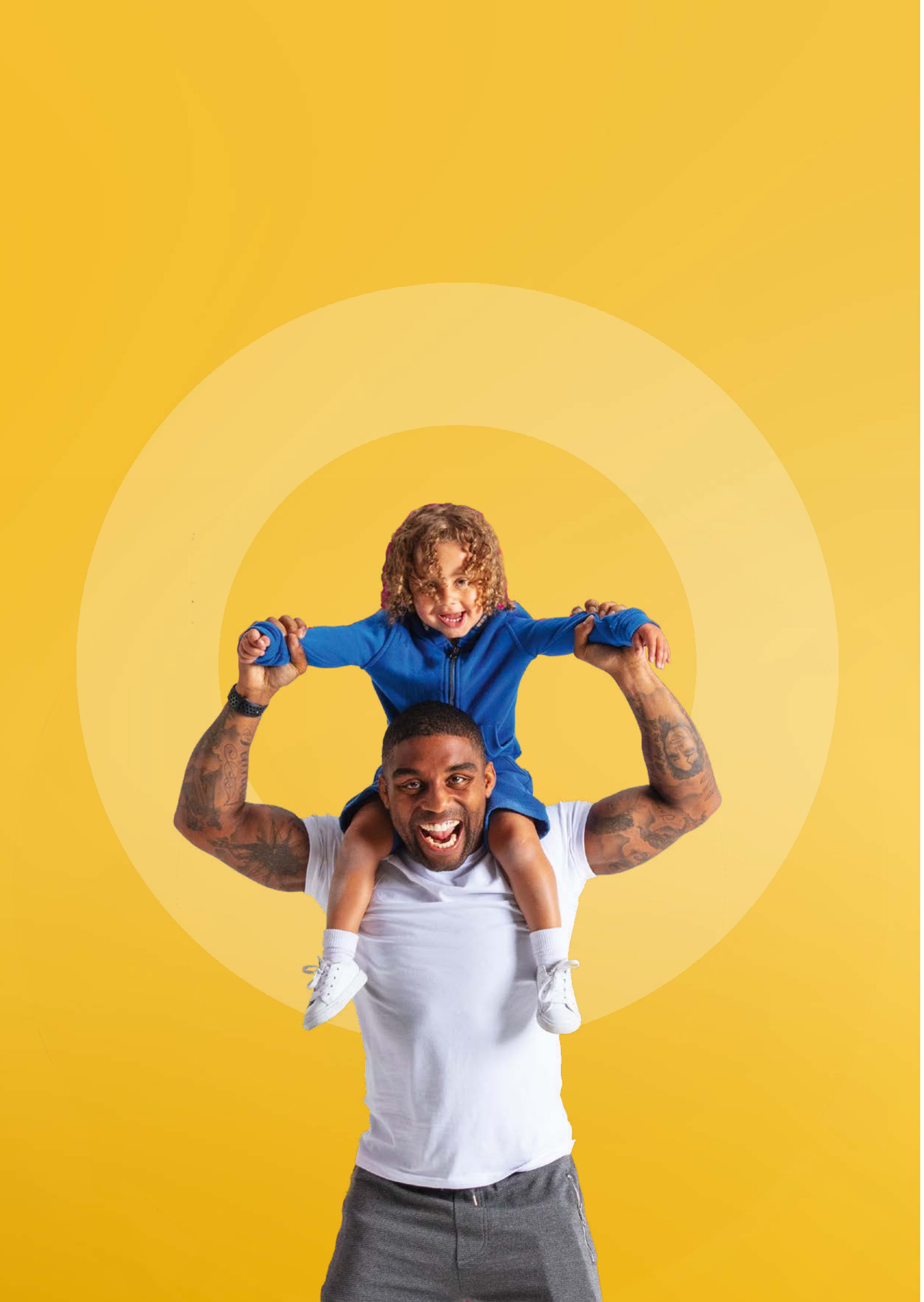
onefamily
modern family finance

Annual Report and Consolidated Financial Statements 2021



Welcome to the 2021 OneFamily annual report

Read on to discover how we've continued to deliver on our commitments to our members and customers through our bold, powerful and straight forward vision – **Inspiring Better Futures.**

Contents

Strategic report

This Strategic report on pages 5 to 53 incorporates the following sections:

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 166-167.

Chair's review
Christina McComb

Dear Members and Colleagues,
Welcome to our 2021 Annual Report and Financial Statements.

I am delighted to report that OneFamily emerged from 2021 with a continuing strong capital position and having delivered our commitments to our members and customers.

Last year I highlighted how resilient OneFamily had been in relation to its operations during the pandemic. I'm pleased to say that this has continued throughout 2021, allowing us to maintain all operational activities and to serve the needs of our members and customers to the same high standard as previous years. This is a credit to our dedicated staff. You can read more detail about our financial performance and operational resilience later in this report.

Whilst we all welcome the emergence from the pandemic, we recognise that another global challenge now faces us: the conflict in Ukraine. On behalf of OneFamily, I want to take this opportunity to extend our sympathies to anyone, directly or indirectly, impacted by this war.

The economic environment

Since the significant fall in stock markets at the start of 2020, as the COVID-19 pandemic swept the world, we have heard economists talk about different possible recovery scenarios. The start of the roll-out of the vaccination programme at the end of 2020 and the agreement of a last-minute trade-deal with the EU meant that what we actually saw was 2021 starting off very positively for the UK stock market, with it returning to its pre-pandemic levels by the end of the year. Similar growth was seen in global markets early in 2021.

However, volatility remained – albeit not at the extreme level seen in early 2020. New variants of the virus, the US elections, US-China relations, disruptions to supply chains and shortages of workers have contributed to this turbulence during 2021. Inevitably, some of the impacts of the prolonged period of economic disruption and very significant levels of support funding by governments and central banks are now beginning to bite in 2022. Worldwide markets are also experiencing volatility as a result of the geopolitical situation in Russia/Ukraine. Rising fuel and energy prices and higher consumer price inflation are the most evident pressures on households.

In December 2021, the Bank of England increased base rate for the first time in more than three years to help suppress the soaring cost of living. A further increase, to 0.5%, followed in February 2022 then to 0.75% in March 2022, and the Bank has signalled there are likely to be further rises during the remainder of the year.

At OneFamily, we appreciate the additional strain that this level of inflation places on our members and communities. This makes us all the more determined to continue to offer solutions such as our lifetime mortgages, which can help older customers living under the burden of debt, and our tax wrapped investments, which can protect long-term savings being nibbled away in real terms.

Our vision and strategy

In my report last year, I noted our new vision – Inspiring Better Futures. During 2021, I have been encouraged by how this vision is coming to life within the organisation and in the work that OneFamily continues to undertake in our communities. The influence of Inspiring Better Futures ranges from our work to improve inclusion and make our products accessible to all, through to supporting the good causes that are important to you. Our activities in 2021 included the creation of new charity partnerships to provide selected national charities with financial assistance, advice and hands-on support; we also increased the

"It has been an honour to serve you, our members, over this period and I am genuinely proud of the progress that we have achieved to create the thriving organisation we are today"

number of paid days leave per year, that our colleagues may take for volunteering, from one to three.

To read more about how we are Inspiring Better Futures, please see the report on page 25. You can also watch our Inspiring Better Futures video which is available on our website.

Our strategy and vision are aligned with our mutuality; we have no shareholders to answer to, so our sustainable focus is on our members, our customers and the wider community. In 2021, we continued to embed environmental, social and governance (ESG) considerations into how we run our business – for example, we launched our new ISA and lifetime ISA products that invest in our climate friendly funds and enhanced the health support services for our Over 50s Life Cover customers. This work will continue in 2022 as we transition more of our funds to ESG focussed assets and further improve our products to increase their accessibility to all.

More on our strategic activities during 2021 and our ongoing focus into 2022 and beyond can be found in Our Strategy section on page 18.

AGM

The Society's AGM will be held on 21 June 2022 and, for the first time in two years, we hope it will be possible for members to attend in person.

As usual, 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. I hope that many of you will be able to join us and I look forward to welcoming you once again.

Board and governance

At the end of 2021, I announced my intention to stand down as Chair and retire from the Board this summer, having served seven years since the merger of Family Assurance Friendly Society and Engage Mutual in 2015. It has been an honour to serve you, our members, over this period and I am genuinely proud of the progress that we have achieved to create the thriving organisation we are today. Whilst I shall be very sorry to leave behind my colleagues on the Board and in the company, I do so full of confidence in the leadership of the Board and the executive.

In particular, I'm very pleased to announce my successor, Steven Colsell. Steve was selected following a rigorous process overseen by our Senior Independent Director, Graham Lindsay. Steve has been a non-executive director of OneFamily for five years and has served as Chair of the Risk and With-Profits Sub-Committees since January 2018. You can read his biography on page 56. Subject to regulatory approval, Steve will take up the reins as Chair after the AGM in June.

As I will be standing down from the Board, we have started a selection process to appoint a new non-executive director and will update members in due course.

Finally, I would like to take this opportunity to wish OneFamily, its members, colleagues and my fellow Board directors all the best for the future. I am confident that OneFamily has an exciting future as it implements its strategy and firmly reinforces its position as one of the country's leading mutuals.

Christina McComb
Chair

Chief Executive's report Teddy Nyahasha

OneFamily makes me proud – I'm proud of my colleagues, I'm proud of what we do and I'm proud of our vision.

Together, the OneFamily team is carefully modernising the organisation, to deliver our bold, powerful and straight forward vision; Inspiring Better Futures.

Democratising financial wellbeing

Too much of the current financial system was built in the past, for the needs of a society that has now changed. A more financially resilient society, one in which better futures are inspired and lived, is the focus of our business. We serve over 2 million customers and manage £7.3 billion of their money. OneFamily is one of the UK's largest mutual providers of finance for everyday families – this is a great responsibility.

The recovery from the pandemic is a recovery none of us wanted to have to go through, but it can be an opportunity to change financial services to meet the needs of today's society. I am proud to lead a team who are playing their part in changing our sector by campaigning, innovating and serving. We are motivated to increase access to financial products and services; to extend financial inclusion and wellbeing beyond the old boundaries of financial services.

A great example of OneFamily's comprehensive approach to changing the ways that things are done lies in one of our fields of expertise; supporting children and families to save. We saw the commercial benefit of our expertise in the industry with the transfer, in 2021, of 83,000 child trust fund and lifetime ISA customers from The Share Centre. We are proud to be a market leader in tax efficient investments for children, a key factor in why OneFamily was chosen for the transfer.

As one of the UK's biggest providers of child trust funds (CTFs) OneFamily spotted early in 2020 that an industry-wide problem was developing for children without mental capacity as they turned 18. Their families needed to undertake a lengthy and expensive court process on their children's behalf in order to access their investments.

So, we worked with our peers and created an industry-led solution that has resulted in the majority of these families being able to access their CTFs. Parents and guardians have told us about the difference this has made for their children; with CTFs being used to purchase specialist equipment that makes their life a bit better.

However, we wanted to do more to help tens of thousands of UK families struggling with this problem. So, alongside charities and key stakeholders, we led the campaign for government action and a change in legislation. We took the issue to Westminster, gaining support from within all parties and from both Houses of Parliament. Nici Audhlam-Gardiner, our Chief Commercial Officer, featured alongside former Prime Minister Gordon Brown on Channel 4 to highlight the issue. Meanwhile, I have met with policy experts at the Ministry of Justice; our technical experience and knowledge of the market has helped to shape the government's proposed Small Payments Scheme which, if adopted, will make accessing savings much simpler for these young people.

> **"We are motivated by democratising financial wellbeing; to extend financial inclusion and wellbeing beyond the old boundaries of financial services."**

Alongside the 400 children whose OneFamily accounts we have unlocked directly, our campaigning has helped to bring the focus of the government to this issue, leading to a consultation that we hope will bring about change.

Inspiring Better Futures

I'm pleased that during 2021, we have worked alongside the Elderly Accommodation Counsel on issues related to ageing and housing. We have also begun meaningful, long-term partnerships with IntoUniversity, a nationwide charity supporting disadvantaged students to aspire to higher education, as well as three local charities chosen by our colleagues.

We have reinvigorated our colleague volunteering programme and encourage our team to support their communities however they can – whether that's through charity fund raising or a one-off or long-term volunteering arrangement. We allow each member of staff up to three days of volunteering leave and provide matched-funding for fund-raising initiatives.

Personally, I have had the wonderful opportunity to get involved with the great work of St. Mungo's as a board trustee. St. Mungo's is a homelessness charity operating in London and the south-east which helps people to rebuild their lives. What I've appreciated through my involvement with St. Mungo's and other similar volunteering, is that it's not only about what we give to others, but also the personal fulfilment we gain from helping others.

Our people

2021 saw a new office open in Swindon, to house our growing sales team. This team has grown to over 50 colleagues and has delivered excellent results in generating new business; helping us to increase financial inclusion by allowing us to make our savings and protection products accessible to as many people as we can.

In 2020, we launched our Diversity and Inclusion strategy and programme which continued throughout 2021. Our goal is to enable a diverse workforce by building a culture and infrastructure that provides a welcome and safe working environment with a sense of belonging and community that inspires better futures for all our colleagues. More detail on our 2021 activities can be found on page 25 within our Inspiring Better Futures section.

In 2019, OneFamily colleagues were asked to complete an engagement survey run by Best Companies. The result was positive and encouraging as OneFamily was categorised as a 'One to watch' firm – great news for all involved. Due to COVID-19, the 2020 Best Companies survey was cancelled but it returned in 2021. I'm very pleased to say that, despite the challenges of the past couple of years, OneFamily surpassed all expectations, achieving a 1 Star rating (very good to work for) – a 3 Star rating being the maximum possible. This was an exceptional result given the difficult working conditions and highlights the way that teams throughout the business have pulled together to make OneFamily an engaging place to work.

Outlook

With a key delivery phase of our modernisation programme in 2022, it will be an exciting year for OneFamily as we begin to transform our operating model to help ensure long-term growth and sustainability.

We will continue to grow our new business opportunities through organic sales, partnerships and acquisitions to continue to serve our members' needs and support financial inclusion and social mobility.

We will remain cautious in respect of COVID-19 and our ways of working. The safety of our colleagues is paramount and whilst we see benefits, for certain activities, of face to face working in the office we will not rush into it. We expect to continue a hybrid model, with colleagues working both from home and the office, to help ensure that colleagues are safe and that we are continuing to serve our customers well.

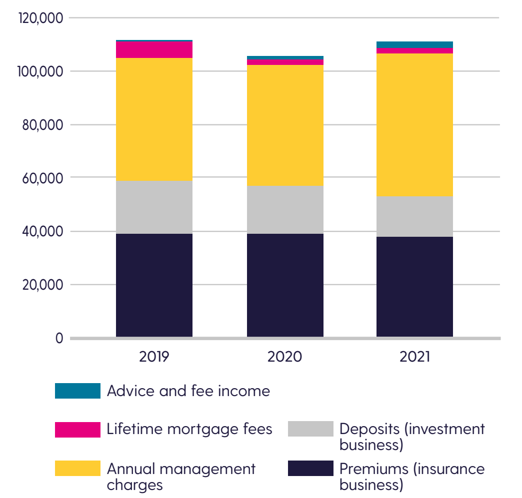
Finally, I want to thank all my colleagues at OneFamily. Their dedication, passion and unstinting optimism means that we continue to achieve great things for our members and communities. It is their drive that pushes us hard to reach our full potential – I'm looking forward to the opportunities that they will capitalise on next year.

Teddy Nyahasha
Chief Executive Officer

"We will continue to grow our new business opportunities through organic sales, partnerships and acquisitions to continue to serve our members' needs and support financial inclusion and social mobility."

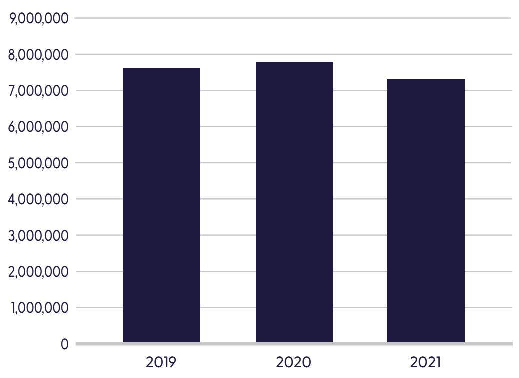
Group performance highlights

Income (£'000)



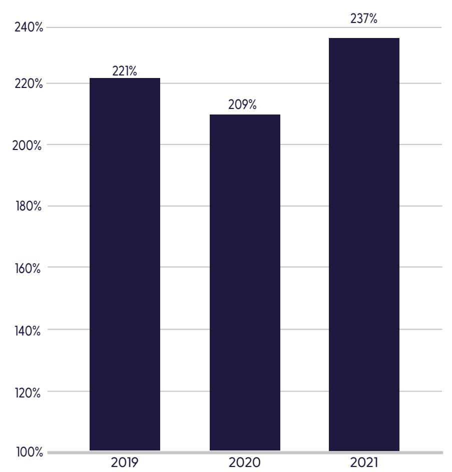
Income received through annual management charges has increased in the year due to the growth in stock markets following the significant falls in 2020 due to the pandemic.

Customers' Funds Under Management (£'000)



Whilst stock markets have rebounded in 2021, the level of our funds under management has fallen. This is due to an outflow of funds in short term savings products managed through our partnership with the Post Office.

Non-Profit Fund Solvency II Coverage Ratio



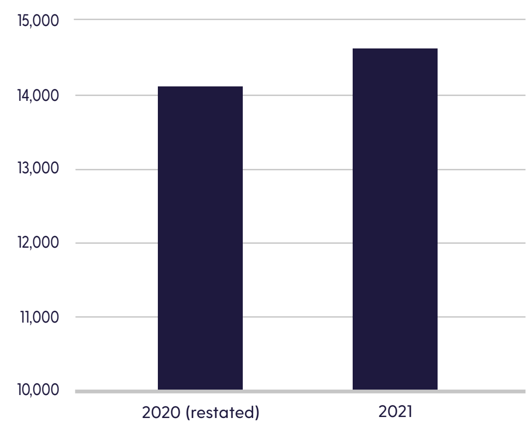
The Society continues to have a strong capital position with the solvency coverage ratio increasing further in 2021.

Customer satisfaction scores

Customer satisfaction scores remain well above the UK benchmark.

*Source: Bright Score

Adjusted Operating Profit (£'000)

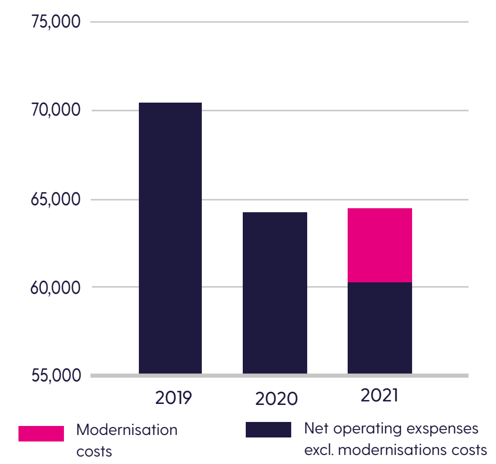


Operating profit is an alternative performance measure and is defined as controllable profit. It excludes the effect of market variances and other non-controllable and non-recurring elements. Please see the glossary for a full definition. A reconciliation of the figure can be seen below.

	Group 2021 £'000	Group 2020 £'000 Restated
Excess of income over expenditure on ordinary activities before tax	**19,329**	(11,325)
Goodwill and intangibles amortisation	**4,114**	4,433
Non-recurring model changes	**2,759**	4,585
Market variances (including revaluation of land & buildings)	**(13,392)**	16,194
Assumption changes	**1,903**	183
Operating profit	**14,713**	14,070

Operating profit has improved despite the costs of modernisation incurred in the year.

Net Operating Expenses (£'000)



Excluding costs incurred in the year on modernising our platforms, net operating expenses have reduced in the year.

Chief Finance Officer's report Jim Islam

"2021 has seen OneFamily continue to deliver in line with its purpose of creating and protecting value for members."

Overview

2021 has seen OneFamily continue to deliver in line with its purpose of creating and protecting value for members. In 2020, we demonstrated the resilience of our capital position despite the significant falls in investment markets. In 2021, these markets have rebounded strongly, interest rates have increased but there has been pressure from rising inflation – taking account of all these market factors along with other drivers such as new business written and changes in our actuarial assumptions, I'm pleased to be able to confirm that our capital position remains extremely healthy. Our non-profit fund capital coverage ratio under Solvency II is 237%, well in excess of regulatory requirements and our surplus capital in absolute terms also continues to be robust at £98m.

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 and also to support community causes our members care about. The section on Our strategy on page 18 talks more about how we have achieved this in 2021 and our plans for 2022 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 20 to 23.

Our achievements in 2021 included a review of our investment managers for some of our insurance business funds with a view to deliver better capital performance. As part of this change – which now sees Invesco manage assets within our with-profits funds and part of our non-linked non-profit fund – we have also included an Environmental, Social and Governance (ESG) focus into the with-profits funds.

In addition to transitioning to ESG focussed assets, we also continue to work closely with our main investment managers, State Street, to understand their approach to stewardship. We regularly engage with them to hear how they are working with companies to drive the adoption of ESG principles. For example, they are encouraging companies through their voting actions and board influence in areas such as board gender diversity and climate-related disclosure.

Within the financial statements section of this annual report, you will see reference to the restatement of previous years' results. This is due to a decision to amend the way in which we calculate the long-term liabilities of the Society under UK accounting standards. As the Board and management now use the Solvency II capital position as a basis for assessing the performance of the Group, it was felt more appropriate to use the best estimate of future liabilities as calculated under Solvency II plus appropriate prudence, as the basis for our reporting within these financial statements too. As a result of this decision, our financial position as at 31 December 2019 has been recalculated on this basis and the comparative figures for 2020 have also been restated. For more detail on the changes made, please see note 29 to the financial statements. This change creates greater alignment in how the business is run and reported on.

Financial Performance

Financial strength

As noted above, our strong capital base remains well in excess of the regulatory minimum. As we saw in 2020, this helps us to withstand turbulent years and demonstrates the need to run our business with a long-term view. Our non-profit fund has capital above the base level requirement of £98m, representing a capital coverage ratio of 237% compared to 209% at the end of 2020. This improvement reflects the impact of management actions such as reduced expenses and improved financial performance, as well as the impact of market factors underpinned by the long-term nature of our investments, such as gains in equity markets and changes in interest rates.

Adjusted operating profit

Our adjusted operating profit, which measures the underlying performance of the business, increased in the year to £14.7 million. This performance was aided by a continued focus on cost efficiency throughout the Group but was offset by the costs incurred in relation to modernisation.

Income

Income levels in 2021 have seen an increase compared to 2020 driven by an increase in annual management charges resulting from the recovery in investment markets.

Operating expenses

During 2021 we continued to review our third-party supplier contracts and look for opportunities to deliver value for money. 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. As part of this drive to enhance long-term efficiency, we are modernising our IT platforms, this therefore incurs some additional costs in the short term. Development costs are only capitalised where appropriate and therefore non-capitalised development costs will increase operating expenses in the year they are incurred.

Across the technical account (Society related) and non-technical account (subsidiary related), operating expenses increased from £63.7m in 2020 to £64.6m in 2021. Excluding the costs of modernisation, operating expenses fell to £60.6m.

Statutory result

Our total recognised gain in the year of £17.7m (2020: restated loss of £13.7m) differs from operating profit (as shown on page 13), largely because it reflects all rises and falls in markets and the resulting impact on our investments and liabilities. In 2021, the statutory result was significantly impacted by the rise in investment markets and UK gilt-yields in the year. The turnaround in statutory profit performance in 2021 reflects our focus as a long-term investor, and our ability to withstand market volatility because of our strong capital position.

Investment fund performance

As mentioned above and by the Chair in her review of 2021, global investment markets in 2021 recovered strongly following the significant falls due to COVID-19 in 2020. This is good news for our customers where their policy is linked to underlying assets, as they have seen an increase in the value of their holding. As I noted last year, investing in stocks and shares is typically for the longer term and 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 overleaf.

Unit Price Growth*			
Funds**	**One Year**	**Three Year**	**Five Year**
Family Investments Child Trust Fund	16.60%	34.92%	33.29%
Family Sovereign Fund	11.17%	28.38%	29.57%
OneFamily Stockmarket 100 Trust	16.25%	16.48%	16.25%
Family Balanced International Fund	10.86%	28.22%	27.90%
Family Charities Ethical Trust	14.97%	16.80%	18.70%
OneFamily Global Equity Fund	22.63%	40.20%	n/a
OneFamily Global Mixed Investment Fund	4.44%	25.22%	n/a
Family Asset Trust	16.66%	20.40%	20.38%

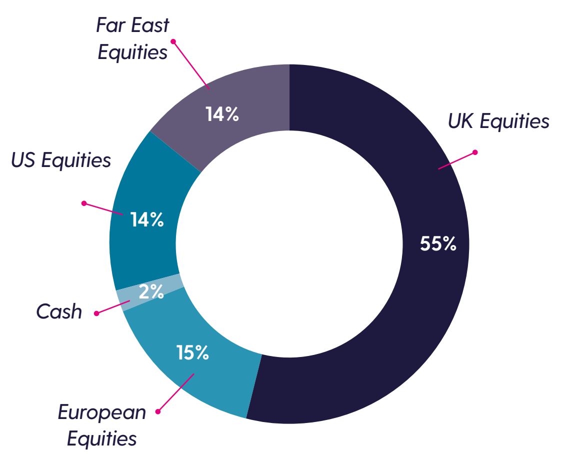
* Past performance should not be seen as an indication of future performance. Investors are reminded that the price of units, and the income from them, is not guaranteed and may go down as well as up. Growth shown is cumulative not annualised and after fees.

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

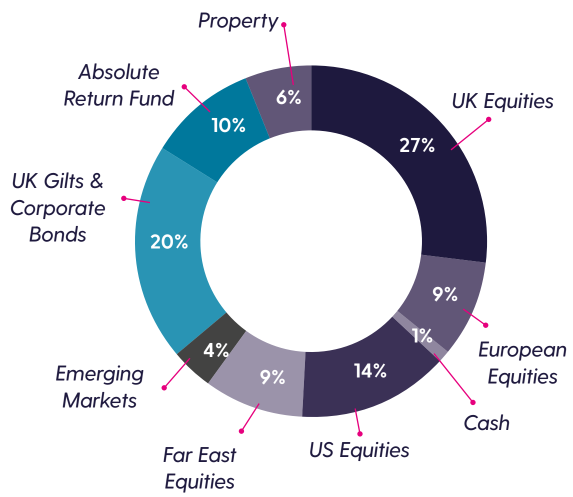
Our two largest funds, in which most of our customers are invested, continue to be the Family Investments Child Trust Fund and the Family Sovereign Fund.

The composition of these two funds as at 31 December 2021 is shown in the following charts:

Family Investments Child Trust Fund



Family Sovereign Fund



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

The objectives of the Global Equity and Global Mixed funds are focussed on climate change. These funds 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. Performance of these funds is therefore considered not only from a financial perspective, but also whether they are delivering in line with the expectations for these five categories.

During 2021, these climate friendly funds were made available to all ISA and lifetime ISA policyholders.

As mentioned previously, as part of the transition to a new investment manager, our with-profits funds now have an ESG focus with all fixed income assets and equities being ESG centric. The transition to ESG focussed assets will continue in 2022 as part of the optimisation of our non-profit fund.

Investment market review

Overall

At the start of 2021, global investment markets had started to see a glimmer of hope following the approval of COVID-19 vaccines in late 2020 and commencement of vaccination programmes. The UK Market was also buoyed by the last-minute trade deal with the EU. However, there was still a question over how rapidly markets would recover the significant falls of 2020.

The success of the vaccination programmes, initially in the US and UK but with Europe close behind, and the relaxation of some of the domestic restrictions mid-year saw equity markets continue to improve. However, it was not plain sailing as new variants of the virus emerged and concerns of further lockdowns were raised but did not materialise.

Following the easing of restrictions in July, there was a surge in demand for goods and services but businesses found a shortage in raw materials which led to an increase in their costs. Also 2021 saw job vacancies in the UK rise to over 1.1 million, unemployment fall to 4.2%, and inflation rise to 5.4% year on year with energy costs being a key contributor. As a result, the Bank of England increased the base rate to 0.25% in December 2021, to 0.5% in February 2022 then to 0.75% in March 2022 with the aim of curbing the rise in inflation.

The UK Market, which had been out of favour since Brexit, also started to gain global investors due to attractive valuations and dividend yields. Overall, it saw an increase of over 14% in the year.

Global markets also saw recovery in 2021, however volatility remained due to factors such as the US elections, US-China relations, new variants of the virus and similar disruptions to supply chains and shortages of workers as experienced in the UK.

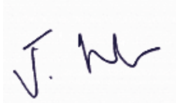
In relation to government bonds, yields rose during the year as prices fell as a result of inflation, investors moving back to equity markets and the Bank of England base rate increase.

> **"The objectives of the Global Equity and Global Mixed funds are focussed on climate change. These funds invest 100% or up to 35% respectively in climate-friendly company shares."**

Outlook

During 2021 and the early part of 2022 we saw a recovery in investment markets following the dramatic falls at the start of the pandemic. However, volatility has returned and there are uncertainties to the outlook, largely as a result of the war in Ukraine. OneFamily has very limited direct exposure to Russia, Ukraine and Belarus through our investment portfolio but we are closely monitoring the impact on investment markets. As a financial services organisation, we are affected by macro-economic movements but, as was demonstrated in 2020, our strong balance sheet and capital position puts us in a good position to ride out any volatility.

In 2022, we will continue our modernisation programme which will deliver operational efficiencies in the medium to long-term. In the short-term, as noted above, this will result in an increase in our operating expenses as we invest in our infrastructure. Our focus throughout remains the profitable growth in our chosen markets resulting in capital generation for members.



Jim Islam
Chief Finance Officer

Our strategy

Our Purpose

To create and protect value for members

Our Vision

Inspiring Better Futures

Our strategy sets out how we will follow our vision of **Inspiring Better Futures** and remain true to our mutual purpose **of creating and protecting value for members**. Our focus is on long-term sustainability, so we can continue to be relevant and impactful as a member-owned business for many years to come.

Our vision is equally relevant to our **customers**, **colleagues** and wider **communities**

- **For our members and customers,** our goal is to build financial wellbeing for them and their families by providing them accessible and affordable products and services to help them protect and save for their future
- **For our colleagues,** we will support their development and growth, and build their financial resilience
- **For our communities,** our aim is to create a better future through supporting education and financial inclusion for all

How we do this

To realise our vision in a sustainable way, we are focused on the three pillars of our strategy:

1. Creating **insight-led propositions** for savings and protection which build financial resilience for our customers and their families in an affordable and accessible way
2. Building **sales and servicing channels** that support customers in building their financial wellbeing, driving deep and loyal relationships, resulting in high levels of recommendation
3. Increasing the **efficiency** of the business to deliver what customers value, and reduce other costs, so that we can sustainably improve our accessibility and affordability to customers

Our strategy allows us to grow the business by supporting families who need our help and attracting other customers who share our vision. We are deepening relationships with our large existing customer base and will extend our scale through white-labelling and servicing for partners. Through our ambitions for new business generation and our continued delivery of efficiencies, we will further strengthen our already resilient capital base.

Strategic deliveries in 2021

During the year, we took significant strides towards delivering our strategy. We established a 50-strong telephone team, based across our Brighton office and our new Swindon office. This has allowed us to offer extra support to our young members making decisions about their child trust funds (CTF) at maturity, as well as supporting our other customers making important financial decisions.

We also expanded our lifetime mortgage team to 25 advisers. The life-changing help the advisers give to our customers has been rewarded with 5-star Trustpilot rankings.

We launched our climate-friendly stocks and shares ISA to all customers, after an initial roll out to those with maturing CTF policies. This was developed with insight that responsible investing has become increasingly important to all our customers. More about our climate-friendly funds can be found in the Chief Finance Officer's report on page 14.

2021 saw the acquisition of a CTF book and lifetime ISA book from The Share Centre. As one of the largest CTF administrators in the UK, this acquisition further reinforced our position – adding an extra 83,000 policies to our care.

We generated cost and capital efficiencies working closely with our partners including our investment managers and made significant progress on transforming our operating model through the modernisation programme, providing us with a great base to enhance delivery of our services and grow in 2022 and beyond.

We also made a positive impact on our broader communities in the year, sharpening the focus of our charitable support on areas which are core to our purpose – education, financial resilience, and inclusion. To this purpose, we relaunched our colleague volunteering programme towards the end of the year. Our Inspiring Better Futures section outlines the impact we had in the year.

Looking forward

In 2022, we are launching a membership proposition, rewarding customers for their relationship with us, focused on supporting their education and life-long learning and building financial resilience for a better future.

We will be making further improvements to our products to increase accessibility to all, starting with our junior ISA, which plays a key role in helping families save for a bright future for their child.

We will further strengthen our telephone sales and servicing channels to support our customers.

Customers will start to experience the benefits from strategic investment to modernise our policy platform, through an easier to use digital experience. The first stage of the new platform will be delivered in 2022 after the completion of the build and test phases, with further stages due over the next 2 years. Beyond the digital improvements, as we roll out the new platform, we will be able to make further improvements to our products and services.

We will also be improving our customer experience through other new elements of the modernisation programme. These will include chatbots, providing customers with a quick and easy way to talk to us and speech analytics – allowing us to analyse calls and identify ways we can improve the service we provide.

We look forward to extending the range of partnerships that we work with, following some new relationships established in 2021. Partnerships serve to both extend our scale and efficiency and to fill gaps in our own range of products and services to meet our customer needs.

As well as delivering for our members and customers, we look forward to offering further opportunities for development for our colleagues, harnessing the opportunities of the government Apprenticeship Scheme, and the roll out of our management development programme. We will also continue to strive to inspire better futures in our communities, through our charitable partnerships with IntoUniversity, Elderly Accommodation Counsel and local charities and our colleague volunteering.

Section 172 report – When making decisions, the directors recognise that the long-term success of our business is dependent on the way the Group interacts with a large number of stakeholders

When discharging their duties and making decisions, section 172 of the Companies Act 2006 requires the directors to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company

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.

During 2021, the Board and its sub-committees focussed on a number of matters with material or strategic importance to the Group. Examples of key items are listed below, along with the considerations made by the Board and how stakeholders were reflected in these discussions.

Matters discussed	How stakeholders and other factors were considered
Regular updates on the progress of the modernisation programme	The Board have considered the impact on customers of proposed product rationalisation, changes to aspects of communications and sales and servicing. They have challenged the level of benefits from the programme that will been seen by customers and also helped ensure that no-one will be left behind – i.e. those that are not digitally enabled. The Board were able to appreciate the improvements that both customers and colleagues will see through a demonstration of the new policy administration platform which will start to roll out in 2022.
Proposed acquisition of child trust fund and lifetime ISA books	In approving the acquisition, the Board considered whether it was in line with our purpose of "creating and protecting value for members". It was noted that the lifetime ISA acquisition was the first of its kind and may open up similar opportunities with partners. The Member & Customer Sub-Committee also considered whether membership should be given to policyholders transferring to OneFamily as a result of the acquisition.
Regular discussions on the membership proposition	Insight gained from feedback from members via OneFamily Voice and Smart Money helped shape the proposition presented to the Board.

Matters discussed	How stakeholders and other factors were considered
Review of Best Companies engagement survey results	The CEO of Best Companies joined the Board to provide his perspective on the remarkable increase in colleague engagement that had occurred between 2019 and 2021. The Board discussion noted, not only the areas which had improved, but also highlighted areas for further progression.
Development of people strategy and employee value proposition	The Board were asked to consider the framework through which colleagues can build necessary skills and behaviours for the future. The results of the Best Companies engagement survey completed by colleagues was a key factor in its design. In addition, an employee value proposition was discussed. The aim being for colleagues to feel connected with OneFamily, their teams and throughout the business.
Review and approval of business plans and corporate objectives	Stakeholders, such as members and customers, are reflected in the business plan which then filters down into detailed corporate objectives.
Operational resilience	The Risk Sub-Committee receive regular reporting on the operational resilience of OneFamily including its key processes and material suppliers. This is to ensure that OneFamily can continue to undertake key activities for our customers in an extreme event.
Provision of grants and charity partnerships	The Member & Customer Sub-Committee consider the feedback from membership engagement, through groups such as OneFamily Voice and Smart Money, to inform their discussion on the provisions of grants and charitable donations with a view to supporting education and financial inclusion for all.
Approval of measures to be used for customer service standard reporting	The Board (and management) considered how to achieve a balance between provision of good service for customers and incurring excessive costs. It was agreed to move to the use of Net Promoter Score in 2022 as the primary measure of customer satisfaction.

In the tables over the page, further details are provided of how the Board and management have engaged with and considered the views of stakeholders when making decisions in 2021.

You can find more information about stakeholders and our engagement with them throughout this Annual Report:

Members and customers	Inspiring Better Futures – Members and customers on page 26
Colleagues	Inspiring Better Futures – Colleagues on page 29 Corporate governance report – re designated non-executive director for colleague engagement on pages 64 and 65 Directors' remuneration report on page 80
Communities	Inspiring Better Futures – Communities on page 32
The environment	Climate-related financial disclosure on page 47 Inspiring Better Futures – Environment on page 37 CFO report – Climate change funds and further ESG (Environment, Social and Governance) developments on page 16

How we engage

Members & customers

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

Colleagues

- '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
- Through Graham Lindsay, as designated non-executive director for colleague engagement

The regulators

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

What they care about

Members & customers

- Good service 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
- Good investment performance outcomes

Colleagues

- Getting a fair deal
- 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
- How hybrid working will work for them

The regulators

- 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, with good customer outcomes being achieved
- That the Group is operationally resilient and sustainable
- 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 2021

Members & customers

- Being a leading voice in influencing easier access to maturing child trust funds for vulnerable young adults and their guardians
- Growth of our telephone customer engagement team
- Acquisition of child trust fund and lifetime ISA book
- Roll out of the stocks and shares ISA to all customers
- Membership proposition launched with full roll-out in 2022
- Continued focus on environmental and social items
- Modernisation activities such as chatbots and speech analytics (due to be delivered in 2022) to help improve customer interaction with us
- Distribution of Young Person's Education Grants
- Collaboration with the Association of Financial Mutuals on member centricity/ownership

Colleagues

- Continued the enhanced programme to aid employee wellbeing
- Continued the frequent company-wide communications
- Continued to ensure that the Brighton and new Swindon office were COVID-19 secure and that all social distancing measures were followed for those in the office
- Best Companies colleague satisfaction survey undertaken
- Diversity & Inclusion programme of activities continued
- Revitalised the colleague volunteering scheme
- Gathered information on colleague wishes re hybrid working
- Presentation of Values Awards to colleagues, who are nominated by their peers, for demonstrating OneFamily's values
- Increase in base pay of customer service representatives

The regulators

- Regular meetings between business leaders and our regulators to keep them informed of business activities
- Regular meetings between the compliance function and other business areas to ensure upcoming changes in regulation are acted upon
- Continued open communication with HMRC
- Assessment of the operational resilience of key processes and material suppliers
- Enhancement of the supplier management framework and cyber risk capabilities

How we engage

Third party partners and suppliers

- Through allocated relationship managers
- Intermediary satisfaction research

Communities

- Through grants
- Through charity partners
- Through charities close to our Brighton and Swindon offices
- Colleague volunteering days (reinvigorated in 2021)

Parties influencing our actions

The environment

- Members and customers
- Colleagues
- The regulators
- The wider community

What they care about

Third party partners and suppliers

- 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

Communities

- Local people and places
- Support of people in need

The environment

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

The influence on our actions in 2021

Third party partners and suppliers

- Continued training on supplier management for relationship managers
- Increased due diligence on key suppliers including assessment of cyber risk

Communities

- Increased focus on areas core to our mutuality purpose – supporting education, financial resilience and inclusion to increase social mobility and fulfil our vision of inspiring better futures
- Selection (by colleagues) of three local charity partnerships which focus on providing access to education and training, improving life chances and fostering financial wellbeing
- Young Person's Education Grants continued
- Donation of 'bags of support' to local Age UK members in place of our usual Age UK Christmas event in our Brighton office
- Official partner of Brighton and Hove Pride for the fifth year running, supporting 'Pride at the Ironworks' cultural event
- Building ongoing relationships with organisations such as Elderly Accommodation Counsel, Citizens Online and IntoUniversity

The environment

- Continued the integration of ESG investments into our with-profit and non-profit funds
- 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
- Reduction in office footprint and travel due to colleagues working from home or hybrid working
- Increased disclosure of the approach to managing financial risks associated with climate change within this annual report

Inspiring Better Futures

Our **Inspiring Better Futures** vision underpins our commitment to doing the right thing at every level for our customers, colleagues and communities, with a focus on fostering financial wellbeing, providing access to education and training and improving life chances.

We believe that what we do should have a positive impact, which is why we've awarded over £4.75 million in funding since 2015, supporting over 390 fantastic causes and improving the lives of over 3,200 people through our individual grants.

Our vision is built on three pillars

Members and customers
Building financial wellbeing through the provision of accessible and affordable products and services to help protect and save for the future

Colleagues
Supporting our colleagues' development and growth, and building their financial resilience

Communities
Creating a better future through supporting education and financial inclusion for all

We believe that focusing on these 3 areas supports the sustainability of our business and underpins our commitment to our vision

Members and customers

We care about our members and customers and aim to build financial resilience and wellbeing for them and their families through our products, services and member benefits. Being a member-owned organisation means that we can focus on reinvesting our profits for their benefit, not shareholders.

Championing financial inclusion

OneFamily has always maintained that financial products should be accessible to everyone regardless of how much money they have to invest. That's why our products have low investment levels and minimum contributions, giving more people the opportunity to save regardless of their circumstance.

Our friendly customer service team is always on hand to offer helpful telephone support and guidance, using straightforward language and avoiding jargon when talking to our customers about our products.

We also launched our 'keeping in touch' programme for our lifetime mortgage customers in 2021. This provides online educational, supportive materials to help them and their loved ones to manage their finances with confidence.

Supporting our customers

Doing right by our customers is integral to how we run our business – from awarding individual grants to providing extra support to those who need it, we put our customers at the heart of everything we do. This is demonstrated by our 4.2 star Trust pilot score (as at 24 February 2022) from our customers.

We provide dedicated health support services for our Over 50s Life Cover customers, which can be accessed from day one of the policy. We enhanced the offering of this benefit in August 2021 – which is offered via our partner RedArc Support Services – to include an advice service for carers, an app for cancer patients and a coaching service for cancer survivors as they return to work.

> **'Smaller savers have traditionally put money into cash accounts and relied on interest to build value. But in most cases a junior ISA (JISA) is for long-term saving – the majority are set up within the first year of a child's life, so they are entirely appropriate for investment.**
>
> **'With the current low rates on cash accounts and rising inflation the risk is that these JISAs could have their value nibbled away over time. However, our stocks and shares JISA enables financial inclusion, by allowing smaller savers to benefit from the gains of the stock market, with a minimum investment of £10 per month.'**
>
> **Chief Commercial Officer of OneFamily**

Access to education

We're passionate about improving access to education and training and we believe that it is a key foundation to unlocking future opportunities.

We continued to provide Young Person's Education Grants to our members and their relatives in 2021 – awarding £110,000 to 229 young people for laptops, travel expenses, uniform and much more.

It's important that we bring our child trust fund (CTF) communications and content to life in a way that our younger audience can really engage with. So, we created videos to explain some of the more complex topics around investing, to help our customers make an informed decision about what to do with the money in their CTF.

> **"The grant will make such a huge difference to me. I can now purchase a laptop to do my college work on, as we have been having to share one between the whole family. Thank you so much."**
>
> **Ben, Sheffield**

> **"This is a great opportunity for any young student who needs a boost in funding towards their education and I'm very grateful for this."**
>
> **Savanah, London**

Vulnerable customers

As our CEO, Teddy Nyahasha, highlighted in his report, we led on an industry-wide solution to the difficulties faced by the families of teenagers with mental incapacity in accessing their child trust funds (CTF). Our approach avoided the need for families to have to undertake a lengthy and sometimes expensive court process since, in some circumstances, we could release funds against documentation and identification that they already held.

We have been told by parents and carers that this approach has enabled them to purchase specialist equipment for the young person.

However, we felt that the government should take action and, along with charities and other providers, have been lobbying Westminster for a change in legislation that would make accessing savings much simpler for these teenagers in the future. Teddy has met with the Ministry of Justice and OneFamily's technical experience and knowledge of the market has been instrumental in shaping the government's proposed Small Payments Scheme. The consultation on this proposed scheme has now ended and we hope to hear the outcome soon.

Member benefits

The support we provide through our member benefits is a key part of our **Inspiring Better Futures** vision, and one of the things that makes us different.

Our new member benefits were launched at the end of 2021, and we'll continue rolling them out to our members in 2022. Our key focus on education and training extends to this new offering, which includes apprenticeship funding, advice, training discounts, savings on books and IT equipment, our established education grants and everyday savings.

We also continued to pay independent lifetime mortgage advice fees on behalf of our members, their friends and families through our OneFamily Advice service. 24 members took advantage of this benefit during 2021, saving a combined total of over £20,000 in advice fees.

OneFamily Voice

As a member-owned business we've always had a strong focus on member engagement – listening to and learning from our members plays a crucial part in shaping our products and services.

OneFamily Voice is our online community of over 450 members. It provides a forum for customers to tell us what they think about a wide range of topics and take part in online discussions, surveys and focus groups.

Community members provided feedback on a range of topics during 2021, including what member ownership means to them and our new membership benefits.

We're planning to grow the number of community members in 2022, and we'll continue to seek their views on a range of topics, including our products and services and upcoming financial service regulations.

Colleagues

We're committed to running our business in the right way – prioritising our colleagues' wellbeing and promoting a diverse and supportive culture in our workplace. We believe this means we're better able to support our members from all walks of life while providing colleagues opportunities to thrive and develop with us.

Colleague development

Everyone should have the opportunity to develop within their role at OneFamily. Over 10% of employees benefited from formal career development in 2021, including promotions, secondments, and apprenticeships.

- Four of our colleagues are being supported with internal apprenticeships in: Software Development/ Learning & development/ IS Business Analysis/ Data Analysis
- We delivered a leadership development programme to encourage and broaden the scope of commercial, strategic and creative thinking/problem solving
- Several of our managers benefitted from a coaching and feedback training pilot in 2021. We plan to roll this out to all line managers in 2022 to ensure regular, quality feedback and coaching conversations at all levels

Colleague engagement

We achieved a very high response (81%) to the **Best Companies** colleague engagement survey in 2021 and gained 1 star (very good to work for) rating overall, out of a maximum 3 stars. This was an increase from the previous 'One to watch rating' indicating very good levels of engagement and was a significant achievement in the period, especially given the pandemic.

We've continued to focus our attention on the areas that need it most, with corporate and local actions being developed based on the feedback provided by colleagues. Staff members asked that more opportunities be offered to assist in their personal growth. So, in addition to internal training and developing more online resources, and in line with our belief that learning is just as valuable outside the classroom as inside, we have introduced initiatives such as apprenticeships, mentoring and volunteering. This ensures that Inspiring Better Futures is a vision for colleagues as well as for our members. On a local level we are responding to a request for increased communication with the introduction of a regular newsletter in Customer Operations and Commercial as well as regular meetings for all with their executive and senior management team. Departmental engagement champions will continue to develop and roll out engagement plans during the year.

Colleague wellbeing

We continued to support staff members in a number of ways through 2021 with our ongoing wellbeing programme of engaging activities and workshops, including:

- The introduction of our OneHealth platform – focusing on physical energy, mental wellness, building connections and creating purpose
- The provision of a library of resources in our Wellbeing Centre, including recipes, exercise and mindfulness videos and expert tips and tools to help improve financial wellbeing
- Supporting Time to Talk day, Mental Health Awareness Week, our own OneHealth month and the Macmillan coffee morning

We also provide impartial representation for colleagues through our internal employee forum. **Talking Family** helps to support and offer guidance to all employees on a wide variety of issues as well as being a voice for communication and consultation at all levels across the business.

During 2021 Talking Family supported colleagues:

- By encouraging open and honest feedback across the business
- Through representation during individual and collective consultation as well as disciplinary and grievance proceedings
- By providing support to individual colleagues on a one-to-one basis
- With concerns that have arisen throughout the pandemic

Sustainable employee benefits

Our **Inspiring Better Futures** vision encompasses the legacy we leave for future generations. That's why we're committed to do the right thing in a sustainable and responsible way, including the employee benefits we offer to colleagues:

- Electric cars and bikes – we launched a car salary sacrifice scheme for our colleagues enabling them to purchase electric vehicles through the scheme and increased the loans available for e-bike purchases
- Employee Pension – we moved to a Worksave Pension Plan, which allows all the required pension freedom colleagues will need when they get to retirement. We took the decision to set the default investment fund with a sustainable focus on ESG at the heart of the investment approach
- Colleague Family Bond – in 2021 we made a change to our Family Bond policy so colleagues would be eligible to receive one at the end of their probation period – making them members of the Society earlier in their career

Diversity and inclusion

Embracing diversity is at the core of our values and we want colleagues of all backgrounds, identities and circumstances to thrive.

We have achieved a lot in 2021, building on our successes following the launch of our programme in 2020. We've continued to focus on creating the right environment for our colleagues to feel like they truly belong, and we've done this in the following areas:

LGBTQ+

OneFamily is a Diversity Champion member of Stonewall – a UK based LGBTQ+ charity. In 2021 we launched an LGBTQ+ allyship group, which colleagues have been able to sign up to. An ally is someone who believes in and acts to advance LGBTQ+ equality. Allies may typically be straight and/or cisgender, but members of the LGBTQ+ community can also be allies to each other.

In June 2021 we celebrated Pride for the sixth year running and have shared colleague experiences through blog posts and webinars on a number of subjects, including coming out as LGBTQ+ and being a trans man.

Race

Black History Month was celebrated at OneFamily in October with a range of activities, including:

- Sharing stories from our colleagues on what makes them 'proud to be'
- Providing links to resources, as well as sparking some great debate and conversation
- Welcoming guest speaker, social commentator and campaigner, Patrick Vernon, who has been at the forefront for several high-profile campaigns on cultural heritage

We are signatories of the Race at Work Charter and have signed up to #10,000 Black Interns.

#10,000 Black Interns seeks to offer 2,000 internships each year for five consecutive years. Each internship offered presents the opportunity to change a life. Each interview offered provides invaluable experience and each training session can genuinely change an individual's trajectory.

We'll be evaluating how successful this initiative is and aim to replicate the programme with local universities in the future.

> **OneFamily will be supporting #10,000 Black Interns by offering three placements during the summer of 2022 within our IT & Change and Commercial teams.**

Disability

During 2021, we developed education pieces around neurodiversity and colleagues have also shared their life experiences to encourage more open discussions and awareness.

Multigenerational

Colleagues from different generations took part in a panel discussion, talking about the perceptions, judgements and assumptions we often make based on someone's age. The panel had open, thought-provoking conversations about how the different generations working at OneFamily can add value through diversity of thought and learning from each other.

Gender

As signatories to the Women in Finance Charter, we launched the Women in Finance Mentor Programme in 2021. Our objectives were to support females at middle management and professional level within the business to realise their talents and aspirations, as well as maintaining a minimum of 30% female representation within Senior Leadership roles by the end of 2021.

42% of those eligible within the business took up the opportunity to participate in the programme. Mentees were matched with a mixture of mentors from leadership, executive and non-executive director roles.

Forums were run to offer networking opportunities and to share experiences and advice. Due to the success of the programme, we hope to enable more colleagues to benefit from this development opportunity in future.

Gender equality and pay

Our 2021 gender pay gap report can be found on our website at https://www.onefamily.com/company-information/ This is a government initiative which encourages organisations to promote the right practices and culture in the workplace. The 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 2021 gender pay gap has reduced to 14.6%, down from 19% last year. This is a good result demonstrating how our actions are having a positive impact, but also shows that we have more to do. We will continue to work on narrowing our gender pay gap through a range of initiatives. The national median average in 2021 was 15.4% (ONS, 2021) and we are pleased to see our median is well below the national average.

At the end of 2021 our Board comprised 50% female and 50% male directors. At the senior management level, we have 31% females and 69% males. We will continue to work towards further reducing our gender pay gap and to increase the proportion of females in senior roles. Our focus on gender equality in the workplace forms part of our broader Diversity & Inclusion strategy to increase awareness and best practice, promoting equality for all.

Communities

We believe in playing an active role in our communities through supporting financial wellbeing, access to education and helping improve life chances. We do this by providing much needed charitable giving and assisting colleague fundraising, volunteering, and mentoring.

Supporting our communities has been a key focus of ours for many years, starting with the launch of our community programme in the 1990s which won us both the regional and national 'Employees in the Community Award'. And this ethos has continued with the introduction of our new charity partnerships.

Charity partnerships
New for 2021

We created new partnerships with national charities to provide financial assistance, advice and hands-on support.

Supporting national charities

IntoUniversity: intouniversity.org

IntoUniversity provides local learning centres where young people are inspired to achieve. They offer an innovative programme that helps young people to raise their ambitions, improve attainment, develop soft skills and gain experience of the world of work, ultimately supporting them in attaining a university place.

The 2020/21 academic year saw **Into**University Brighton supporting 986 local young students, at a time when they needed it more than ever before. As a result, 75% of these students said they were more likely to go to university, and 88% reported improved communication skills.

OneFamily provided £10,000 to support **Into**University's mentoring programme in Brighton and there are currently seven staff members from OneFamily volunteering on the 18-month corporate mentoring strand of the programme.

Elderly Accommodation Counsel (EAC): eac.org.uk

EAC is a national charity that encourages whole family conversations with the aim of helping older people to live safely and well at home, with any care or support they may need. Their website provides free, impartial information and advice to help people plan, access local services and explore accommodation options.

EAC aims to reach older people early, when a wide range of options can be discussed with them and their families – enabling them to live independently and with dignity in their own homes for as long as they wish.

'One of Brighton's suburbs has the lowest proportion of people entering university in the country. I grew up in this area and went on to university myself, so IntoUniversity's mentoring programme really struck a chord. It's been great to give something back to my mentee and it's also been a rewarding experience for me.'

Olly, OneFamily colleague

Citizens Online: citizensonline.org.uk

Citizens Online is passionate about digital skills and access. They work towards an inclusive society where everyone can benefit from digital connections by assisting people and organisations to get online and learn digital skills. It's estimated that 7.8% of UK adults (4.2 million people)[1] have either never used the internet, or last used it over 3 months ago. With support to get online, people can have better job prospects, manage their health and wellbeing more easily, stay connected and reduce feelings of loneliness and isolation.

Supporting local charities

Our colleagues also voted to select 3 local charities for OneFamily to build long-lasting partnerships with:

Spear Brighton Trust: spearbrighton.org

Spear Brighton Trust inspire and help unemployed young people overcome disadvantage by focusing on the key issues that empower them to succeed in work: attitude, confidence, and qualifications.

Their award-winning Spear Programme helps 16–24-year-olds overcome the challenges they're facing to find and succeed in sustainable employment.

Team Domenica: teamdomenica.com

Team Domenica is a social enterprise charity. Their mission is to help people with learning disabilities discover their career potential, to create employment opportunities and remove barriers to work in local communities.

An incredible 76% of their young people gain employment through their supported employment programme and 90% retain their position (compared to just 20% across the UK).

The Clock Tower Sanctuary: thects.org.uk

The Clock Tower Sanctuary work with young homeless people to give them space, support & stability.

They run Brighton's only day centre for 16-25-year-olds who are homeless, or insecurely housed. They provide a safe, supportive place, where people can find a hot meal, showers, laundry facilities, clean clothing, food parcels, life skills classes and one-to-one case working.

[1] ONS (2020) Internet Users, UK

Community Grants

Our Community Grants are an excellent way for our customers to give back to the causes they are passionate about, by nominating them for a grant to support their work. 21 fantastic causes benefited from our funding in 2021, including a charity for disabled children, a food bank, schools and many more.

Action For Kids (AFK) Charitable Trust

AFK supports disabled young people to live independent and fulfilling lives, helping them to find paid employment and providing mobility equipment. They received a Community Grant in 2021 to fund careers insight sessions for pupils with special educational needs.

"Children and young people with special educational needs and disabilities (SEND) experience many inequalities accessing good healthcare, appropriate equipment, high quality education and meaningful employment opportunities. Sadly the pandemic has exacerbated these barriers.

We are delighted to be working with OneFamily to support the life and work skills, of children and young people with SEND. Your extremely generous grant of £2,500 will enable us to deliver a schools employability skills support service, which will help to increase pupil's awareness and understanding of career/work opportunities and engage parents/carers and professionals to change their perceptions which is simply vital at this time."

Lyn Prodger, Corporate Partnerships Manager

Giving back through volunteering

We continued to bring our vision and mutual values to life through re-invigorating our volunteering activities in 2021. Our new charity partnerships have provided fresh volunteering opportunities and we've been building further new connections for our colleagues to get involved in their local communities.

> **We also enhanced our volunteering policy, increasing the number of days volunteering leave colleagues can take from one to three, which will allow them to further support their local community.**

Other improvements we've made include:

- More focussed volunteering partnerships linked to education, financial resilience and improving life chances
- Linking volunteering to personal development of our colleagues
- Encouraging colleagues to support their local schools – becoming school governors, developing soft skills and providing mentoring

Our colleagues got involved in a range of volunteering and fundraising activities in 2021, from supporting Spear Brighton Trust in carrying out mock interviews with young people to a Christmas collection for the Clock Tower Sanctuary. In total we donated £25,173 in support of colleague nominated causes, our continued support of Brighton Pride and our OneFamily charity matching initiative.

Environment

The environment is important to us too. We're committed to doing the right thing at every level – sustainably and responsibly – reducing our carbon footprint and playing our part in preventing climate change.

Our offices

At OneFamily we have taken steps to reduce our impact on the environment, ensuring that we're all working together to create a better future. We are committed to continually improving our operations and regularly review our practices. We currently implement the following:

- Recycling initiatives: centralised collection points on all floors to encourage and enable efficient recycling
- Motion sensor LED lighting installed in the Brighton office to reduce electricity consumption
- A 'no waste goes to landfill' policy and we purchase products made from recycled materials wherever possible
- Participation in an environmental initiative which benefits a non-profit organisation called CoolEarth, who work alongside rainforest communities to halt deforestation and its impact on climate change
- Compliance with the Energy Savings Opportunity Scheme, where we assess our energy use and identify efficiencies and with Streamlined Energy and Carbon Reporting, where we measure our carbon footprint and look at ways to reduce / offset this

Climate-friendly investments

We launched our new climate-friendly investment funds in 2020, which enable us to invest in shares in companies that have set an agenda to help tackle climate change.

During 2021, we launched our new ISA and lifetime ISA products that enable us to use these same climate friendly investment funds to provide further options for our customers to invest with us more sustainably.

Summary

Our second year of living our Inspiring Better Futures vision has seen us make good progress with embedding this into our culture. From continuing to support our customers through our Young Person's Education Grants and accessible products, to launching our Local Charity Partnerships and new member benefits, we've firmly committed to doing the right thing for our customers, colleagues and communities. We plan to build on this further in 2022 with the launch of a new National Charity Partnership and through continuing to roll out our member benefit offering to our members.

Risk management report

Effective risk management is essential in enabling us to create and protect value for members.

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.

In our day-to-day business activities, we are exposed to a variety of risks. Looking forward, these risks may be magnified or dampened by current and emerging external trends which may impact upon our 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 us 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 business and economic conditions. This covers areas such as capital, liquidity, market risks, insurance risk and operational risk.

Central to operating within this appetite are the risk culture expectations set by the Board. These promote a culture of openness and transparency in decision making and managing risks, and balance performance with principles to do what's right for the business and customers. 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.

OneFamily operates a three lines of defence model for risk management. The first line comprises management and colleagues in the 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 which includes close challenge and oversight of business plans and strategic initiatives.

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.

A number of management committees fulfil important roles in supporting the challenge and oversight of risk matters. These include:

- The Capital Management and Reporting Committee – covering matters relating to capital management, own risk and solvency assessment (ORSA), financial reporting and the actuarial key function
- The Conduct Risk and Culture Committee – covering matters relating to conduct risk, culture, financial crime and data protection
- The Executive Operational Resilience Group – covering the oversight of the operational resilience strategy and associated risks relating to third parties, technology, cyber security, people, process and premises
- The Executive Investment Committee – covering matters relating to the development of investment strategy and the management of investments in line with the investment strategy and risk appetite

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 complemented 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) and beyond. 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 are not expected to generate sufficient return or could, in aggregate, give rise to a capital requirement greater than the capital 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 assessment of capital available and capital required should be performed. The result of any ad-hoc assessment may generate management actions.

Papers are presented to the Board throughout the year dealing with individual elements that make up the ORSA process. 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.

Conflict between Russia and Ukraine and the consequent actions such as sanctions brings uncertainty and heightened risk for a number of the principal risks we face, notably strategic, economic and cyber risks. We continue to monitor the potential impact on our principal risks and uncertainties and take mitigating action accordingly. The impact on the associated strategic, economic and operational risks such as cyber are set out within the table below.

Risk	Impact	Management and mitigation	Change from last year
Strategic Risk: Risk of not delivering a sustainable operation caused by failing to achieve operating cost efficiency or effectively managing the change agenda	• Our financial position could be impacted if our operations require more resources or more costly resources than anticipated, for example due to changed regulatory expectations, increase in desired service standards, lower level of adoption of automated servicing or higher complaints. • The ability to deliver the efficiencies and strategic benefits from change programmes on time and within budget could be adversely affected by insufficient resource and capabilities as well as ineffective scheduling, oversight, business case, prioritisation or over optimistic assumptions.	• A strategic modernisation programme is in place to deliver reduced operational costs. • Continued investigation of options to reduce cost and drive efficiency. • Robust prioritisation, oversight, scheduling and coordination of all business change through a single programme governance framework, overseen by the Executive Steering Committee.	• Additional in year cost savings and maintenance cost reductions were identified and delivered in 2021. • Business cases for additional efficiency initiatives are substantially developed. • Programme governance in place, overseen by the 2nd line, with actions taken to ensure focus remains on strategic objectives and that planned outcomes are achievable.

Risk	Impact	Management and mitigation	Change from last year
Strategic Risk: Risk that member funds are allocated to new business and fund retention initiatives which fail to produce an adequate return on capital	• While we operate in customer markets where there is strong demand, we face risks of failure to maintain competitive positions and risks associated with the business models and decision-making of third-party distributors. • Our lifetime mortgage lending utilises external sources of funding and volumes that can be originated will therefore be dependent on this flow of funds. • While experience to date demonstrates that a significant proportion of child trust fund (CTF) customers will wish to keep their funds invested following their 18th birthday, future levels of retention and reinvestment into new investment products may be impacted by stock market performance and alternative competitor propositions. • Our direct sales channels (OneFamily Advice and the non-advised telesales operation) broaden our routes to market but face risks of maintaining the scale and efficiency required to ensure future profitability.	• Seek to broaden distribution channels and increase the quality of distribution. • Challenge of business cases for new product and distribution initiatives and regular review and challenge of product profitability. • Further development of product import and export relationships. • Development and sourcing of lifetime mortgage funding partnerships. • Customer research, in particular to support test and learn activity and to provide insight into maturing CTF and continuation account behaviour. CTF reinvestment options focused on climate funds to enhance appeal to customers. • Growing the number and sources of leads for direct sales and growing our team of advisers and telesales colleagues. • Continuing to seek opportunities for new distribution partnerships and robust due diligence of third parties.	• Onboarding of appointed representatives in progress to broaden protection and investment distribution. • Direct non-advised sales functions have scaled up. • New advisers and lead sources onboarded in the OneFamily Advice business. • Increased media/social media presence of OneFamily to raise the profile in the business community and building awareness of what OneFamily stands for.

Risk	Impact	Management and mitigation	Change from last year
Operational Risk: Cyber & Operational Resilience	• **Cyber:** Third parties and other unauthorised users may attempt to gain access to our systems for misuse of customer and company data, or to disrupt the business using malware and viruses. This could lead to corrupted or lost data, business interruption, compliance breaches, regulatory fines and reputational damage. • **Operational Resilience:** We are exposed to the risk of causing intolerable levels of disruption to our customers and stakeholders if we cannot maintain the availability of our important business services within impact tolerance levels when faced with major IT, operational or third party disruptions. • **Third Parties and Outsourcing**: We have a number of material relationships with outsourcers and third parties. Whilst these providers complete processing or specialist work, we remain fully responsible for the oversight, management and performance of the outsourced activity. We may be unable to meet our customer obligations following the failure of, or a significant degradation in, service received from a material outsourcer or third party.	• **Cyber:** Investment in line with the Cyber Strategy is made to reduce exposure to vulnerabilities and strengthen controls, with the modernisation programme making a significant contribution. Ongoing pro-active monitoring, prevention and testing with cyber security awareness being a key part of our training programme. • **Operational Resilience:** Programme established to define and implement an Operational Resilience framework to test the impact of outages on our important business services. • **Third Parties and Outsourcing:** Third Party and Outsourcing Policy updated to align requirements with new regulation. Application of the policy to ensure material third parties and outsourcers are compliant, contingency plans for failure or degradation developed and tested.	• **Cyber:** Continued investment in cyber capability to ensure skills, training, monitoring and incident response preparedness to keep pace with the evolving threat landscape. There are an increasing number, and severity of, cyber risk security incidents for corporates in the UK and elsewhere, and this trend is expected to persist in 2022 with increasing levels of sophistication and targeting. The situation with Russia and Ukraine is likely to bring an increased risk of cyber attacks targeted at the UK. We continue to review our arrangements to ensure that our cyber investment remains appropriate to mitigate the continued and changing nature of cyber risk. • **Operational Resilience:** The impact of potential failures of our important business services has been mapped and understood in more detail supported with broad scenario testing to identify potential areas of weakness. • **Third Parties and Outsourcing:** All suppliers and third parties reviewed to align materiality with regulatory definitions. Key metrics developed to monitor key risks and controls including exit plans, data risk, financial status and business continuity.

Risk	Impact	Management and mitigation	Change from last year
Operational Risk: People risks	• As the COVID-19 restrictions lift, transitioning to a new working model may prove to be difficult. Any new model may be misaligned to overall strategy. The current homeworking model may adversely impact on morale and productivity due to changes and uncertainty of business and economic outlook. • Insufficient capacity and capability may arise from the demand placed on key resources by the change agenda. • Changes in ways of working post-COVID-19 may increase flight risk if more remote job opportunities open up. • Loss of key personnel from an increasingly competitive labour market.	• Return to office planning to deliver future operating model with a focus on increasing productivity, creativity, and engagement. Ongoing support for home working employees including engagement surveys, well-being and health support measures, frequent CEO communication and increased social media presence. • Clear prioritisation of support for staff throughout the modernisation programme. • Ensuring our evolving Employee Value Proposition aligns with what motivates and attracts colleagues, including development, wellbeing and establishing strong talent pipelines.	• Phased return to the office started during September 2021 although the numbers in the office have remained low, especially in light of the Omicron variant emerging in late 2021. • Staff attrition is being managed and in some areas is providing opportunities for the career development of existing staff.
Operational Risk: Operational process (including compliance) failure	• Through our day-to-day operations, we are exposed to the potential for operational errors emerging or persisting, causing rework, backlogs and unplanned cost. • Remote ways of working in the face of COVID-19 may bring increased likelihood of operational risk events occurring – for example if there is reduced availability of quality assurance or if staff are required to perform tasks that are new to them.	• Close tracking of known operational issues, capacity planning and backlogs. • The modernisation programme includes a number of initiatives designed to increase efficiency and reduce error levels. • Focused risk and control reviews conducted in relation to remote working, with a focus on data, financial crime and maintaining adequate risk and control performance. • Longer term this may present some opportunities for reconsidering risk appetite and introducing new ways of working.	• Service levels have remained high, and largely within tolerance, with significant improvements in backlogs through targeted capacity management actions. No significant increase in operational risk events experienced as a result of COVID-19. • Close management and monitoring of the use of customer data in support of direct sales.

Risk	Impact	Management and mitigation	Change from last year
Market Risk: Risk of adverse fluctuations in values of, or income from, assets or in interest or exchange rates	• Equity risk is our largest financial risk. • Falls in gilt yields will also have an adverse impact due to the nature of insurance liabilities. • Increased inflationary expectations continue, exacerbated by the events in Ukraine. Rising inflation will have some direct impact on the costs of running the business. • We might, however, expect more significant impacts from the effects of high inflation on asset valuations and the challenges faced by our customers in meeting large rises in the cost of living, which in turn could reduce their ability to make discretionary investments.	• Monitoring market status and impact on solvency coverage ratios. • Assessment of potential short and long term implications of the market movements. • Investment Strategy defined in line with the Prudent Person Principle. • Further emphasis on asset and liability matching (ALM), including through changes to investment manager for non-linked funds.	• Geopolitical risk has increased significantly with the conflict in Ukraine, bringing with it heightened market risks, particularly those driven by inflation. • Additionally, forecasts for economic growth and recovery reflect an uncertain outlook due to potential impacts arising from the economic fallout from the COVID-19 crisis, associated acceleration of digital disruption, rising inflation, supply shocks (and residual Brexit fallout) and, over the medium to long term, shifts and disruptions in the market as industries make changes to reduce carbon emissions.
Insurance Risk: Risk of loss due to adverse deviation of claim payments from expected when pricing products and setting the technical provisions	• We have long-term liabilities which are sensitive to adverse variations in lapse, surrender, mortality, morbidity and longevity rates as well as the risks related to expenses and reinsurance terms. With regard to Over 50s Life Cover claims there is a risk we are selected against due to the non-underwritten nature of the product. • Longer term, the degree of increase in mortality arising from COVID-19 impacts (including those surviving with impaired health) remains uncertain.	• Regular experience investigations to determine and respond to trends. • Capital management planning reviews appropriateness of techniques that could be employed to manage insurance risk. • Review of the reinsurance approach to test commercial and risk outcomes against alternative strategies.	• Scenario testing has looked at differing assumptions in relation to extra deaths: sensitivity of Own Funds to this is not significant. • Current experience of excess COVID-19 mortality does not indicate that this will have a material impact.

Risk	Impact	Management and mitigation	Change from last year
Conduct Risk: Risk that our behaviour or actions result in detriment or unfair outcomes for our customers.	• We are exposed to the risk that we fail to deliver fair outcomes for our customers leading to adverse customer experience and potential customer detriment. This could also lead to reputational damage and/or financial losses.	• Our ethics, values and corporate culture, organisation structure and control functions put the customer at the heart of the business, with additional consideration for those customers deemed to be vulnerable. • Oversight and challenge of conduct risk exposures through Conduct Risk and Culture Committee and escalation to Risk Sub-Committee. • Product design and review processes help ensure customer needs and conduct risk are considered throughout the product lifecycle.	• No change.
Strategic Risk: Risk of failing to appropriately prepare for and manage the effects of climate change and wider ESG risks	• We are exposed to the risk of failing to adequately respond to Environmental, Social and Governance (ESG) risks and deliver on our vision and purpose. This includes for example, failing to develop, adapt, promote and manage products or manage invested assets which meet customer and stakeholder expectations for ESG over time. This includes the wider reputational risk of not being seen to do the right thing. • In addition, we are also exposed to risks related to climate change as a result of both the transition to a low carbon economy and/ or the physical impact of more extreme weather patterns on the value of our current and future investment holdings, our operation and customer sentiment towards our products.	• Our Inspiring Better Futures vision defines the strategy and approach to ESG related risks, see Inspiring Better Futures section for further details. • The approach to managing financial risk resulting from Climate Change (as part of the risk management framework) covers opportunities, governance, strategy, risk management and metrics. (See Climate-related financial disclosure section).	• See Inspiring Better Futures section. • In 2021, we set a risk strategy of aiming to limit carbon equivalent emissions to at least net zero by 2050.

Emerging risks

The ongoing identification and reporting of emerging risk is part of the risk management framework. During 2021 the Risk Sub-Committee reviewed an assessment of emerging risk facilitated by the Risk function, and the same assessment was used to inform the Board strategy process and business planning from July 2021. 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 post-pandemic fiscal responses such as tax increases and spending cuts, future pandemics, climate change, global trade tensions, resilience and cyber, regulatory developments, adverse financial market factors (such as volatility and prolonged subdued asset valuations), inflation, skills shortages, digital inequality, housing market downturns, demographic changes, competitive pressures and legacy technology risks. 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 2021

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 2021 we updated the risk management framework to include a new Board approved statement of risk culture. This promotes a culture of acting with integrity and in line with our values, taking accountability for our risk and control, openness and transparency in decision making and managing risks and balancing performance with principles to do what's right for the business and customers.

IT security/cyber framework

In the context of the pandemic the technological, societal and business trends evident through 2020 and 2021 have driven increased remote working, automation and the move to the digitisation of business processes. The associated cyber and business resilience risks are heightened, particularly considering the increasing volume and severity of cyber attacks such as ransomware. In March 2021, a Cyber Security Strategy was approved by the Board, which provides a roadmap to ensure that security capabilities are aligned to evolving threats. The strategy is underpinned by industry recognised standards (e.g. NIST – National Institute of Standards and Technology) and an appropriately skilled and resourced information security function. In line with the Cyber Strategy a number of enhancements to security controls and capabilities were made which included development and testing of incident response plans, development of risk metrics and the progression of a number of initiatives to reduce cyber risk. The latter includes addressing our legacy technology infrastructure risk, modernisation of our platforms addressing legacy application platforms and simplifying our infrastructure, improvements to ongoing third party cyber risk due diligence and to access control management.

Third parties and outsourcing

During 2021, the Third Parties and Outsourcing risk framework was updated to reflect the new regulatory requirements for categorising material supplier arrangements, contractual requirements, controls over sub-outsourcing and the development of contingency exit plans.

Operational resilience

The impact of failures of our important business services has been mapped and understood in more detail, supported with broad scenario testing to identify potential areas of weakness. In line with regulatory expectations, the scenario testing is anticipated to be a multi-year activity, with the initial scenarios covering cyber attacks, power failures, material supplier failures and prolonged systems outages.

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.

We support the aims of the Taskforce on Climate-related Financial Disclosures (TCFD) and have adopted its four-pillar framework with its 11 recommendations[2] to explain how we identify, manage, govern and respond to climate risks and opportunities.

Pillar 1 – Governance

Describe the Board's oversight of climate-related risks and opportunities (1a).

The Board retains ultimate accountability for climate-related risks and opportunities. The Risk Sub-Committee of the Board is accountable for overseeing all aspects of risk management, including climate-related risks. The Executive Investment Committee ensures effective management of OneFamily's investments in line with the investment strategy, including consideration of Environmental, Social and Governance (ESG) factors. Since 2020 we have assessed and managed the impact of climate change in line with the good practice highlighted by the Climate Financial Risk Forum[3]. This includes 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.

During 2021, papers considering the impact of climate change on our business were prepared for the Risk Sub-Committee covering identification, measurement, management and stress testing in relation to the financial risk arising from climate change.

The Audit Sub-Committee oversees internal controls and financial reporting procedures and recommends for approval the Annual Report and Consolidated Financial Statements, including the climate and other ESG related disclosures, for compliance with relevant regulations, legislation and reporting standards.

Describe management's role in assessing and managing climate related risks and opportunities (1b).

Our CEO is accountable for the development and execution of our strategy, including the management of climate-related risks and opportunities.

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 our customers and our own funds are managed to appropriately mitigate climate change risk.

The Capital Management and Reporting Committee supports the Chief Finance Officer and the Chief Risk Officer and receives reports on the outcomes of the risk management processes covering the financial risks arising from climate change.

[2] 2021-TCFD-Implementing_Guidance.pdf (bbhub.io), the recommendations in sections C and D of this guidance are cross referenced.
[3] "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.

Pillar 2 – Strategy

Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term (2a).

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[4] by 2050 in line with the 2015 Paris Agreement targets.

Identification of climate related risks and opportunities

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[5]. The timeframes over which these risks and opportunities could impact our business and their materiality vary by type of product and the nature of the risk. These risks and their significance over a 5-10 year horizon 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, availability and expectations for "greener" products that we may not be able to fulfil or that are perceived as "green washing". Changes to government policy in relation to the speed and scale of implementation of carbon taxes and green investment incentives may drive customer sentiment and the availability or attractiveness of more climate friendly investments **Medium significance**	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 **Low significance**	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 **Medium significance**	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 e.g. automotive industries converting to electric, power generators converting to renewables **Medium significance**	
5.	Operational risk losses for example from failures of interdependent power, transport networks, water supply impacts from sewer flooding or heavy rainfall and drought **Low significance**	Resilience reviews and testing covering full and partial disaster recovery
6.	Business disruption from supply chain and distribution network outages **Low significance**	Resilience reviews on key business processes identifying third party/distribution dependencies, workarounds and potential substitutions

[4] Net zero refers to achieving a balance between the amount of greenhouse gas emissions produced and the amount removed from the atmosphere.
[5] The impact of climate change on the UK insurance sector (bankofengland.co.uk)

In addition to the risks identified above, there are opportunities which present themselves through the efforts to adapt to climate change. These include further development of new products, moving into lower carbon investments which benefit from green finance initiatives. In addition, there are opportunities to minimise operating costs through greater resource and energy efficiency.

The risk assessment is informed by regulatory, international and governmental sources including "The Committee on Climate Change"[6], PRA[7], the "Intergovernmental Panel on Climate Change (IPCC)"[8], The United Nations[9] and the FCA[10]. It is further informed by the size, complexity, composition and exposure of specific product lines and operational considerations.

Impact of climate risks and opportunities

Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning (2b).

As illustrated above, the relative materiality of climate-related risks and opportunities varies across our business, with investments considered to be the most significant risk area.

The potential climate risk exposure of an invested asset depends on the characteristics of the asset and its geography e.g. real estate will be more exposed to physical climate risk such as the increased frequency and severity of storms, droughts, flooding and raised sea levels. An asset's exposure will also be dependent on the sector the asset operates in, e.g. high carbon sectors such as oil, gas and mining will be more exposed to high costs of transition to a low carbon business model and the losses from stranded assets. The level of physical and/or transition climate risk in a given portfolio or fund is dependent on the aggregate exposure to asset classes, sectors and geographies.

We have undertaken a more granular analysis of the alignment of our own and our customers' assets both to understand their exposure to climate sensitive sectors and also in terms of alignment 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 five year forward looking alignment view is based on firm by firm intelligence of carbon reduction targets as captured by the MSCI All World Index.

The climate friendly funds that support our new investment business have negligible climate transition exposure and a very low exposure to physical risk. The PACTA analysis demonstrates that oil and gas assets in these funds are broadly aligned to the 2015 Paris Agreement Targets[11].

Opportunities exist across all funds in the form of engagement with the investees, via our investment managers, to influence positive climate decisions. There are also opportunities in the non-profit non-linked fund (where we have more discretion on asset allocation) to take action where we feel that appropriate actions are not being taken in a timely manner.

[6] "UK Climate Change Risk Assessment 2017" - The Committee on Climate Change
[7] "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
[8] "The IPCC's Fifth Assessment Report (AR5)", Intergovernmental Panel on Climate Change 2014
[9] UN PRI (2018); The inevitable policy response: act now. Forcing the climate transition. UNEP Finance Initiative. United Nations Global Compact
[10] "Climate Change and Green Finance", DP18/8, FCA October 2018
[11] Due to the alignment with the International Energy Agency Sustainable Development Scenario

Climate scenario analysis

Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario (2c).

Climate scenario analysis is a key tool which allows us to better understand the impact of the identified physical and transition risks in future possible scenarios. In 2021, we developed our climate scenario analysis on the "Bank of England's 2021 Biennial Exploratory Scenario: Financial Risks From Climate Change" approach. This approach required quantitative analysis over a 30 year horizon against three climate change scenarios. In the first scenario "Early Action" is taken to deliver an orderly transition to Net Zero by 2050, the second "Late Action" explores action being delayed until 2030 but ultimately transition is secured by 2050, the third is a scenario where "No Action" is taken and climate goals are not achieved.

The key findings from the scenario exercise were.

- The overall reduction in market value of assets is relatively low for all scenarios, compared to the overall size of the stresses and the timing of the stresses over 30 years.
- The "No Action" and "Late Action" scenarios, which explore physical risk to a greater degree, are more onerous than the "Early action" scenario.
- The CTF and non-profit linked funds have a higher sensitivity than the non-profit non-linked fund or the new climate friendly funds. This is due to the lower climate exposures in the climate friendly funds and the lower equity exposure ratio in the non-profit linked fund.

Pillar 3 – Risk management framework

Describe how processes for identifying, assessing, and managing climate related risks are integrated into the organisation's overall risk management (3c).

Describe the organisation's processes for identifying and assessing climate-related risks (3a).

Risk appetite

As described in the strategy section above, our risk appetite has been established such that:

"Our aim is to reduce the carbon equivalent emissions of our business activities to net zero[12] by 2050 in line with the 2015 Paris Agreement targets."

Risk identification

In line with risk management guidance from the Task Force on Climate Disclosure (TCFD) and the joint FCA and PRA Climate Financial Risk Forum (CFRF) we articulate climate change as a cross cutting risk across our major categories of risk.

Our consideration of climate risk is further divided into the two categories of:

- **Transition risk** – "Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to companies."
- **Physical risk** – "Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for companies, such as direct damage to assets and indirect impacts from supply chain disruption. Companies' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting companies' premises, operations, supply chain, transport needs, and employee safety."

The qualitative assessment of how climate risk affects our business is covered in the Strategy section above.

Climate change primarily affects the following OneFamily risk categories:

- **Strategic** – through the legislative, market and environmental changes driven by climate concerns as well as changes to customer sentiment and preference
- **Market and Credit** – through the impact of climate change on the value and security of our customers' invested assets and our surplus assets
- **Pension** – through the impact of climate exposure to the value of assets backing pension liabilities and subsequent pension funding adequacy
- **Operational** – through impact of more frequent and more severe weather patterns on business resilience and continuity
- **Reputational** – through the impact of changes in stakeholder perception of our (or more broadly our sector's) contribution to, or detraction from, the transition to a lower carbon economy

Risk measurement

The approach to measuring the risks relating to climate change follows using a combination of qualitative and quantitative assessment which includes the scenario analysis described in the Strategy section above.

Risk management

Describe the organisation's processes for managing climate related risks (3b).

The main strategies to manage the impact of climate change include:

- Business planning, including strategic decisions to change the nature and composition of OneFamily's own investments and the evolution of customers' investment portfolios
- Holding our investment managers accountable for positive stewardship on climate risks where we or our customers have shareholdings
- Potential actions over time to adjust asset investment strategies where our mandate allows
- Identifying and evaluating potential opportunities

Risk reporting

Monitoring and reporting of the financial risk relating to climate risk, covers the provision of data in relation to:

- Outcomes of scenario and exposure analysis as described in the Strategy section
- Management information in relation to current carbon intensity across our own and our customers funds
- Management information in relation to projected evolution of carbon intensity as businesses (in which we or our customers hold assets) align their plans to meet their carbon reduction goals

Pillar 4 – Metrics and targets

Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process (4a).

We use a series of 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 (for example, lack of consensus of methodology across the industry, with differences in scope of emissions or sectors covered) we believe they are still valuable in supporting our climate-related governance, strategy and risk management.

Together with our asset managers, and consistent with the TCFD and the CFRF we are working with our investment managers to operationalise metrics to track the historic and projected performance of our portfolios in relation to carbon intensity.

Greenhouse gas emissions data

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks (4b).

We have taken steps to reduce our carbon footprint which include:

a) Controlling our consumption of natural energy resources

b) Continuing to replace aging office equipment with energy-efficient products. e.g., Photocopiers/printers, laptops, and monitors

c) Continue with video conferencing and online meetings thereby reducing emissions relating to travel (as opposed to in person meetings)

d) Continue to encourage employees to use public transport wherever possible by providing discounts on public transport, a cycle to work scheme, season ticket loans and an electric car benefit scheme

e) Promoting sustainable development practices within our organisation

We aim to further reduce our operational energy and greenhouse gas emissions and are committed to sourcing 100% of our electricity from renewables by 2030.

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

Methodology

We have followed the requirements of the Greenhouse Gas (GHG) Protocol Corporate Accounting and Reporting Standard (revised edition) using emissions factors from the UK government-produced 2021 conversion factor guidance. Reporting covers the financial year 2021 and reflects emissions from the leased, owned, and controlled assets for which we are directly responsible.

GHG emissions are broken down into three scopes. Scope 1 covers direct emissions from owned or controlled sources. Scope 2 covers indirect emissions from the generation of purchased electricity, steam, heating, and cooling consumed by the reporting company. Scope 3 includes all other indirect emissions that occur in a company's value chain. During 2021 we had offices in Brighton, London, and Swindon. The London and Swindon offices are out of scope for this report as the carbon reporting is the responsibility of the landlord for those buildings.

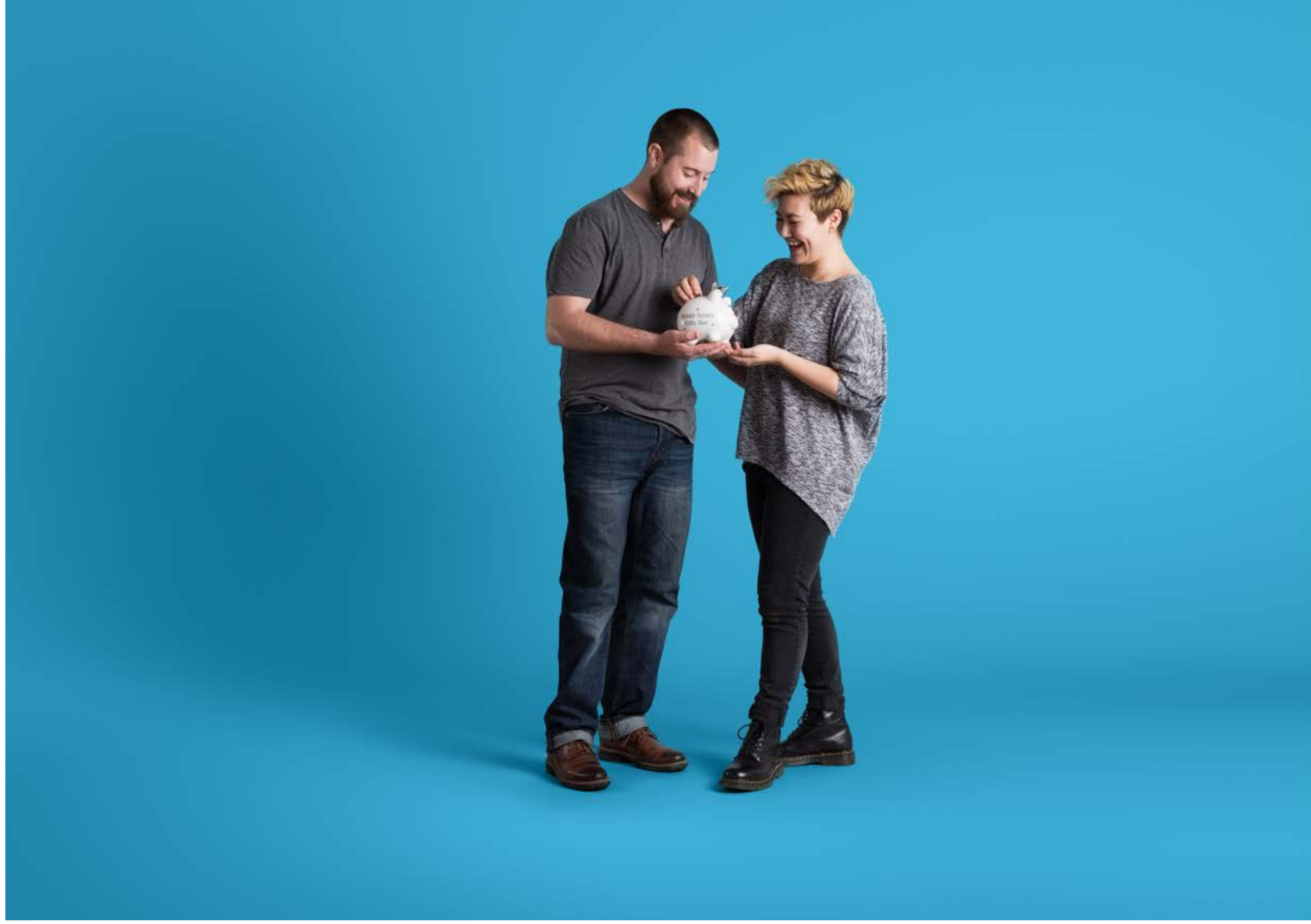
Emissions for previous years are retrospectively adjusted as and when more accurate data is provided.

Energy and emissions data

The increase in energy consumption and emissions since our last reporting period have been as a direct result of the government mandatory requirements to increase ventilation and the amount of fresh air in workplaces to reduce the risk of COVID-19 transmission.

Emissions[13]	2021	2020	% Change
Scope 1 (natural gas)	294.43	169.49	+73.7%
Scope 2 (electricity)	196.96	227.07	-13.3%
Scope 3 (transport grey fleet[14])	10.15	26.68	-62%
Scope 3 (electricity T&D – transmission & distribution)	17.43	Not required	
Total	**518.96**	**423.24**	**+22.6%**
Energy Consumption (MWh)[15]	2,387.4	1,812.8	31.7%

[13] tonnes (t) of carbon dioxide (CO2) equivalent (e). "Carbon dioxide equivalent" is a standard unit for counting greenhouse gas (GHG) emissions regardless of whether they're from carbon dioxide or another gas, such as methane.
[14] Personal cars used for business purposes.
[15] Includes energy usage related to scope 1 and scope 2 emissions and fuel from company car use.



Targets and performance

Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets (4c).

We have initiated a number of activities to reduce GHG scope emissions in line with our net zero by 2050 objective, in the forthcoming financial year which include:

1. Integrating ESG (environmental, social and governance) considerations into our operating model, investments, and supply chain.
2. Preparing for the energy savings opportunity scheme (ESOS) phase 3 compliance. This scheme is run by the UK Environment Agency and identifies cost-effective opportunities to reduce energy and carbon emissions.
3. Subletting several of our surplus office floors thereby significantly reducing our carbon usage per employee.
4. Appointment of a property specialist to carry out a survey and prepare recommendations highlighting investments to be made to the office over the long-term to meet future, more stringent environmental standards, and emissions targets.
5. Engaging colleagues in environmentally friendly practices to drive behavioural change in terms of energy, water and waste reduction, encouraging them to make changes at home and at work in line with our hybrid working plans.

The following measures are also used in our risk management processes:

- Climate VaR analysis provides a measure of the level of financial exposure to climate change over a scenario horizon and shows how our exposure generally reduces over the next 10 years as our business evolves and our climate friendly funds become a more significant proportion of our customers assets.
- 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. Continuous monitoring of these plans will be a key element of our risk management approach.

Corporate Governance

Corporate governance on pages 54 to 91 incorporates the following sections:

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. In line with the Board's succession plan, Christina will retire from the Board following the Society's Annual General Meeting on 21 June 2022 and subject to regulatory approval, the Board has appointed Steve Colsell to succeed her as Chair.

Christina 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 Senior Independent Director at Big Society Capital Limited and until 22 March 2022 was Chair of Standard Life Private Equity Trust plc. She is also a Trustee and the Chair of the Investment Committee at NESTA (National Endowment for Science, Technology and Arts), a Trustee of 3i Group Pension Plan and a non-executive director of Seraphim Space Trust PLC. Christina was awarded an OBE in the Queen's Birthday Honours in 2018 for her services to the economy.

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

Non-executive directors (continued)

Steve Colsell Non-Executive Director and Chair Designate

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. Subject to regulatory approval, Steve has been appointed Chair Designate to succeed Christina McComb when she retires from the Board following the Society's Annual General Meeting on 21 June 2022.

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 Starling Bank where he was Chair of the Risk Committee, St James' Place and esure Insurance Limited.

Steve 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 holds non-executive director roles with Close Brothers Group plc, 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 senior 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 qualified Chartered Accountant, a Certified Financial Risk Manager and has an MBA from the London Business School. Teddy is also a member of the Board of Trustees of St Mungo's, a charity that tackles homelessness and rebuilds lives.

Jim Islam Chief Finance Officer

Jim joined OneFamily as Chief Finance Officer designate in 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 member 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 & Glyn, and RBS Commercial Bank. She has also held positions at Santander, Lloyds and McKinsey. She holds an MBA from Harvard Business School. Nici was appointed as an independent non-executive director of the social housing provider Accent Housing in January 2022 and is a member of its Risk and Audit Committee.

Corporate governance report

Compliance with AFM Governance Code

OneFamily is committed to high standards of corporate governance. For the 2021 year-end we are continuing to report against the Corporate Governance Code for Mutual Insurers ('the Code') issued by the Association of Mutuals ('AFM'), whilst also continuing to adopt relevant best practice from the 2018 UK Corporate Governance Code.

Under the AFM's Code we are required to explain in our annual report how we have applied its six high-level principles in the way that is most appropriate for our 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; whilst the Board's annual strategy day, with interim checkpoints during the year, to enable any changes to the agreed strategy to be made at the appropriate time. This approach helps ensure that we 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 feature prominently in internal communications and on wall space in our Brighton office.	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, helping to ensure 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 and senior managers. The approach to assessing performance helps 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 senior employees, helping to ensure 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 ensure better 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 their 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. In 2020 Independent Audit noted that *'Chairing is identified as a particular strength'* and directors' feedback from the internally facilitated 2021 Board evaluation review confirmed that this continues to be the case.

The Chair, supported by the Company Secretary, leads an annual evaluation of the Board and its sub-committees, including the Risk and Audit Sub-Committees. 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, before presenting their findings to the Board for discussion.	Feedback from the 2021 internally facilitated review confirmed that, as observed in 2020's externally led review, the Board continues to have open, supportive and appropriately challenging discussions within a collaborative environment. In 2021 further enhancements to our governance arrangements in response to the external evaluation included the following; - Revising our Board paper template to clarify the purpose of each paper and to include guidance to help preparers of papers provide the right balance of detail. - Providing a regular summary of regulatory and industry publications and articles, as well as details of industry body webinars and other training opportunities for directors. - Holding an in-depth review of the emerging risk landscape, drawing on external insights, ahead of the Board's annual strategy day. - The Board's annual strategy day included contextual sessions from external presenters on social trends and implications, the shape of the political landscape, and the economic environment. These helped further directors' understanding of the strategic threats and opportunities.
A skills and competencies 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 the person specification when we make new appointments to the Board. It also helped identify areas which were included in training and development sessions for the Board and its sub-committees in 2021, helping to maintain their effectiveness.
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.	In 2021 our Board was 50% female and 50% male and was ethnically diverse. Independent Audit observed that *'the Board exhibits a good degree of diversity'* and this helps ensure different perspectives are considered, facilitating the quality of the Board's decision making and reducing the risk of group think.

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 before 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's delegated authority levels are also clearly documented. Induction programmes for new directors help ensure that there is clear understanding of responsibilities under S172 of the Companies Act.	The 2020 Board evaluation report noted that *'Directors generally have a good understanding of their duties'*. It was also reported 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'*. Feedback from 2021's review was consistent with this view.
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 helps ensure 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 enables the Board to be flexible in response to significant issues such as the COVID-19 pandemic.

Processes for managing the timely flow of decision-making information to the Board are in place, facilitated by forward agenda plans maintained by the secretariat function. A comprehensive management information summary is provided ahead of each Board meeting. This includes key information about the Society's capital position, capital generation from trading activities, business performance measures, and progress in progressing strategic objectives.	This approach has helped ensure that, as observed by Independent Audit in 2020, *'the right topics are covered and are given enough time'* at Board meetings. Feedback from the 2021 review confirmed that the Board continues to focus on the right issues and at the right level of detail. It also enables the non-executive directors to gain a balanced view of how the business is performing and to challenge the Executive regarding any areas of underperformance.

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 range and increased operational efficiency, whilst managing the organisation within our risk appetite.	There is a clear sense of purpose and strategic direction within the organisation, helping to ensure alignment of objectives and priorities, supported by appropriate allocation of resource. The vision of 'Inspiring Better Futures' helps ensure that the Society stays close to its values and mutual ethos, demonstrated through support for volunteering activities by our colleagues, well-being initiatives, and provision of grants and other support to charities and local community initiatives. This has enabled the business to continue to identify and implement operational efficiencies whilst maintaining high levels of customer service and developing our product lines in 2021.
The Board regularly reviews progress against strategic plans, to assess success of implementation and determine whether changes may be needed. This is supported by balanced scorecards of key metrics to enable early identification of any emerging issues.	Regular assessment of progress against strategic plans helps ensure that any required changes due to new external opportunities, emerging risks or other factors can be made promptly and in the best interest of members and other stakeholders. For material issues impacting our strategy, these assessments would consider the resilience of our business from a financial, capital and operational perspective and whether any tactical or strategic changes are required. This approach helps preserve long-term value, avoiding any 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 80, 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 transparent detail regarding executive reward, including 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 ensure alignment of interest 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 facilitate 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 a nominated non-executive director for colleague engagement, with Graham Lindsay currently fulfilling this role. During 2021, he attended all meetings of the employee consultative group, Talking Family, and provided updates to the Board on key themes and matters of concern. During 2020 and continuing into 2021, additional support has been provided to help ensure the safety and wellbeing of our staff in light of the pandemic. Staff have also been consulted about the proposed introduction of hybrid working arrangements and how we best use our office space to create collaborative work spaces.	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 1 Star (Very Good to Work For) rating was reported from an all staff survey carried out by Best Companies Survey in 2021. This provides assurance that our people feel well supported and motivated to work for OneFamily, leading to better outcomes for members and other stakeholders.
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 enable fair customer outcomes.
Our online forum OneFamily Voice has been used to seek members' views on issues of importance to them to help ensure better outcomes.	This has helped to shape development of our member benefits proposition so that it includes access to benefits of most relevance, including support for access to lifetime learning opportunities.
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 22-23.	

Attendance at board meetings

The table on page 73 shows the number of Board and standing sub-committee meetings held in 2021 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 are considered to be independent of OneFamily. 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.

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 18 to 23. 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, including a Best Companies survey, 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 2021, and up to the date of signing this Annual Report and Consolidated Financial Statements, the Board comprised:

Non-executive directors
Christina McComb (Chair)
Steve Colsell
Graham Lindsay (Vice Chair and Senior Independent Director)
Jackie Noakes
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
Sally Williams

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.

During 2021 a sub-group of the Nominations Sub-Committee, led by Graham Lindsay as Senior Independent Director, carried out a robust process to select a successor to Christina McComb as Board Chair in light of her planned retirement from the Board in 2022. This process included consideration of whether any external candidates should be considered, taking into account the views of an independent adviser, and led to a recommendation which the Board has approved to appoint Steve Colsell as Chair designate, subject to regulatory approval.

The Sub-Committee also considered longer-term succession planning for the Board and Executive team during 2021. It reviews whether all directors devote sufficient time to their duties and when appropriate makes recommendations to the Board regarding membership of its sub-committees.

As noted above, 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. 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

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

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

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

During 2021 the Sub-Committee used the services of EY and financial services market data from Willis Towers Watson, who are independent of OneFamily, to benchmark its remuneration arrangements and practices against those of comparative organisations and best practice.

Other areas of consideration of the Sub-Committee during 2021 included:

- Review of gender pay reporting results
- Review of incentive scheme principles and distribution of awards for employees throughout the organisation
- Review and approval of proposals for a one off out of cycle pay award for our lowest paid Customer Service Representatives

Details of the directors' remuneration can be found in the Directors' remuneration report on pages 80 to 91. 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
Sally Williams

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, all 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 helping to ensure that it receives accurate and timely information. The Sub-Committee normally meets at least four times a year and holds a private meeting with the Chief Risk Officer annually.

The key duties of the Sub-Committee are to:

- Review and approve OneFamily's risk management framework including risk assessment of significant strategic initiatives
- Recommend to the Board 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, and monitor its resourcing and independence

The key activities of the Sub-Committee in 2021 have been focused on:

- Development of operational resilience plans
- Recovery and resolution plans
- Risk management within the OneFamily modernisation programme of activities
- Impact of the COVID-19 pandemic including changed ways of working and the control environment
- Climate change risk management
- Liquidity management
- Risk management capability and culture
- 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 regulation.

Audit Sub-Committee

Sally Williams (Chair)
Steve Colsell
Graham Lindsay
Jackie Noakes

Sally Williams is a Chartered Accountant with significant relevant practical experience, as detailed on page 56. 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 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
- Monitor 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 and remuneration
- Review and approve the Annual Internal Audit Plan
- Consider and make recommendations to the Board in relation to the appointment, re-appointment and removal of 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

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 2021 Annual Report • Reviewed and challenged the actuarial methodology and assumptions for demographic and economic assumptions proposed by the Chief Actuary for both statutory and regulatory reporting, recommending them to the Board for approval • Reviewed and challenged areas where significant judgement or assumptions had been applied to the financial statements and Solvency II reporting • Reviewed, challenged and approved (or recommended to the Board for approval) policies relating to materiality and proportionality, reporting and disclosure and non-actuarial Solvency II methodologies • Reviewed and discussed reports from the external auditors on the progress and findings of the external audit process. This included consideration of both adjusted and unadjusted audit differences • The committee reviewed the final draft of the 2021 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 2021 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 a risk management framework. OneFamily operates a three lines of defence model to help ensure that its operational controls remain efficient and effective, its financial reporting is reliable and that the organisation remains compliant with applicable laws and regulations. The key activities of the Sub-Committee in the year which supported the three lines of defence model, were: • The review and challenge of the monitoring 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 potential internal control enhancements 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.

Area of responsibility	Actions undertaken by the Sub-Committee
External Audit	See the section on External audit below, for how the Sub-Committee discharged its responsibilities in respect of the effectiveness and reappointment of external auditors and the provision of non-audit services. In addition, the Sub-Committee held a private meeting with the external auditor during the year.
Client Assets (CASS)	The Sub-Committee: o Reviewed, challenged and approved the CASS policy and risk framework o Received regular reports in relation to client assets o Reviewed and challenged the findings of the external audit of CASS and monitored progress of the resolution of any issues identified

Significant issues considered by the Sub-Committee in the year

Area of focus	Audit Sub-Committee action in year	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. The Sub-Committee also concluded that it would be an appropriate point in the audit cycle to enter a tender process in 2022 prior to the mandatory ten-year timeline.
Accounting policy and methodology for calculating the long-term business provision	The Sub-Committee reviewed proposed changes to the accounting policy and methodology for calculating the long-term business provision for FRS reporting purposes from a Solvency I-based approach to a Solvency II-based approach.	The Sub-Committee was satisfied that it would be appropriate to make this change for 2021 year-end reporting. It noted that this will help align our external and internal reporting bases; improve the efficiency of year-end reporting; and reduce the operational risks associated with calculating the results.

External audit

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

The Sub-Committee considered the effectiveness of the external auditor through the reporting it received from the auditors, the engagement at Sub-Committee meetings and feedback from stakeholders involved in the 2020 year-end audit process. Opportunities to enhance the effectiveness of the year-end audit process were discussed during the year with both stakeholders and the auditors and these were incorporated into the 2021 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 provide assurance that the external audit firm is not engaged in other services which could compromise its independence as external auditor.

The Sub-Committee concluded that the external audit was effective for the 2021 year-end.

KPMG was appointed as auditor to OneFamily in 2015. Their maximum tenure, as set out in UK legislation, before the audit has to be subject to retender is ten years, with the maximum period for which they could serve being 20 years. During 2021 the Sub-Committee concluded that 2022 would be an appropriate time in the audit cycle prior to the completion of the maximum ten-year period to enter a tender process. The tender process, which KPMG were invited to take part in, includes consideration of firms from outside the traditional 'big four' and is ongoing as at the date of this Annual Report. A resolution to re-appoint KPMG or to appoint a different firm as auditor for 2022 will be submitted for members' approval at the 2022 Annual General Meeting in June.

UK legislation defines 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
Sally Williams

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 reviewing bonus declarations and considering whether 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 2021 the Sub-Committee focused on the run-off plans, an ad hoc bonus investigation in response to large positive investment returns from September 2020 to August 2021 (leading to new rates being introduced in October 2021), a review of policyholder communications, and a review of investment strategy for the with-profits funds.

Member & Customer Sub-Committee

Graham Lindsay (Chair)
Nici Audhlam-Gardiner
Philippa Herz – CRO
Christina McComb
Jackie Noakes
Teddy Nyahasha
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 charitable giving plans
- Receive and review updates against key indicators for membership, customer and charitable giving objectives including treating customers fairly and customer satisfaction reporting
- Gain assurance that appropriate governance, risk mitigation and controls are in place in relation to charitable giving, customer and member experience
- Review and approve the Product and Proposition framework
- Review any significant changes to existing or new products

During 2021 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 2021.

Attendance at meetings in 2021

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.

The Chief Risk Officer also attends all Board and sub-committee meetings with the exception of Nominations Sub-Committee meetings and any items at Remuneration Sub-Committee where there may be a conflict of interest. Other members of the Executive team also attend Board and sub-committee meetings regularly for items relevant to their areas of responsibility.

	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	7 (7)	3 (3)	3 (3)				4 (4)
Steve Colsell	7 (7)	3 (3)	3 (3)	5 (5)	4 (4)	4 (4)	
Graham Lindsay	7 (7)	3 (3)	3 (3)	5 (5)	4 (4)		4 (4)
Jackie Noakes	7 (7)	3 (3)		3 (5)	3 (4)	4 (4)	2 (3)
Sally Williams	7 (7)	3 (3)		5 (5)	4 (4)	4 (4)	4 (4)
Nici Audhlam-Gardiner	7 (7)						4 (4)
Jim Islam	7 (7)						
Teddy Nyahasha	7 (7)						4 (4)

Occasionally directors are unable to attend for the duration of a meeting. In such circumstances they are recorded as having been present if they attended for the majority of the substantive business considered.

When directors advise that they will be unable to attend meetings they are issued with the relevant papers and they submit questions and comments to the Chair for consideration at the meeting.

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. We encourage as many members as possible to attend and have their say in how the Society is run, and we also provide proxy postal and online voting arrangements for members unable to attend the meeting in person so that their views can also be taken into account. Due to the circumstances of COVID-19, our 2019 and 2020 AGMs were held virtually. Following the lower member participation in these two meetings and subject to any further restrictions on public meetings and the overarching need to ensure the safety and well-being of members and our employees, we intend to hold a physical format AGM in 2022. We will keep this under review in light of future developments in respect of the pandemic, Public Health England advice and ask that you monitor our website for any updates. The Member & Customer Sub-Committee enables 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 most of our unit-linked funds. The management of the non-linked assets in the non-profit and with-profits funds is delegated to Invesco Asset 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 actively monitor the stewardship activities of our investment managers through regular meetings and reporting. We challenge our investment managers to explain how they are voting against management or shareholders of companies in order to promote good stewardship.

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 belief that companies that successfully embrace Environmental, Social and Governance (ESG) principles are those that have strong, effective, independent boards and incorporate environmental and social sustainability into their long-term strategies. State Street Global Advisors approach stewardship by focussing on demonstrating and monitoring impact through proxy voting, thought leadership, and engagement with companies. This involves voting on items affecting shareholders at annual general meetings for all companies within their portfolios, regular meetings with companies to understand their approach to material ESG issues, encouraging them to improve practices as needed and sharing their perspectives on salient ESG issues with the market through letters, essays and media interviews.

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. In addition, areas of focus for voting policy are identified. These priorities reflect developing macroeconomic conditions, emerging ESG trends and feedback from their clients.

Throughout 2021 thematic focus areas included:

- Climate change
- Environmental management
- Gender diversity
- Racial and ethnic diversity
- Human capital management
- Board accountability

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 2026. 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 OneFamily's future prospects.

OneFamily adopts a prudent approach to strategy, with a focus on delivering value to our members whilst helping to ensure 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 2022-2026 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 and 2021, 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 40 to 45 and its long-term prospects in light of these. In addition, the continuing risks associated with the COVID-19 pandemic were 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 2026. This is considered an appropriate time horizon as it is the period used for business planning.

Christina McComb
Chair
30 March 2022

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 2021 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 in writing 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 55 to 57.

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 67 to 72). 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 help 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 2021, 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 Chief Finance Officer's report and Our strategy report on pages 18 to 23.

Principal risks faced by OneFamily, including liquidity risk, are summarised in the Risk management report on pages 38 to 46. 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 2022. The Board has considered the consequences of stock market volatility, 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 38 to 46.

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 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 38 to 46 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 2021 the Board was able to conclude, with reasonable assurance, that appropriate internal control and risk management systems were maintained throughout the year.

Employees

OneFamily employed an average of 486 full time equivalent employees during 2021 (2020: 452) at a total cost of £28.7 million (2020: £27.4 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. During the year, OneFamily invested in expanding its customers-facing sales team to grow new business activities. The Board believes that the continued learning and development of colleagues is essential, in order to help ensure effective management of OneFamily, and provision of appropriate service to customers. As at 31 December 2021 the gender mix at management levels was:

	2021		2020	
	Male	Female	Male	Female
Board of Directors	50%	50%	50%	50%
Senior managers and their direct reports	69%	31%	71%	29%

There is a statement on gender pay on page 31 and further information on our approach to diversity and inclusion can also be found on page 30.

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 2021 we resolved 99% of complaints within four weeks, up from 77% in 2020 when there was a period of increased business volumes, coinciding with the introduction of remote working due to the global pandemic. Although business volumes remained high in 2021, further improvements in complaint processes and other efficiencies were effective in reducing the time taken to resolve complaints.

Appointment of auditor

KPMG was appointed as external auditor to Engage Mutual Assurance in August 2012, and then following the merger between Engage Mutual Assurance and Family Investments, was appointed as external auditor to the Group in May 2015. The appointment was made after a tender process had taken place. The Audit Partner is Ben Priestley, who was appointed in 2017. As 2021 is Ben's fifth year as audit partner, he will be rotating off the audit and will be replaced by Kushan Tikkoo.

As at the date of this Annual Report an audit tender process is in train. A resolution to re-appoint KPMG as the external auditor or to appoint another audit firm to the Group will be proposed at the 2022 AGM.

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 Simmons of Willis Towers Watson was Chief Actuary to the Group throughout 2021 and Michael Green was With-Profits Actuary throughout 2021.

Charitable and political donations

Separate to the OneFamily Foundation, during the year OneFamily made charitable donations of £25,173 (2020: £6,000), to support predominantly local charities including Pride, Brighton Unemployed Centre Families Project and Age UK (Brighton and Hove), as well as donations to match those raised by colleagues to support charities of their choice. 2020's donations were to a local charity providing support for young homeless people and a national charity providing support at Christmas for children living in refuge homes. No political donations were made (2020: nil).

Directors' interests

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

Directors' insurance and indemnities

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

S. J. Allford

Simon Allford
Secretary
30 March 2022

Directors' remuneration report

Annual statement from the Remuneration Sub-Committee Chair

Foreword

Dear Members,

On behalf of the Board, and as the Chair of the Remuneration Sub-Committee, I am pleased to present the Directors' remuneration report for the year ending 31 December 2021. The report sets out the remuneration decisions made by the Sub-Committee over the year that have enabled us to attract, motivate and retain the very best talent. It also highlights how our strategy has successfully achieved profitable growth for our members during 2021 and will continue to drive our long-term business performance, purpose and values.

2021 performance

2021 was a positive year for OneFamily, when we made significant strides in delivering our corporate objectives. We are proud of the support that we have given to members and our local community through our Inspiring Better Futures vision, whilst also improving our adjusted operating profit through meeting increased customer needs and careful trimming of our costs. Our capital base has strengthened, and we have developed new business opportunities, underpinning future growth. Customers whose holdings are linked to stock markets have seen an increase in value and customer satisfaction has been maintained at a high level despite all the challenges faced.

Further details on all these achievements can be found elsewhere in the Annual Report, namely in the Chair's review, CEO and CFO reports, Inspiring Better Futures and Our strategy sections.

Salary and incentive considerations

In 2021, we took a cautious approach to reviewing base pay due to the economic challenges through 2020 and early 2021 caused largely by the pandemic. However, as a responsible organisation we aim to meet the Real Living Wage, therefore in response to changes announced in November by the Living Wage Foundation, we took the opportunity to review the base pay of our core colleagues in our customer services team. This was implemented at the end of 2021 ahead of, and in addition to, our normal pay review in March 2022.

The Sub-Committee has considered OneFamily's underlying performance in 2021 against key criteria including customer service feedback, financial and operational performance, cost control, colleague engagement and risk control, along with the pay and conditions of the wider workforce and the interventions taken by management to protect the health and wellbeing of our colleagues. Given factors such as OneFamily's continued strong capital position, adjusted operating profit and the progress that was made in 2021 to deliver the corporate objectives through the efforts of all colleagues, the Sub-Committee agreed to a pay and bonus award for both colleagues and executive directors.

The Sub-Committee has also determined that pay was aligned with our performance against our strategic goals, the impacts of external markets, market practice as well as our purpose, culture and values.

I should note that our variable remuneration schemes both for colleagues and executive directors have been developed with a long-term balance between financial and non-financial targets. The schemes also align with our corporate priorities, motivating colleagues to work towards these common goals.

Diversity & Inclusion focus

The Remuneration Sub-Committee continues to support diversity, equality, and inclusion initiatives. 2021 saw the continued development of our Diversity and Inclusion (D&I) Strategy, the aim being to enable a diverse workforce by building a culture that provides a safe working environment, promoting diversity of thinking with a sense of belonging, that supports our vision of Inspiring Better Futures.

The Sub-Committee continues to have oversight of, and supports, our commitment to the Women in Finance Charter to identify and develop our female talent and has oversight of our annual Gender Pay Gap reporting which we have continued to report. It was encouraging to note that our gender pay gap has reduced to 14.6%, down from 19% last year and is well below the national average. We will continue to work towards further reducing this and to increase the proportion of women in senior roles.

Remuneration Sub-Committee governance

The purpose of the Sub-Committee continues to be to ensure that our remuneration practices enable us to recruit, motivate and retain talented colleagues who will drive our long-term business performance, our strategy, purpose and values. Fellow members of the Sub-Committee in 2021 have been Christina McComb (Chair of the Board) and Steve Colsell (Chair of the Risk and With-Profits Sub-Committees and is a member of the Audit, Remuneration and Nominations Sub-Committees). We meet four times a year.

OneFamily continues to be committed to high standards of corporate governance. We are not subject to the disclosure requirements of listed companies, but as a member of the Association of Financial Mutuals (AFM), we report against the principles of the AFM Corporate Governance Code for Mutual Insurers (the Code). Although we are not required to meet the UK Corporate Governance Code, we continue to adopt best practice, in the interest of transparency, and report where appropriate.

The current Remuneration Policy (the Policy) remains consistent from last year and is disclosed in full on pages 88 to 91 and our remuneration principles are to embed an approach where high performers are recognised and differentiated through bonus awards and prioritised salary increases. We value diversity and ensure that all colleagues are treated equally. We continually develop our reward structures, to ensure that colleagues are paid fairly and proportionately, by regularly benchmarking roles within financial services.

Graham Lindsay
Chair of the Remuneration Sub-Committee
30 March 2022

Annual report on remuneration

Single total figure remuneration for each director

The remuneration of the directors of OneFamily for the year-ended 31 December 2021 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[1]		Total remuneration	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Executives										
Teddy Nyahasha	365	353	329	237	202	118	34	51	930	759
Jim Islam	275	266	191	114	81	–	30	32	577	412
Nici Audhlam-Gardiner	230	222	160	95	–	–	52	40	442	357
Non-Executives										
Christina McComb	115	111	–	–	–	–	–	–	115	111
Ian Buckley[2]	–	12	–	–	–	–	–	–	–	12
Steve Colsell	61	58	–	–	–	–	–	–	61	58
Graham Lindsay	75	73	–	–	–	–	–	–	75	73
Jackie Noakes[3]	48	34	–	–	–	–	–	–	48	34
Sally Williams	58	56	–	–	–	–	–	–	58	56
	1,227	1,185	680	446	283	118	116	123	2,306	1,872

[1] 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)

[2] Resigned 01/04/2020

[3] Appointed 01/04/2020

The variance in salary / fees for the executive and non-executive directors from 2020 to 2021 relates to a voluntary reduction in salary / fees in 2020. There was no change to pay for either our executive directors or non-executive directors during 2021.

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 short-term or long-term incentive scheme.

The short-term incentive plan (STIP), like the staff bonus scheme, is dependent on performance linked to achievement of key themes including financial performance, management of risk, customer feedback, impact on the broader organisation, supporting the transformation agenda and engaging with and supporting colleagues. Individual awards consider these key themes as well as individual performance and behaviours. The long-term incentive plan (LTIP) measures capital performance and retention, new business volumes, cost efficiency, customer satisfaction and colleague engagement. Awards are subject to a deferral period, such that a proportion is received in the March following the year end and the rest is paid over a two-year period, subject to the executive's performance.

Long-Term Incentive Scheme

	Value of deferred bonus as at 31 Dec 2020 £'000	Bonus paid during 2021 £'000	Bonus vested in 2021 to be paid in 2022 £'000	Bonus vested in 2021 but payment deferred to 2023/2024 £'000	Value of deferred bonus at 31 Dec 2021 £'000
Teddy Nyahasha Performance period					
2016-2018	22	(22)	–	–	–
2017-2019	60	(30)	–	–	30
2018-2020	118	(59)	–	–	59
2019-2021	–	–	101	101	202
	200	(111)	101	101	291
Jim Islam Performance period					
2019-2021	–	–	41	40	81
	–	–	41	40	81
Total	**200**	**(111)**	**142**	**141**	**372**

Short-Term Incentive Scheme

	Value of deferred bonus as at 31 Dec 2020 £'000	Bonus paid during 2021 £'000	Bonus vested in 2021 to be paid in 2022 £'000	Bonus vested in 2021 but payment deferred to 2023/2024 £'000	Value of deferred bonus at 31 Dec 2021 £'000
Teddy Nyahasha Performance period					
2018	31	(31)	–	–	–
2019	67	(33)	–	–	34
2020	237	(142)	–	–	95
2021	–	–	197	132	329
	335	(206)	197	132	458
Jim Islam Performance period					
2020	114	(68)	–	–	46
2021	–	–	115	76	191
	114	(68)	115	76	237
Nici Audhlam-Gardiner Performance period					
2020	95	(57)	–	–	38
2021	–	–	96	64	160
	95	(57)	96	64	198
Total	**544**	**(331)**	**408**	**272**	**893**

Total Bonuses Vested in the year		
	2021 £'000	2020 £'000
Teddy Nyahasha		
Long-Term Incentive Scheme	**202**	118
Short-Term Incentive Scheme	**329**	237
	531	355
Jim Islam		
Long-Term Incentive Scheme	**81**	–
Short-Term Incentive Scheme	**191**	114
	272	114
Nici Audhlam-Gardiner		
Long-Term Incentive Scheme	**–**	–
Short-Term Incentive Scheme	**160**	95
	160	95
Total Executive Directors Bonuses vested in year	**963**	564

Payments to past directors

During 2021 a long-term incentive bonus of £120,355 vested in relation to the period the former CEO was employed during the 2019-2021 performance period. The first payment will be made in 2022 and deferral payments in 2023 and 2024.

All other payments made to past directors in 2021 related to:

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

There were no payments for loss of office for executive directors.

CEO pay ratio and pay across the workforce

This is the third 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 of 31 December 2021. No element of pay was excluded from the calculation.

Pay ratio results

Total Remuneration:

Year	Method	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
2021	Option A	35:1	22:1	16:1
2020	Option A	29:1	21:1	13:1
2019	Option A	34:1	23:1	15:1

The increase in the 25th percentile ratio has been driven by a number of factors:

- The voluntary salary reduction by the CEO in 2020
- A reduction in the senior management team to drive efficiency, during 2021
- An increase in customer facing roles with the establishment of the new Swindon office, whose variable pay is reduced as reflects start dates during 2021 and not a full year.

Fixed pay:

Year	Method	25th Percentile Pay Ratio	Median Pay Ratio	75th Percentile Pay Ratio
2021	Option A	16:1	12:1	8:1
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 of 31 December 2021.
- 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 2021, sales incentive scheme, STIP 2021 Bonus and LTIP Bonus (2019-2021 scheme only). The figures do not factor in deductions for salary sacrifice schemes.

Chief Executive remuneration

The following table reflects the Chief Executive total remuneration, STIP awards for the performance period and the LTIP award, based on the three years ending in that performance period. Both the STIP and LTIP awards are noted as a percentage of the maximum award opportunity.

	2015 Simon Markey	2016 Simon Markey	2017 Simon Markey	2018 Simon Markey	2019 Simon Markey	2020 Teddy Nyahasha	2021 Teddy Nyahasha
Total remuneration (£'000)	1,169	1,240	1,268	1,303	1,206	759	930
STIP % of maximum awarded %	95%	90%	85%	74%	68%	86%	90%
LTIP % of maximum vesting %	100%	100%	100%	93%	92%	52%	79%

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, recognition and remuneration arrangements are important factors in achieving the business objectives and in driving behaviours that are consistent with our purpose, values and strategy.

OneFamily is proud to offer a valued total reward package that includes base pay, pension, employee benefits and a variable pay element in the form of 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 a maximum of 20% of base pay. The Sub-Committee believe 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 to ensure this effectiveness 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 44% of the net operating expenses.

Our underlying expenses have reduced, but both net operating expenses and staff costs in 2021 include the costs incurred in the year on modernising our business to drive long-term efficiency.

Relative importance of spend on pay	2021 £m	2020 £m	Change %
Net operating expenses	64.6	63.7	1.5%
Overall staff costs	28.7	27.4	4.7%

Non-executive director fees for 2022

The table below sets out the fee levels for non-executive director roles which are in place for 2022.

Non-executive directors' fees are set in the light of responsibilities and with reference to market competitive ranges, as advised by our Remuneration Committee advisor. However, they have not been increased for four years and are now out of line. We aim to address this gap over the next few years. In 2022 fees will increase by the same proportion as that allocated for colleague awards.

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	2022 £'000	2021 £'000
Chair	121	115
Base fee	50.5	48
Vice chair	63	60
Audit Sub-Committee chair	10	10
Risk Sub-Committee chair	10	10
Remuneration Sub-Committee chair	10	10
Member and Customer Sub-Committee chair	5	5
With-Profits Sub-Committee chair	2.5	2.5

Executive director minimum and maximum projected targets for 2022

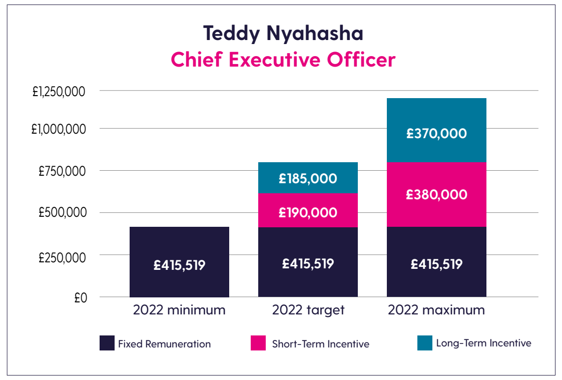
The charts illustrate the amounts that executive directors would be paid under different performance scenarios:

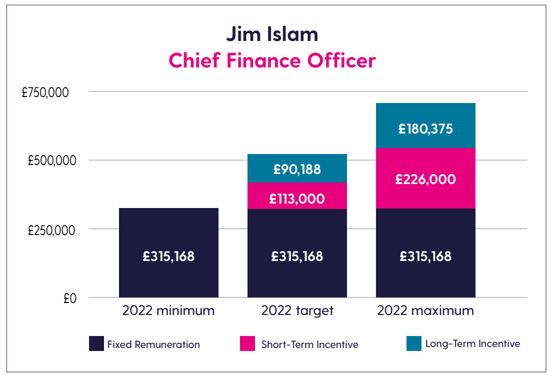
Minimum – fixed remuneration elements only (base salary, benefits and pension)

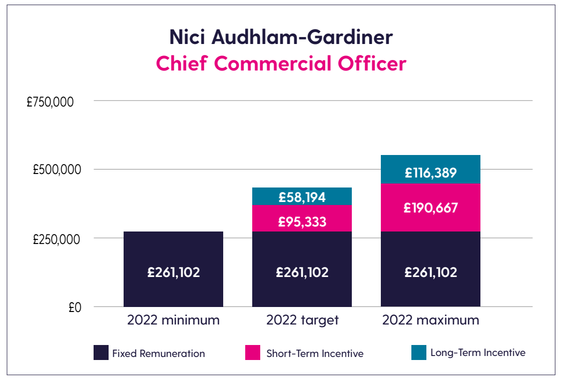
Target – assumes target levels of performance are achieved

Maximum – assumes that stretch levels of performance are achieved

Short term incentive plan (STIP) and long-term incentive plan (LTIP) incentives represent the target and maximum opportunities that may vest in the year.







External advisors

Throughout 2021 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. The Sub-Committee has appointed PwC as its independent external remuneration advisor with effect from 1 January 2022.

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 corporate 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. Details are set out above under incentive schemes on page 82.

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, taking into consideration increases applied to the broader colleague population, along 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 satisfaction, colleague engagement 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	Policy
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	Policy
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.
Termination payment	The Remuneration Sub-Committee has the discretion to determine an appropriate payment in lieu of notice for all or part of the contractual notice period for an executive director. Benefits, including outplacement, legal and fees and payments in accrued holiday, may be provided in connection to any termination payment.
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.

KPMG

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 2021 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 Statement of Financial Position, and the related notes, including the Statement of Accounting Policies.

In our opinion the financial statements:

— give a true and fair view of the state of affairs of the Group and of the Society as at 31 December 2021 and of the income and expenditure of the Group and of the Society for the year then ended;

— have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and

— have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

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 seven financial years ended 31 December 2021.

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

Overview		
Materiality: Group financial statements as a whole		£3.2m (2020:£3.1m) 1.8% (2020: 1.8%) of retained earnings and funds for future appropriations
Coverage		97% (2020: 96%) of Group retained earnings and funds for future appropriations
Key audit matters		**vs 2020**
Recurring risks	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 (unchanged from 2020) in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of long term business provision (£293 million; 2020: £311 million) *Refer to page 113 (accounting policy) and page 147-149 (financial disclosures)*	**Subjective valuation:** The Group and the Society has significant liabilities for long term insurance business representing 18.1% of the Group's and the Society's total liabilities based on 31 December 2021 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. Key assumptions include: • Demographic assumptions (base mortality, mortality improvement, and persistency) which are determined by reference to the Group's and the Society's own experience and expected changes to future mortality or policyholder behaviour; • The expected level of future expenses of protection products which is based on the expected future costs of administering the underlying policies; and • Level of prudence applied to the best estimate assumptions. **Data capture** There is a risk that incomplete and inaccurate data is used in the calculation of policyholder liabilities because the data does not transfer appropriately from the policyholder system to the extracts used in the actuarial models.	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 the Group's and the Society's valuation processes. We performed the detailed tests below rather than seeking to rely on the Group's and the Society'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. — **Assumption choice:** We challenged the Group's and the Society'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 practice, including consideration of the effects of COVID-19 on mortality; • Evaluating the analysis of the movements in the long-term business provision during the year, including consideration of whether the movements were in line with the impact of methodology and assumptions adopted; and • Comparing changes in assumption methodology to our expectations derived from market experience. — **Test of details:** We have performed detailed tests as follows: • **Historical comparison and benchmarking assumptions:** We evaluated the appropriateness of the demographic assumptions by comparing to the Group's and the Society's experience, wider industry practice and our own expectations derived from market experience. We critically assessed whether the expense assumptions reflect the expected future costs of administering the underlying policies, in particular assessing whether 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 2021 actual expenses against the 2021 budget.

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

	The risk	Our response
Valuation of long term business provision (£293 million; 2020: £311 million) *Refer to page 113 (accounting policy) and page 147-149 (financial disclosures)*	**Calculation error:** The Directors use 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. During the year, the Group and the Society has changed its accounting policy for the recognition and measurement of the long-term business provision to be based on a Solvency II best estimate plus prudence margin. This is a voluntary change in accounting policy in accordance with FRS 102.10. The Directors consider this change results in a more appropriate reflection of the financial performance and capital position of the Group and the Society and more closely aligns to other external and internal reporting. As a result of this change in accounting policy, prior year comparatives have been restated. There is a risk that the rationale for the accounting policy change is not appropriate. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the 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. This key audit matter, along with our corresponding response and findings, applies to both the Group and Society financial statements.	We evaluated the appropriateness of the prudence margin by comparing the prudence margin held by the Group and the Society as a proportion of its overall long term business provision (Best estimate liabilities plus prudence margin) against that of other comparable companies. • **Model testing:** Using our independent models, we have performed an independent calculation for a sample of policies across the reserves for all material products and compared to the balances recorded by the Directors. • **Data capture:** We have tested the data flows from policy administration systems to the actuarial valuation models by re-performing the data reconciliations. We then performed tests of details over the completeness and accuracy of the data used in the valuation of the long-term business provision. • **Accounting analysis:** We evaluated the appropriateness of the voluntary change in accounting policy for the recognition and measurement of the long-term business provision by assessing if the change in accounting policy provides reliable and more relevant information. • **Assessing transparency:** We considered whether the Group's and the Society'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 (2020 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 £3.2m (2020: £3.1m), determined with reference to a benchmark of retained earnings and Funds for Future Appropriations ("FFA") of which it represents 1.8% (2020: 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 £3.2m (2020: £3.0m), determined with reference to a benchmark of retained earnings and FFA, of which it represents 1.7% (2020: 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% (2020: 75%) of materiality for the financial statements as a whole, which equates to £2.4m (2020: £2.2m) for the Group and £2.4m (2020: £2.2m) 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 at the Group level exceeding £0.16m (2020: £0.15m) and £0.16m (2020:£0.15m) for Society, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 (2020: 12) reporting components, we subjected 3 (2020: 4) to full scope audit for Group purposes.

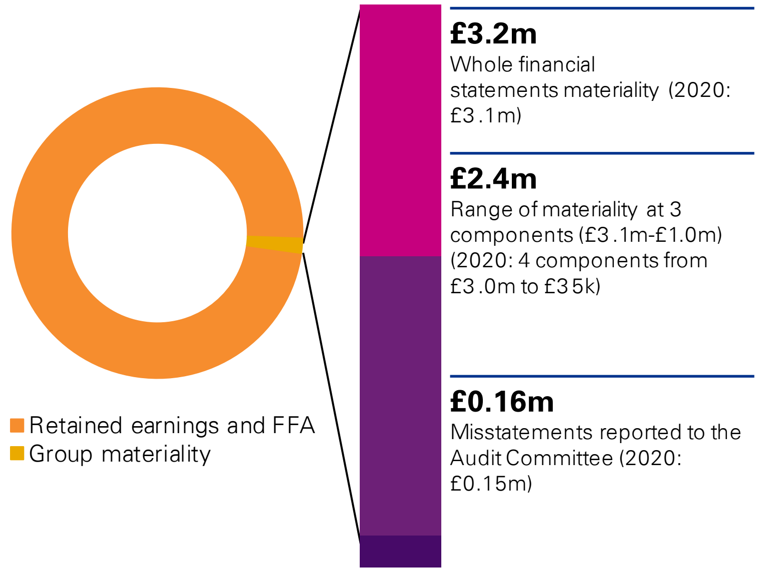
The components within the scope of our work accounted for the percentages illustrated opposite.

The remaining 2.8% of total group revenue, 0.5% of total group net assets and 2.8% of total group assets is represented by nine reporting components, none of which individually represented more than 10% of any of total group revenue, 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.

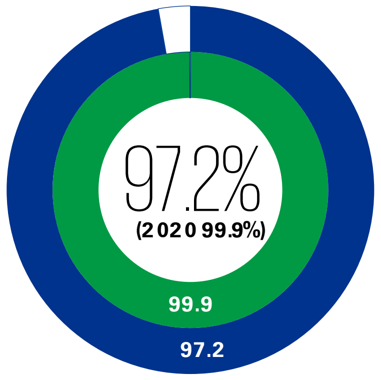
The Group instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the component materialities, which ranged from £3.1m to £1.0m (2020: £3.0m to £35k), having regard to the mix of size and risk profile across the components.

Retained earnings and FFA
£193.6m (2020: £173.5m)

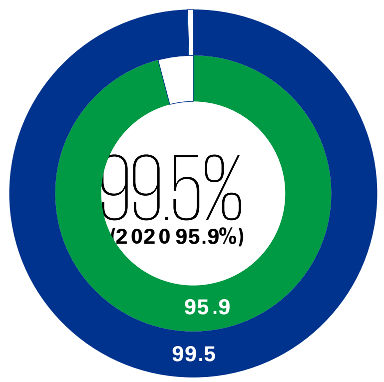
Group materiality
£3.2m (2020: £3.1m)



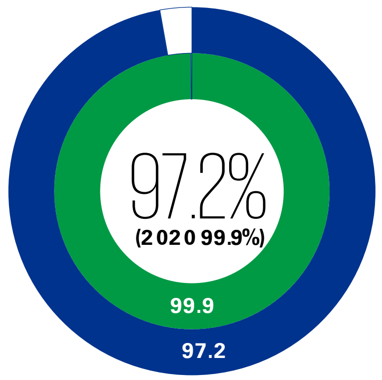
Group revenue



Group net assets



Group total assets



Full scope for group audit purposes 2021
Full scope for group audit purposes 2020
Residual components

The work on 2 of the 3 components was performed by component auditors and the rest, including the audit of the Society, was performed by the Group team (2020: work on all 4 components, including the audit of the Society, was performed by the Group team). The scope of the audit work performed was predominately substantive as we placed limited reliance upon the Company's internal control over financial reporting.

The Group team held meetings with the component auditors. At these meetings, the findings reported to the Group team were discussed more in detail, and any further work required by the Group team was then performed by the component auditors.

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 and the Society, 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 effect 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 and the Society's financial forecasts.

We considered whether the going concern disclosure in the statement of accounting policy section C of the notes to the financial statements gives a full and accurate description of the Director's 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 the Society's ability to continue as a going concern for the going concern period; and

— we found the going concern disclosure in the statement of accounting policies section C 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 misstatements 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 and the Society's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's and the Society'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, we perform procedures to address the risk of management override of controls, in particular the risk that Group and Society 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 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, unusual journal entry pairing with cash accounts, 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 and the Society'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 and the Society are 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 and the Society are subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including Friendly Society 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 and the Society are 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 and the Society'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 Friendly Society legislation recognising the financial and regulated nature of the Group's and the Society'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 76, 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
30 March 2022

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modern family finance

Consolidated Financial Statements 2021

Group and Society statement of income and expenditure accounts
for the year ended 31 December 2021

Technical account Long-term business	Notes	Group 2021 £'000	Group 2020 £'000 Restated*	Society 2021 £'000	Society 2020 £'000 Restated*
Earned premiums, net of reinsurance					
Gross premiums written	3	**37,076**	38,221	**37,076**	38,221
Outward reinsurance premiums	3	**(11,996)**	(11,792)	**(11,996)**	(11,792)
Investment income	4	**82,505**	48,708	**94,805**	58,808
Unrealised gains/(losses) on investments	4	**45,607**	(47,844)	**41,286**	(56,311)
Other technical income	11	**1,237**	5,783	**4,769**	8,951
Income from Group companies relating to recharged operating expenses		**-**	-	**37,240**	40,600
Claims incurred, net of reinsurance					
Gross claims incurred	5	**(39,759)**	(38,278)	**(39,759)**	(38,278)
Outward claims reinsurance	5	**16,687**	14,746	**16,687**	14,746
Change in long-term business provision, net of reinsurance	20	**11,536**	(19,599)	**11,536**	(19,599)
Change in gross liability for investment contracts	21	**(114,241)**	18,489	**(114,241)**	18,489
Other technical charges		**–**	(4,284)	**–**	(4,284)
Goodwill and intangibles amortisation	14, 20	**(3,001)**	(3,572)	**(3,001)**	(3,572)
Net operating expenses	7	**(22,183)**	(16,856)	**(59,423)**	(57,456)
Investment expenses and charges	4	**(1,833)**	(2,616)	**(1,833)**	(2,616)
Taxation credit	13	**547**	627	**547**	627
Transfer from the fund for future appropriations		**3,678**	2,935	**3,678**	2,935
Balance on the long-term business technical account		**5,860**	(15,332)	**17,371**	(10,531)

* for further details of restated amounts see note 29

The notes to the financial statements on pages 117 to 165 are an integral part of these financial statements.

Group and Society statement of income and expenditure accounts (continued) for the year ended 31 December 2021

Non-technical account	Notes	Group 2021 £'000	Group 2020 £'000 Restated*	Society 2021 £'000	Society 2020 £'000 Restated*
Balance on the long-term business technical account		**5,860**	(15,332)	**17,371**	(10,531)
Other income	12	**57,027**	51,662	**–**	–
Net operating expenses	7	**(42,445)**	(46,794)	**–**	–
Goodwill and intangibles amortisation	14	**(1,113)**	(861)	**–**	–
Excess of income over expenditure on ordinary activities before tax		**19,329**	(11,325)	**17,371**	(10,531)
Tax on excess of income over expenditure on ordinary activities	13	**(1,650)**	(287)	**–**	–
Excess of income over expenditure after tax		**17,679**	(11,612)	**17,371**	(10,531)

* for further details of restated amounts see note 29

The notes to the financial statements on pages 117 to 165 are an integral part of these financial statements.

Group and Society statement of other comprehensive income
for the year ended 31 December 2021

	Notes	Group 2021 £'000	Group 2020 £'000 Restated*	Society 2021 £'000	Society 2020 £'000 Restated*
Excess of income over expenditure after tax		**17,679**	(11,612)	**17,371**	(10,531)
Remeasurement of defined benefit scheme	26	**–**	(500)	**–**	(500)
Unrealised gain/(loss) on property revaluation		**–**	(1,574)	**346**	(426)
Total recognised gain/(loss) in the year	25	**17,679**	(13,686)	**17,717**	(11,457)

* for further details of restated amounts see note 29

Group and Society statement of changes in equity
for the year ended 31 December 2021

	Notes	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Retained earnings					
Reported at 1 January		**155,336**	157,455	**162,176**	162,066
Prior year adjustment	29	**–**	11,567	**–**	11,567
At 1 January (as restated)		**155,336**	169,022	**162,176**	173,633
Total recognised profit/(loss) in the year		**17,679**	(13,686)	**17,717**	(11,457)
As at 31 December		**173,015**	155,336	**179,893**	162,176

The notes to the financial statements on pages 117 to 165 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2021

Assets	Notes	Group 2021 £'000	Group 2020 £'000 Restated*	Society 2021 £'000	Society 2020 £'000 Restated*
Intangible assets					
Goodwill	14	**1,117**	1,403	**372**	487
Other intangible assets	14	**3,870**	3,075	**183**	321
Investments					
Investment in land and buildings	15	**7,187**	6,708	**8,997**	8,651
Investment in group undertakings	16	**–**	–	**21,897**	24,238
Non-linked financial investments	17	**250,422**	270,858	**250,422**	270,858
Assets held to cover linked liabilities	17	**1,131,449**	1,114,214	**1,131,449**	1,114,214
Debtors	17, 18	**21,274**	20,769	**21,838**	17,753
Reinsurers' share of technical provisions					
Long-term business provision	20	**122,963**	130,315	**122,963**	130,315
Other assets					
Tangible assets	19	**332**	518	**332**	512
Cash at bank	17	**77,611**	55,679	**65,422**	42,648
Prepayments and accrued income					
Accrued interest and rent		**2,123**	2,035	**711**	897
Other prepayments and accrued income		**2,686**	1,811	**2,134**	1,811
Total assets		**1,621,034**	1,607,385	**1,626,720**	1,612,705
Net pension asset	26	**–**	–	**–**	–
Total assets including the pension asset		**1,621,034**	1,607,385	**1,626,720**	1,612,705

* for further details of restated amounts see note 29

The notes to the financial statements on pages 117 to 165 are an integral part of these financial statements.

Group and Society statement of financial position (continued)
as at 31 December 2021

Liabilities	Notes	**Group 2021 £'000**	Group 2020 £'000 Restated*	**Society 2021 £'000**	Society 2020 £'000 Restated*
Retained earnings	25	**173,015**	155,336	**179,893**	162,176
Fund for future appropriations (FFA)	24	**20,596**	24,274	**20,596**	24,274
Technical provisions					
Long-term business provision	20	**265,174**	281,314	**265,174**	281,314
Claims outstanding	20	**7,538**	6,363	**7,538**	6,363
Technical provision for linked liabilities	21	**1,131,449**	1,114,214	**1,131,449**	1,114,214
Creditors					
Creditors arising out of insurance operations	22	**990**	991	**990**	991
Other creditors including taxation and social security	23	**4,646**	7,099	**5,324**	8,654
Accruals and deferred income		**17,626**	17,794	**15,756**	14,719
Total liabilities		**1,621,034**	1,607,385	**1,626,720**	1,612,705

* for further details of restated amounts see note 29

The notes to the financial statements on pages 117 to 165 are an integral part of these financial statements.

The financial statements were approved at a meeting of the Board of Directors on 30 March 2022 and signed on its behalf by:

Teddy Nyahasha
Chief Executive Officer

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 2021.

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.

As permitted under FRS103, the Society has changed its accounting policy for the measurement of technical provisions to be based on a Solvency II best estimate plus prudence methodology. This is a voluntary change in accounting policy in accordance with FRS 102.10. The Board consider this change results in a more appropriate reflection of the financial performance and capital position of the Society and more closely aligns to other external and internal management reporting. As a result of this change in accounting policy, prior year comparatives have been restated. For further details of this restatement see Note 29.

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. 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. Accrued 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 7 years
Beneficial contracts	4 years
Acquired funds under management	Up to 10 years

Amortisation is charged to net operating 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 (LTBP) 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 using the requirements of the current Solvency II (SII) regulatory regime adjusted to remove the SII risk margin and instead include a margin of prudence appropriate under applicable United Kingdom accounting standards.

The acquired present value in-force (PVIF) is being netted off against LTBP.

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).

P. 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.

Q. 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.

R. 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.

S. 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.

T. 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.

U. 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.

V. 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.

W. 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 2021

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 38.

a. Market risk – interest rate and equity

Interest rate risk

Interest rate risk is the risk that adverse interest rate changes will require reserves to be increased, and by a greater amount than the increase in the Group's corresponding assets. The Group seeks to manage this risk by investing in assets that closely match the expected benefit payments (a process known as asset-liability management).

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 2021 £'000**	Group 2020 £'000 Restated	**Society 2021 £'000**	Society 2020 £'000 Restated
Non-linked financial investments subject to credit risk	**101,963**	91,559	**101,963**	91,559
Debtors	**21,270**	20,769	**21,834**	17,753
Cash at bank	**77,611**	55,679	**65,422**	42,648
Reinsurers share of technical provisions	**122,963**	130,315	**122,963**	130,315
Total assets bearing credit risk	**323,807**	298,322	**312,182**	282,275
Debt and other assets rated as:				
UK government	**40,567**	55,506	**40,498**	55,437
A rated and above	**244,334**	209,292	**226,181**	190,195
B rated – BBB	**26,907**	17,850	**26,907**	17,850
Not rated	**11,999**	15,674	**18,596**	18,793
Total assets bearing credit risk	**323,807**	298,322	**312,182**	282,275

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 2021					
Long-term business					
Non profit fund	**108,484**	**(11,878)**	**(28,537)**	**6,790**	**142,110**
With-profits fund 1	**43,050**	**7,247**	**17,745**	**17,182**	**875**
With-profits fund 2	**31,571**	**4,301**	**11,939**	**11,536**	**3,795**
Total	**183,105**	**(330)**	**1,147**	**35,508**	**146,780**
As at 31 December 2020 – Restated					
Long-term business					
Non profit fund	99,828	(11,728)	(29,648)	1,490	139,714
With-profits fund 1	41,386	8,243	18,207	13,970	966
With-profits fund 2	35,120	5,447	13,688	12,545	3,440
Total	176,334	1,962	2,247	28,005	144,120

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 £1,131,449k (2020: £1,114,214k) 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.

1. Management of financial and insurance risk (continued)

An analysis of the expected maturity periods of the other liabilities is set out below.

	Total £'000	Within 1 year £'000	1–5 years £'000	5–15 years £'000	More than 15 years £'000
As at 31 December 2021					
Other liabilities					
Claims outstanding	**7,538**	**7,538**	**–**	**–**	**–**
Creditors arising out of insurance operations	**990**	**990**	**–**	**–**	**–**
Other creditors including taxation and social security	**4,646**	**4,646**	**–**	**–**	**–**
Accruals and deferred income	**17,626**	**15,695**	**1,931**	**–**	**–**
Total	**30,800**	**28,869**	**1,931**	**–**	**–**
As at 31 December 2020					
Other liabilities					
Claims outstanding	**6,363**	**6,363**	**–**	**–**	**–**
Creditors arising out of insurance operations	**991**	**991**	**–**	**–**	**–**
Other creditors including taxation and social security	**7,099**	**7,099**	**–**	**–**	**–**
Accruals and deferred income	**17,794**	**15,977**	**1,817**	**–**	**–**
Total	32,247	30,430	1,817	–	–

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 best-estimate 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.

f. Expense risk

When calculating the value of the policyholder liabilities a best-estimate allowance is made for future maintenance 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.

1. Management of financial and insurance risk (continued)

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 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 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.

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 2021.

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

1. Management of financial and insurance risk (continued)

Funding of subsidiary undertakings

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

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

Restrictions on available capital resources

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

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

Guarantees

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

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

j. Sensitivities

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

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

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

1. Management of financial and insurance risk (continued)

2021	Mortality		Lapse		Expenses		Fixed Interest Yield		Equities/ Property	
	10% £'000	-10% £'000	10% £'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	(7,715)	9,115	(2,530)	2,663	2,506	(2,495)	(6,374)	6,782	–	–
With-profits fund 1	4	(4)	(48)	51	340	(340)	(385)	405	810	(738)
With-profits fund 2	(58)	61	(33)	34	–	–	(344)	359	926	(907)
Change in LTBP	(7,769)	9,172	(2,611)	2,748	2,846	(2,835)	(7,103)	7,546	1,736	(1,645)
Impact on asset valuations										
Fund										
Non profit fund	–	–	–	–	–	–	(3,514)	3,689	3,848	(3,848)
With-profits fund 1	–	–	–	–	–	–	(392)	407	1,079	(1,079)
With-profits fund 2	–	–	–	–	–	–	(472)	489	1,110	(1,110)
Change in asset valuations	–	–	–	–	–	–	(4,378)	4,585	6,037	(6,037)
Impact on retained earnings and the FFA										
Retained earnings (non-profit fund)	7,715	(9,115)	2,530	(2,663)	(2,506)	2,495	2,860	(3,093)	3,848	(3,848)
FFA (with-profits funds)	54	(57)	81	(85)	(340)	340	(135)	132	453	(544)

The non-profit mortality assumptions impact both annuity and non-annuity business. The 10% increase in mortality shows the impact of increasing mortality rates across both annuity and non-annuity business to 110% of the expected rate. The 10% fall in mortality sensitivity shows the impact of reducing mortality rates on both annuity and non-annuity business to 90% 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.

1. Management of financial and insurance risk (continued)

2020 – Restated	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	(3,957)	5,336	(2,246)	2,579	(2,579)	(6,302)	7,189	–	–
With-profits fund 1	2	(4)	–	35	(35)	(307)	307	(463)	463
With-profits fund 2	(9)	22	–	–	–	(319)	319	(897)	897
Change in LTBP	(3,964)	5,354	(2,246)	2,614	(2,614)	(6,928)	7,815	(1,360)	1,360
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)	3,957	(5,336)	2,246	(2,579)	2,579	2,112	(2,788)	3,335	(3,335)
FFA (with-profits funds)	7	(18)	–	(35)	35	(233)	233	3,685	(3,685)

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 2021 except in relation to the model used to derive the discount rate assumption for valuing the Group's defined benefit pension schemes. Please see note 26 for more information.

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 assumptions are considered and approved by the Board having sought appropriate guidance from the Chief Actuary. 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 mortality rate is based on publicly available mortality tables for the UK. COVID-19 has caused a short-term increase in deaths in the UK but the excess deaths to date have not generally had a material impact on UK pension scheme liabilities. The future impact of COVID-19 on long term mortality improvements is currently uncertain with potential adverse implications of delayed medical interventions and 'long COVID' along with potential positive implications if the surviving population is less 'frail' or the pandemic causes improved healthcare initiatives and lifestyle changes. Overall, the Group believes there is insufficient evidence to require an explicit adjustment to the mortality assumption for COVID-19 at this time.

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.

2. Critical accounting estimates and judgements (continued)

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

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	2021 £'000	2020 £'000
Gross premiums written	**37,076**	38,221
Less: reinsurers' share	**(11,996)**	(11,792)
Net earned premiums – insurance business	**25,080**	26,429

Long-term business only includes premiums in respect of insurance business. Consideration received in respect of investment contracts of £14,474k (2020: £16,006k) 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 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Income from other investments	**27,226**	28,460	**39,526**	38,560
Interest income	**239**	442	**239**	442
Realised gains on investments	**55,040**	19,806	**55,040**	19,806
Total investment income	**82,505**	48,708	**94,805**	58,808
Unrealised gains/(losses) on investments	**45,607**	(47,844)	**41,286**	(56,311)
Investment management expenses	**(1,833)**	(2,616)	**(1,833)**	(2,616)
Total net investment return	**126,279**	(1,752)	**134,258**	(119)

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	2021 £'000	2020 £'000
Gross claims paid	**38,584**	38,307
Change in provision for claims outstanding at year-end	**1,175**	(29)
Gross claims incurred	**39,759**	38,278
Outward claims reinsurance	**(16,687)**	(14,746)
Total claims incurred, net of reinsurance	**23,072**	23,532

Policies defined as investment rather than insurance contracts are accounted for on a deposit basis. The claims analysis above excludes £111,480k (2020: £94,544k) 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 £3,984k (2020: £4,698k).

7. Net operating expenses

Technical account – long-term business	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000 Restated
Acquisition costs	**8,177**	6,975	**8,177**	6,975
Administrative expenses (including auditor's remuneration) relating to long-term business	**14,006**	9,881	**14,006**	9,881
Expenses recharged to Group companies	**-**	-	**37,240**	40,600
Net operating expenses	**22,183**	16,856	**59,423**	57,456
Non-technical account				
Acquisition costs	**10,018**	9,986	**–**	–
Administrative expenses	**32,427**	36,808	**–**	–
Net operating expenses	**42,445**	46,794	**–**	–
Total net operating expenses	**64,628**	63,650	**59,423**	57,456

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

Total commission paid by the Group on new business was £4,584k (2020: £4,994k).

8. Auditor's remuneration

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

Audit services	**Group 2021 £'000**	Group 2020 £'000	**Society 2021 £'000**	Society 2020 £'000
Fees payable to the Society's auditor for the audit of the annual accounts	**552**	395	**552**	395
Audit of the accounts of subsidiaries	**71**	68	**–**	–
Audit-related assurance services	**147**	122	**–**	–
Other assurance services	**25**	21	**25**	21
Total	**795**	606	**577**	416

Excluded from the numbers above is £93k (2020: £89k) incurred in connection with audits of the unit trusts and open ended investment company managed by a subsidiary company, of which £34k (2020: £39k) was borne by the Society.

9. Operating lease rentals

Group and Society	**2021 £'000**	2020 £'000
Operating lease amounts payable:		
– less than one year	**444**	180
– between one and five years	**1,625**	57
– over five years	**466**	–
Total	**2,535**	237
Payments made under operating leases (recognised as an expense)		
Hire of fixtures and fittings – rental under operating leases	**446**	177
Property rental expenses in the year	**154**	246
Total	**600**	423

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

10. Staff costs

Group and Society	**2021 £'000**	2020 £'000
Wages and salaries	**24,575**	23,384
Social security costs	**2,639**	2,492
Defined contribution pension costs	**1,494**	1,535
Total staff costs	**28,708**	27,411

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	**2021 FTE**	2020 FTE
Administration	**358**	360
Management	**38**	38
Marketing	**90**	54
Total number of staff	**486**	452

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 2021, the total remuneration paid to the directors was £2,306k (2020: £1,872k) and the total remuneration paid to the highest paid director was £930k (2020: £759k).

Key management compensation

Compensation to key management personnel (including executive directors) in the year was £3,365k (2020: £2,767k).

11. Other technical income

	Group 2021 £'000	Group 2020 £'000	**Society 2021 £'000**	Society 2020 £'000
Annual management rebates	**524**	359	**524**	359
Fee income	**701**	1,138	**701**	1,138
Mortgage interest receivable	**12**	39	**12**	39
Reassurance financing advance	**–**	4,247	**–**	4,247
Other income	**–**	–	**3,532**	3,168
Total other technical income	**1,237**	5,783	**4,769**	8,951

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

12. Other income

	Group 2021 £'000	Group 2020 £'000
Annual management charges	**53,212**	48,301
Lifetime mortgage income	**1,069**	1,375
Other operating income	**2,746**	1,986
Total other income	**57,027**	51,662

13. Taxation

Analysis of the tax charge for the year:

The tax charge for the Group is £1,103k (2020: tax credit £340k).

The applicable UK corporation tax rate is 19% (2020: 19%).

An increase in the UK corporation tax rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Group's future current tax charge accordingly.

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% (2020: 20%).

Tax charge/(credit)	**Group 2021 £'000**	Group 2020 £'000	**Society 2021 £'000**	Society 2020 £'000
Technical account	**(547)**	(627)	**(547)**	(627)
Non-technical account	**1,650**	287	**–**	–
Total tax charge/(credit)	**1,103**	(340)	**(547)**	(627)
Analysed as follows:				
Corporation tax				
Tax charge/(credit)	**1,103**	(627)	**(547)**	(627)
Deferred tax				
Timing differences, origination and reversal	**–**	287	**–**	–
Total tax charge/(credit)	**1,103**	(340)	**(547)**	(627)

At 31 December 2021, the Group did not hold any provisions for uncertain tax positions.

13. Taxation (continued)

Reconciliation of current year tax charge	Group 2021 £'000	Group 2020 £'000 Restated	Society 2021 £'000	Society 2020 £'000 Restated
Excess of income over expenditure	**19,329**	(11,325)	**17,371**	(10,531)
Tax on result (2021: 19%, 2020: 19%)	**3,673**	(2,152)	**3,300**	(2,001)
Factors affecting tax charge:				
Accounting result not subject to tax	**(1,682)**	2,464	**(3,300)**	2,001
Items taxed on a different basis	**(2)**	3	**–**	–
Adjustments in respect of prior periods	**–**	193	**–**	–
Utilisation of unrecognised losses	**(339)**	(221)	**–**	–
Tax on excess of income over expenditure on ordinary activities	**1,650**	287	**–**	–

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

The Group recognises a net deferred tax liability of nil. This comprises £392k (2020: £530k) deferred tax liability in relation to net unrealised capital gains which is fully offset by a deferred tax asset in relation to deductible expenses carried forward.

The Society recognises a net deferred tax liability of nil. This comprises £754k (2020: £919k) deferred tax liability in relation to net unrealised capital gains which is fully offset by a deferred tax asset in relation to deductible expenses carried forward.

The Group has total deductible expenses and tax losses carried forward of £32,034k (2020: £37,342k) (equivalent to a deferred tax asset of £6,376k (2020: £7,420k)). The Society has total deductible expenses and tax losses carried forward of £28,948k (2020: £32,544k) (equivalent to a deferred tax asset of £5,790k (2020: £6,509k)). It is considered unlikely that the remaining net deferred tax asset will be used and therefore it continues not to be recognised.

14. Goodwill and intangible assets

Group	Goodwill £'000	IT, systems & project development £'000	Acquired funds under management £'000	Total £'000
Cost				
At 1 January 2021	2,863	6,208	5,000	**14,071**
Additions	–	–	1,875	**1,875**
At 31 December 2021	**2,863**	**6,208**	**6,875**	**15,946**
Amortisation				
At 1 January 2021	1,460	5,887	2,246	**9,593**
Provided in the year	286	138	942	**1,366**
At 31 December 2021	**1,746**	**6,025**	**3,188**	**10,959**
Net book value at 31 December 2021	**1,117**	**183**	**3,687**	**4,987**
Net book value at 31 December 2020	1,403	321	2,754	4,478

In 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.

14. Goodwill and intangible assets (continued)

Society	Goodwill £'000	IT, systems & project development £'000	Total £'000
Cost			
At 1 January 2021	1,147	1,371	**2,518**
At 31 December 2021	**1,147**	**1,371**	**2,518**
Amortisation			
At 1 January 2021	660	1,050	**1,710**
Provided in the year	115	138	**253**
At 31 December 2021	**775**	**1,188**	**1,963**
Net book value at 31 December 2021	**372**	**183**	**555**
Net book value at 31 December 2020	487	321	808

15. Land and buildings

Group	Current value investment £'000	Total £'000	Historical cost investment £'000	Total £'000
At 1 January 2021	6,708	6,708	6,887	6,887
Revaluation/fair value adjustment	479	479	–	–
Balance at 31 December 2021	**7,187**	**7,187**	**6,887**	**6,887**
Group				
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

The revaluation surplus of £479k in 2021 has been recognised in the income statement as it reverses revaluation deficits previously taken there.

15. Land and buildings (continued)

Of the revaluation deficit of £2,369k in 2020, £1,574k was recognised in the statement of other comprehensive income as it reversed revaluation surpluses previously taken there, 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 2021	8,651	8,651	6,887	6,887
Revaluation/fair value adjustment	346	346	–	–
Balance at 31 December 2021	**8,997**	**8,997**	**6,887**	**6,887**
Society				
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

The revaluation surplus of £346k in 2021 has been recognised in the statement of other comprehensive income.

The revaluation deficit of £426k in 2020 was recognised in the statement of other comprehensive income as it reversed revaluation surpluses previously taken there.

Land and buildings at 31 December 2021 relates to a freehold property held for own use in West Street, Brighton. A full external professional valuation of the property was carried out by G L Hearn, Chartered Surveyors at 31 December 2021. 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 2021 £'000**	Society 2020 £'000
Fair value at 1 January	**24,238**	21,336
Dividends paid to Society	**(12,300)**	(11,144)
Investments during year	**1,500**	6,000
Other fair value changes	**8,459**	8,046
Fair value as at 31 December	**21,897**	24,238

During 2021, the Society made investments of £1m into OneFamily Lifetime Mortgages Limited and £0.5m 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 2021 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 Funds Limited	Child Trust Fund management
Family Equity Plan Limited	Child Trust Fund management
Family Investment Management Limited	Fund management
Family PEP Managers Limited	ISA fund management
OneFamily Advice Limited	Financial advice services
OneFamily Foundation Limited	Individual and community grant funding
OneFamily Lifetime Mortgages Limited	Provider of mortgage products
EMFL Nominees Limited	Dormant
Family Assurance Staff Pension Scheme Trustees Limited	Dormant
Family Money Limited	Dormant
Family Nominees Limited	Dormant
Family.co.uk Limited	Dormant
FEPL Nominees Limited	Dormant
FPML Nominees Limited	Dormant

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:	**2021 £'000**	2020 £'000
Linked financial investments	**1,131,449**	1,114,214
Non-linked financial investments	**250,422**	270,858
Debtors	**21,274**	20,769
Cash at bank	**77,611**	55,679
Total Group financial investments	**1,480,756**	1,461,520
Financial liabilities		
Financial liabilities held at fair value through profit and loss	**1,131,449**	1,114,214
Financial liabilities held at amortised cost	**5,636**	8,090
Total Group financial liabilities	**1,137,085**	1,122,304

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 2021 £'000	Fair value 2020 £'000	Cost 2021 £'000	Cost 2020 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,194,146**	1,202,137	**882,526**	938,965
Debt securities and other fixed income securities	**105,342**	96,757	**93,533**	81,312
Share of investment property	**7,903**	7,599	**5,091**	5,091
Derivatives held at fair value through profit and loss	**–**	(12)	**–**	–
Financial assets held at fair value through profit and loss	**1,307,391**	1,306,481	**981,150**	1,025,368
Loans and receivables				
Loans secured by mortgage	**231**	384	**231**	384
Deposits with credit institutions	**149,653**	131,235	**149,653**	131,235
Accrued income and receivables	**23,481**	23,420	**23,481**	23,420
Loans and receivables	**173,365**	155,039	**173,365**	155,039
Total Group financial assets (excluding land & buildings)	**1,480,756**	1,461,520	**1,154,515**	1,180,407

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 2021 £'000	Non-linked fair value 2021 £'000	Total fair value 2021 £'000	Linked fair value 2020 £'000	Non-linked fair value 2020 £'000	Total fair value 2020 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,049,297**	**144,849**	**1,194,146**	1,028,420	173,717	1,202,137
Debt securities and other fixed income securities	**–**	**105,342**	**105,342**	–	96,757	96,757
Shares of investment property	**7,903**	**–**	**7,903**	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	**1,057,200**	**250,191**	**1,307,391**	1,036,007	270,474	1,306,481
Loans and receivables						
Loans secured by mortgage	**–**	**231**	**231**	–	384	384
Deposits with credit institutions	**72,042**	**77,611**	**149,653**	75,556	55,679	131,235
Accrued income and receivables	**2,207**	**21,274**	**23,481**	2,651	20,769	23,420
Loans and receivables	**74,249**	**99,116**	**173,365**	78,207	76,832	155,039
Total Group financial assets	**1,131,449**	**349,307**	**1,480,756**	1,114,214	347,306	1,461,520
Financial liabilities						
Financial liabilities held at fair value through profit and loss	**1,131,449**	**–**	**1,131,449**	1,114,214	–	1,114,214
Financial liabilities held at amortised cost	**–**	**5,636**	**5,636**	–	8,090	8,090
Total Group financial liabilities	**1,131,449**	**5,636**	**1,137,085**	1,114,214	8,090	1,122,304

17. Financial instruments (continued)

The financial investments held by the Society are valued as:	2021 £'000	2020 £'000
Linked financial investments	**1,131,449**	1,114,214
Non-linked financial investments	**250,422**	270,858
Debtors	**21,838**	17,753
Cash at bank	**65,422**	42,648
Total Society financial investments	**1,469,131**	1,445,473
Financial liabilities		
Financial liabilities held at fair value through profit and loss	**1,131,449**	1,114,214
Financial liabilities held at amortised cost	**6,314**	9,645
Total Society financial liabilities	**1,137,763**	1,123,859

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 2021 £'000	Fair value 2020 £'000	Cost 2021 £'000	Cost 2020 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,194,146**	1,202,137	**882,526**	938,965
Debt securities and other fixed income securities	**105,342**	96,757	**93,533**	81,312
Shares of investment property	**7,903**	7,599	**5,091**	5,091
Derivatives held at fair value through profit and loss	**–**	(12)	**–**	–
Financial assets held at fair value through profit and loss	**1,307,391**	1,306,481	**981,150**	1,025,368
Loans and receivables				
Loans secured by mortgage	**231**	384	**231**	384
Deposits with credit institutions	**137,464**	118,204	**137,464**	118,204
Accrued income and receivables	**24,045**	20,404	**24,045**	20,404
Loans and receivables	**161,740**	138,992	**161,740**	138,992
Total Society financial assets	**1,469,131**	1,445,473	**1,142,890**	1,164,360

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 2021 £'000	Non-linked fair value 2021 £'000	Total fair value 2021 £'000	Linked fair value 2020 £'000	Non-linked fair value 2020 £'000	Total fair value 2020 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,049,297**	**144,849**	**1,194,146**	1,028,420	173,717	1,202,137
Debt securities and other fixed income securities	**–**	**105,342**	**105,342**	–	96,757	96,757
Shares of investment property	**7,903**	**–**	**7,903**	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	**1,057,200**	**250,191**	**1,307,391**	1,036,007	270,474	1,306,481
Loans and receivables						
Loans secured by mortgage	**–**	**231**	**231**	–	384	384
Deposits with credit institutions	**72,042**	**65,422**	**137,464**	75,556	42,648	118,204
Accrued income and receivables	**2,207**	**21,838**	**24,045**	2,651	17,753	20,404
Loans and receivables	**74,249**	**87,491**	**161,740**	78,207	60,785	138,992
Total Society financial assets	**1,131,449**	**337,682**	**1,469,131**	1,114,214	331,259	1,445,473
Financial liabilities						
Financial liabilities held at fair value through profit and loss	**1,131,449**	**–**	**1,131,449**	1,114,214	–	1,114,214
Financial liabilities held at amortised cost	**–**	**6,314**	**6,314**	–	9,645	9,645
Total Society financial liabilities	**1,131,449**	**6,314**	**1,137,763**	1,114,214	9,645	1,123,859

17. Financial instruments (continued)

VALUATION METHODS – These are based on FRS 102 (section 34) disclosure requirements on the three levels indicated, see accounting policy J for details.

2021 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	**481,717**	**712,428**	**1**	**1,194,146**
Debt securities and other fixed income securities	**46,470**	**57,358**	**1,514**	**105,342**
Shares of investment property	**–**	**–**	**7,903**	**7,903**
Financial assets held at fair value through profit and loss	**528,187**	**769,786**	**9,418**	**1,307,391**
Financial liabilities held at fair value through profit and loss	**–**	**1,131,449**	**–**	**1,131,449**

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

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)

2021 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	**481,717**	**712,428**	**1**	**1,194,146**
Debt securities and other fixed income securities	**46,470**	**57,358**	**1,514**	**105,342**
Shares of investment property	**–**	**–**	**7,903**	**7,903**
Financial assets held at fair value through profit and loss	**528,187**	**769,786**	**9,418**	**1,307,391**
Financial liabilities held at fair value through profit and loss	**–**	**1,131,449**	**–**	**1,131,449**

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

18. Debtors

Group and Society	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Amounts owed from Group undertakings	–	–	11,011	7,198
Amounts owed from policyholders	482	478	482	478
Amounts owed from intermediaries	409	408	409	408
Debtors arising out of reinsurance operations	2,539	3,039	2,539	3,039
Other debtors	17,844	16,844	7,397	6,630
Total	**21,274**	20,769	**21,838**	17,753

Amounts owed from Group undertakings in the Society include £nil (2020: £nil) falling due after more than one year.

19. Tangible assets

Group	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost			
At 1 January 2021	793	1,171	1,964
Additions	92	–	92
At 31 December 2021	**885**	**1,171**	**2,056**
Depreciation			
At 1 January 2021	451	995	1,446
Provided in the year	102	176	278
At 31 December 2021	**553**	**1,171**	**1,724**
Net book value at 31 December 2021	**332**	**–**	**332**
Net book value at 31 December 2020	342	176	518

The charge for depreciation for the Group in the year ended 31 December 2021 was £278k (2020: £311k).

Depreciation is included in operating expenses.

19. Tangible assets (continued)

Society	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost			
At 1 January 2021	375	1,171	1,546
Additions	92	–	92
At 31 December 2021	**467**	**1,171**	**1,638**
Depreciation			
At 1 January 2021	39	995	1,034
Provided in the year	96	176	272
At 31 December 2021	**135**	**1,171**	**1,306**
Net book value at 31 December 2021	**332**	**–**	**332**
Net book value at 31 December 2020	336	176	512

The charge for depreciation for the Society in the year ended 31 December 2021 was £272k (2020: £273k).

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 2021 – Restated	311,723	(30,409)	(130,315)	6,363
Amortisation of PVIF	–	2,748	–	–
Movement in provision for outstanding claims	–	–	–	1,175
Change in long-term business provision	(18,888)	–	7,352	–
At 31 December 2021	**292,835**	**(27,661)**	**(122,963)**	**7,538**

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.

Allowance for prudence

Under FRS 102 the value of policyholder liabilities must be valued on a prudent basis. The approach taken to calculate the prudent value of liabilities uses a best-estimate of those liabilities plus a prudence margin. The prudence margin is calculated by considering the cost of holding capital against the Society's key demographic and expense risks.

Process for determining assumptions

The process used to determine any assumptions is intended to result in the best estimates of the most likely, or expected, outcome. The assumptions are set using internal and external information, combined with expert judgement and undergo robust challenge as part of the Group's governance process.

For insurance contracts the Group regularly considers whether the long-term business provision is reliable and adequate, and whether the assumptions are appropriate. The assumptions that are considered include the expected number and timing of deaths, other claims and investment returns, over the period of risk exposure.

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), with adjustments to reflect the Group's historic and expected future experience and considerations of external factors, such as the COVID-19 pandemic. 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 annuity business, the mortality assumptions have been updated to use the CMI's latest '16' series pension annuity in-payment tables, again with adjustments to reflect OneFamily's own experience. For the annuitants, improvements in future mortality are allowed for via the latest industry standard information published by the CMI.

20. Technical provisions (continued)

Discount rate and investment return – this is set to be the basic Solvency II risk-free interest rate curve, as prescribed and published by the PRA.

Expenses – these assumptions are determined from the results of an internal expenses investigation. 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.

Persistency – assumptions about the rate at which policyholders will stop paying premiums and lapse their policy are determined primarily based on actual experience.

With-Profits bonuses

The calculation of the LTBP uses policyholder guaranteed benefits as at the valuation date, including reversionary bonuses declared over the previous year. 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	**2021 £'000**	2020 £'000
At 1 January	**1,114,214**	1,211,241
Deposits received from policyholders	**14,474**	16,006
Withdrawals by policyholders	**(111,480)**	(94,544)
Annual management charges	**(11,486)**	(11,090)
Change in fair value of gross liabilities	**125,727**	(7,399)
At 31 December	**1,131,449**	1,114,214

22. Creditors arising out of insurance operations

Group and Society	2021 £'000	2020 £'000
Amounts owed in respect of reinsurance	**990**	991
Total	**990**	991

23. Other creditors including taxation and social security

	Group 2021 £'000	Group 2020 £'000	Society 2021 £'000	Society 2020 £'000
Amounts owed to group undertakings	**–**	–	**1,168**	1,997
Other taxes and social security costs	**696**	770	**610**	740
Other creditors	**3,950**	6,329	**3,546**	5,917
Total	**4,646**	7,099	**5,324**	8,654

All other creditors are payable within one year.

24. Fund for Future Appropriations

Group and Society	2021 £'000	2020 £'000 Restated
At 1 January	**24,274**	27,209
Transfers to the long-term business technical account	**(3,678)**	(2,935)
At 31 December	**20,596**	24,274

25. Retained earnings

	Group 2021 £'000	Group 2020 £'000 Restated	Society 2021 £'000	Society 2020 £'000 Restated
At 1 January	**155,336**	169,022	**162,176**	173,633
Recognised gains/(losses) in the year	**17,679**	(13,686)	**17,717**	(11,457)
At 31 December	**173,015**	155,336	**179,893**	162,176

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 2021 were £1,495k (2020: £1,530k).

Family Assurance Friendly Society Defined Benefit Scheme (the Family Scheme)

The Society operates a defined benefit pension scheme, the Family Assurance Staff Pension Scheme ("the Scheme"). The Scheme funds are administered by trustees and are independent of the Society's finances.

Contributions are paid to the Scheme in accordance with the recommendations of an independent actuary.

The defined benefit scheme closed to all further benefit accrual with effect from 31 December 2009. In its place the Society makes pension contributions to a defined contribution stakeholder pension scheme on behalf of 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 Scheme to hold assets equal to the value of the benefits earned by employees, based on a set of assumptions used for funding the 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 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 Scheme. The table also sets out, as at 31 December 2021 and 2020, 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).

FRS102 requires that the discount rate is set based on yields of high-quality corporate bonds at the balance sheet date. However, it does not specify the approach that should be taken to extrapolate current market rates along the yield curve when there are no suitable corporate bonds of sufficient duration. During the year the Group has taken actuarial advice and decided to change the method used to derive the discount rate assumption for valuing the Family Scheme's FRS102 liabilities. The method has been refined to better reflect corporate bond yield at longer durations. This change in methodology increases the single equivalent discount rate by approximately 0.15%pa. The impact of this change is a reduction in the value of the defined benefit obligation and scheme assets resulting in an increase in the surplus of the balance sheet liabilities by approximately £1.5m. This change has no effect on the net balance sheet asset at 31 December 2021 which remains restricted to £nil.

Under FRS102, a pension asset can only be recognised on the balance sheet to the extent that it is recoverable by the employer through reduced contributions for future pensionable service or refunds. Given that no refunds are expected and as no reductions in future service contributions are currently expected, the maximum asset that may be recognised is nil. 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	**2021**	2020
Retail prices index inflation	**3.30%**	2.85%
Consumer prices index inflation	**2.85%**	2.35%
Revaluation in deferment	**2.85%**	2.35%
Pension increases:		
- pre April 1997 pension	**0.00%**	0.00%
- post April 1997 pension	**3.15%/2.80%***	2.80%/2.35%*
- post April 2005 pension	**2.05%***	1.85%*
Salary growth	**N/A**	N/A
Discount rate	**1.95%**	1.25%
Life expectancy:		
- male aged 65 at the statement of financial position date	**22.1 years**	22.1 years
- male aged 65 in 2046 (25 years from the statement of financial position date)	**23.8 years**	23.8 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	**2021 £'000**	2020 £'000
Equities	**16,379**	13,973
Diversified growth/absolute return on funds	**5,313**	4,838
LDI portfolio (including liquidity fund)	**23,507**	23,770
Asset-backed securities	**5,839**	5,751
Buy-in policy	**11,817**	12,905
Cash	**90**	82
Other net assets	**(607)**	(357)
Total fair value of assets	**62,338**	60,962
Present value of defined benefit obligations	**(53,536)**	(56,942)
Pension surplus	**8,802**	4,020
Adjustment for asset limit	**(8,802)**	(4,020)
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	**2021 £'000**	2020 £'000
Opening defined benefit obligation	**56,942**	47,280
Interest on obligation on funds	**706**	977
Actuarial (gain)/loss	**(3,139)**	10,160
Benefits paid	**(973)**	(1,475)
Closing defined benefit obligation	**53,536**	56,942

26. Pension commitments (continued)

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

Family Scheme change in fair value	2021 £'000	2020 £'000
Opening value of scheme assets	**60,962**	54,600
Interest on scheme assets	**756**	1,135
Actuarial gain	**1,593**	6,302
Contributions by the employer	**–**	400
Benefits paid	**(973)**	(1,475)
Closing value of scheme assets	**62,338**	60,962

The actual return on the Family Scheme's assets over the year was a gain of £2,349k (2020: £7,437k gain).

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

Family Scheme change in value of asset limit	2021 £'000	2020 £'000
Opening asset limit	**(4,020)**	(7,320)
Net interest on asset limit	**(50)**	(158)
Change to asset limit	**(4,732)**	3,458
Closing asset limit	**(8,802)**	(4,020)

There are no amounts included within income and expenditure under FRS 102 (2020: £nil).

26. Pension commitments (continued)

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

Family Scheme change in comprehensive income	2021 £'000	2020 £'000
Experience gain on scheme assets	**1,593**	6,302
Experience (gain)/loss on scheme liabilities	**(1,010)**	574
Actuarial loss/(gain) due to the changes in assumptions of the DBO	**4,149**	(10,734)
Actuarial gains/(losses)	**4,732**	(3,858)
(Loss)/gain due to movement in the statement of financial position limitation	**(4,732)**	3,458
Loss recognised outside income and expenditure	**–**	(400)

Family Scheme sensitivity of defined benefit obligation to alternative assumptions as at 31 December 2021	Increase in surplus £'000
Discount rate – Effect of 1% increase	**1,000**
Inflation – Effect of 0.1% pa reduction	**700**
Smoothing parameter – Change from 7.5 to 7.0 in the CMI 2020 model	**300**
Long term impact of COVID-19 – Amend the weighting parameter from 0% to 10%	**200**

Updating the assumptions as described above could increase the FRS102 measure of the pension scheme surplus as noted, however this surplus would continue to be limited to £nil on the balance sheet.

Homeowners Friendly Society Defined Benefit Scheme (the Engage Scheme)

The Society operates a defined benefit pension scheme, the Homeowners Friendly Society Pension Scheme ("the Scheme"). The Scheme funds are administered by trustees and are independent of the Society's finances.

Contributions are paid to the Scheme in accordance with the recommendations of an independent actuary.

The defined benefit scheme closed to all further benefit accrual with effect from 31 December 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 Scheme are provided below in accordance with FRS102.

26. Pension commitments (continued)

The funding plan is for the Scheme to hold assets equal to the value of the benefits earned by employees, based on a set of assumptions used for funding the 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.

Our calculations are based on membership data as at 31 December 2019 provided by the LCP administration team for the formal valuation of the 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 Scheme. The table also sets out, as at 31 December 2021 and 2020, 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).

FRS102 requires that the discount rate is set based on yields of high-quality corporate bonds at the balance sheet date. However, it does not specify the approach that should be taken to extrapolate current market rates along the yield curve when there are no suitable corporate bonds of sufficient duration. During the year the Group has taken actuarial advice and decided to change the method used to derive the discount rate assumption for valuing the Engage Scheme's FRS102 liabilities. The method has been refined to better reflect corporate bond yield at longer durations. This change in methodology increases the single equivalent discount rate by approximately 0.15%pa. The impact of this change is a reduction in the value of the defined benefit obligation and scheme assets resulting in an increase in the surplus of the balance sheet liabilities by approximately £0.4m. This change has no effect on the net balance sheet asset at 31 December 2021 which remains restricted to £nil.

Under FRS102, a pension asset can only be recognised on the balance sheet to the extent that it is recoverable by the employer through reduced contributions for future pensionable service or refunds. Given that no refunds are expected and as no reductions in future service contributions are currently expected, the maximum asset that may be recognised is nil. The impact of this limit on the balance sheet, profit and loss, and the actuarial gains and losses entries are shown in the following figures.

26. Pension commitments (continued)

Engage Scheme assumptions	**2021**	2020
Retail prices index inflation	**3.30%**	2.85%
Consumer prices index inflation	**2.45%**	2.00%
Revaluation in deferment	**2.45%**	2.00%
Pension increases:		
- pre April 1997 pension (Homeowners Friendly Society Limited)	**0.00%**	0.00%
- post April 1997 pension (Homeowners Friendly Society Limited)	**3.15%**	2.80%
- post April 2005 pension (Homeowners Friendly Society Limited)	**2.10%**	1.95%
- pre April 1997 pension (UKCS)	**3.00%**	3.00%
- post April 1997 pension (UKCS)	**3.70%**	3.55%
- post April 2005 pension (UKCS)	**3.70%**	3.55%
Salary growth	**N/A**	N/A
Discount rate	**1.95%**	1.25%
Life expectancy:		
- male aged 60 at the statement of financial position	**27.2 years**	27.2 years
- male aged 60 in 2041 (20 years from balance sheet date)	**28.6 years**	28.7 years

Engage Scheme fair value of assets	**2021 £'000**	2020 £'000
Equities	**5,328**	4,541
Fixed interest gilts	**6,294**	6,773
Index linked gilts	**13,180**	12,615
Buy-in policy	**10,470**	11,624
Cash and net current assets	**(1,755)**	(1,979)
Other net assets	**155**	151
Total fair value of assets	**33,672**	33,725
Present value of defined benefit obligations	**(25,908)**	(27,732)
Pension surplus	**7,764**	5,993
Adjustment for asset limit	**(7,764)**	(5,993)
Recognised pension asset	**–**	–

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

26. Pension commitments (continued)

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

Engage Scheme change in present value	2021 £'000	2020 £'000
Opening defined benefit obligation	27,732	24,410
Interest on obligation on funds	343	506
Actuarial (gain)/loss	(1,551)	3,419
Benefits paid	(616)	(603)
Closing defined benefit obligation	25,908	27,732

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

Engage Scheme change in fair value	2021 £'000	2020 £'000
Opening value of scheme assets	33,725	30,432
Interest on scheme assets	418	634
Actuarial gain/(loss)	145	3,162
Contributions by the employer	–	100
Benefits paid	(616)	(603)
Closing value of scheme assets	33,672	33,725

The actual return on the Engage Scheme's assets over the year was a gain of £563k (2020: £3,796k gain).

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

Engage Scheme change in value of asset limit	2021 £'000	2020 £'000
Opening asset limit	(5,993)	(6,022)
Net interest on asset limit	(75)	(128)
Change to asset limit	(1,696)	157
Closing asset limit	(7,764)	(5,993)

There are no amounts included within income and expenditure under FRS 102 (2020: nil).

26. Pension commitments (continued)

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

Engage Scheme change in comprehensive income	2021 £'000	2020 £'000
Experience gain on scheme assets	145	3,162
Experience (loss)/gain on scheme liabilities	(341)	214
Actuarial gain/(loss) due to the changes in assumptions of the DBO	1,892	(3,633)
Actuarial gains/(losses)	1,696	(257)
(Loss)/gain due to movement in the statement of financial position limitation	(1,696)	157
Loss recognised outside income and expenditure	–	(100)

Engage Scheme sensitivity of defined benefit obligation to alternative assumptions as at 31 December 2021	Increase in surplus £'000
Discount rate – Effect of 1% increase	400
Inflation – Effect of 0.1% pa reduction	200
Smoothing parameter – Change from 7.5 to 7.0 in the CMI 2020 model	100
Long term impact of COVID-19 – Amend the weighting parameter from 0% to 10%	100

Updating the assumptions as described above could increase the FRS102 measure of the pension scheme surplus as noted, however this surplus would continue to be limited to £nil on the balance sheet.

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

Group Schemes change in comprehensive income	2021 £'000	2020 £'000
Loss outside the income and expenditure account for the Family Scheme	–	(400)
Loss outside the income and expenditure account for the Engage Scheme	–	(100)
Total scheme change in comprehensive income	–	(500)

27. Statement of information relating to the Chief Actuary

The Chief Actuary of the Group is Mr P Simmons of Willis Towers Watson plc. The following information has been provided, in accordance with Section 77 of the Friendly Societies Act 1992:

- Mr P Simmons was not a member of the Group at any time during 2021;
- No other member of his family was a member of the Group during 2021;
- Willis Towers Watson were paid fees for the year of £1,452k (2020: £1,691k) for the services of the Chief Actuary and other actuarial services.

28. Related party transactions

Transactions or balances between Group entities

Family Assurance Friendly Society Limited and its subsidiaries (collectively the Group) have a number of transactions between themselves all of which are undertaken in the normal course of business. As these accounts cover the Society and the Group, no transactions or balances between Group entities, which eliminate on consolidation, require disclosure in accordance with the exemption given in FRS 102.

No members of the Board of FAFSL or its key management had material transactions with any of the Group's related parties. No member of key management personnel, being any person having authority and responsibility for planning, directing or controlling the activities of the Society and Group, directly or indirectly, including any director (whether executive or otherwise) of the Society, nor their close family, had a material transaction with the Group.

The Society and Group had the following investment in Collective Investment Schemes managed by a subsidiary, Family Investment Management Limited, as at 31 December:

Related party transactions	**2021 £'000**	2020 £'000
Group and Society		
Family Asset Trust	**30,200**	29,169
Family Charities Ethical Trust – Accumulation Units	**19,249**	8,436
Family Balanced International Fund – Share Class C	**13,666**	10,018
Family Balanced International Fund – Share Class F	**607,228**	612,105
OneFamily Global Equity Fund – Share Class C	**63,000**	51,400
OneFamily Global Mixed Investment Fund – Share Class C	**42,210**	40,390
OneFamily Stockmarket 100 Trust	**27,935**	23,779
Total	**803,488**	775,297

28. Related party transactions (continued)

During 2021, 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	**2021 £'000**	**2021 Units**	2020 £'000	2020 Units
Group and Society				
Family Balanced International Fund – Share Class C	**2,420**	**1,423,247**	2,194	1,471,667
Family Balanced International Fund – Share Class F	**1,232**	**267,509**	13,491	3,120,365
Total	**3,652**		15,685	

29. Prior period adjustment

As permitted under FRS103, the Society has changed its accounting policy for the measurement of technical provisions to be based on a Solvency II best estimate plus prudence methodology. This is a voluntary change in accounting policy in accordance with FRS 102.10. The Board consider that this change results in a more appropriate reflection of the financial performance and capital position of the Society and more closely aligns to other external and internal management reporting. For further details of the calculation methodology see Note 20.

Details of the changes and the restatement of comparatives for the periods ended 31 December 2020 and 31 December 2019 are shown on the following pages.

29. Prior period adjustment (continued)

Group	Adjustment reference	2020 As previously reported £'000	2020 Adjustment £'000	2020 As restated £'000
Technical Account – Long Term Business				
Change in long-term business provision, net of reinsurance	1,2,3	(23,784)	4,185	**(19,599)**
Goodwill and intangibles amortisation	4	(2,673)	(899)	**(3,572)**
Transfer from/(to) the fund for future appropriations	2	6,146	(3,211)	**2,935**
Balance on the long-term business technical account	1,2,3,4	(15,407)	75	**(15,332)**
Non Technical Account				
Excess of expenditure over income on ordinary activities before tax	1,2,3,4	(11,400)	75	**(11,325)**
Excess of expenditure over income after tax	1,2,3,4	(11,687)	75	**(11,612)**
Statement of other comprehensive income				
Total recognised loss in the year	1,2,3,4	(13,761)	75	**(13,686)**
Statement of financial position				
Assets				
Reinsurers' share of technical provisions – Long-term business provision	3	118,766	11,549	**130,315**
Total assets	3	1,595,836	11,549	**1,607,385**
Total assets including the pension asset	3	1,595,836	11,549	**1,607,385**
Liabilities				
Retained earnings	1,3,4	143,694	11,642	**155,336**
Fund for future appropriations (FFA)	2	29,793	(5,519)	**24,274**
Technical provisions – Long-term business provision	1,2,4	275,888	5,426	**281,314**
Total liabilities	1,2,3,4	1,595,836	11,549	**1,607,385**

29. Prior period adjustment (continued)

Society	Adjustment reference	2020 As previously reported £'000	2020 Adjustment £'000	2020 As restated £'000
Technical Account – Long Term Business				
Change in long-term business provision, net of reinsurance	1,2,3	(23,784)	4,185	**(19,599)**
Goodwill and intangibles amortisation	4	(2,673)	(899)	**(3,572)**
Transfer from/(to) the fund for future appropriations	2	6,146	(3,211)	**2,935**
Balance on the long-term business technical account	1,2,3,4	(15,407)	75	**(15,332)**
Non Technical Account				
Excess of expenditure over income on ordinary activities before tax	1,2,3,4	(11,400)	75	**(11,325)**
Excess of expenditure over income after tax	1,2,3,4	(11,687)	75	**(11,612)**
Statement of other comprehensive income				
Total recognised loss in the year	1,2,3,4	(13,761)	75	**(13,686)**
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Assets				
Reinsurers' share of technical provisions – Long-term business provision	3	118,766	11,549	**130,315**
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Retained earnings	1,3,4	143,694	11,642	**155,336**
Fund for future appropriations (FFA)	2	29,793	(5,519)	**24,274**
Technical provisions – Long-term business provision	1,2,4	275,888	5,426	**281,314**
Total liabilities	1,2,3,4	1,595,836	11,549	**1,607,385**

Details of adjustments are given below:

1 Recalculation of technical provisions on a Solvency II best estimate plus prudence basis – Non-profit fund.
2 Recalculation of technical provisions on a Solvency II best estimate plus prudence basis – With-profits funds.
3 Recalculation of reinsurers share of technical provisions on a Solvency II best estimate plus prudence basis.
4 Recalculation of acquired PVIF to align to adjusted technical provisions.

29. Prior period adjustment (continued)

Group	Adjustment reference	2019 As previously reported £'000	2019 Adjustment £'000	2019 As restated £'000
Statement of financial position				
Assets				
Reinsurers' share of technical provisions – Long-term business provision	3	115,783	10,616	**126,399**
Total assets	3	1,687,189	10,616	**1,697,805**
Total assets including the pension asset	3	1,687,189	10,616	**1,697,805**
Liabilities				
Retained earnings	1,3,4	157,455	11,567	**169,022**
Fund for future appropriations (FFA)	2	35,939	(8,730)	**27,209**
Technical provisions – Long-term business provision	1,2,4	246,700	7,779	**254,479**
Total liabilities	1,2,3,4	1,687,189	10,616	**1,697,805**

29. Prior period adjustment (continued)

Society	Adjustment reference	2019 As previously reported £'000	2019 Adjustment £'000	2019 As restated £'000
Statement of financial position				
Assets				
Reinsurers' share of technical provisions – Long-term business provision	3	115,783	10,616	**126,399**
Total assets	3	1,690,066	10,616	**1,700,682**
Total assets including the pension asset	3	1,690,066	10,616	**1,700,682**
Liabilities				
Retained earnings	1,3,4	162,066	11,567	**173,633**
Fund for future appropriations (FFA)	2	35,939	(8,730)	**27,209**
Technical provisions – Long-term business provision	1,2,4	246,700	7,779	**254,479**
Total liabilities	1,2,3,4	1,690,066	10,616	**1,700,682**

Details of adjustments are given below:

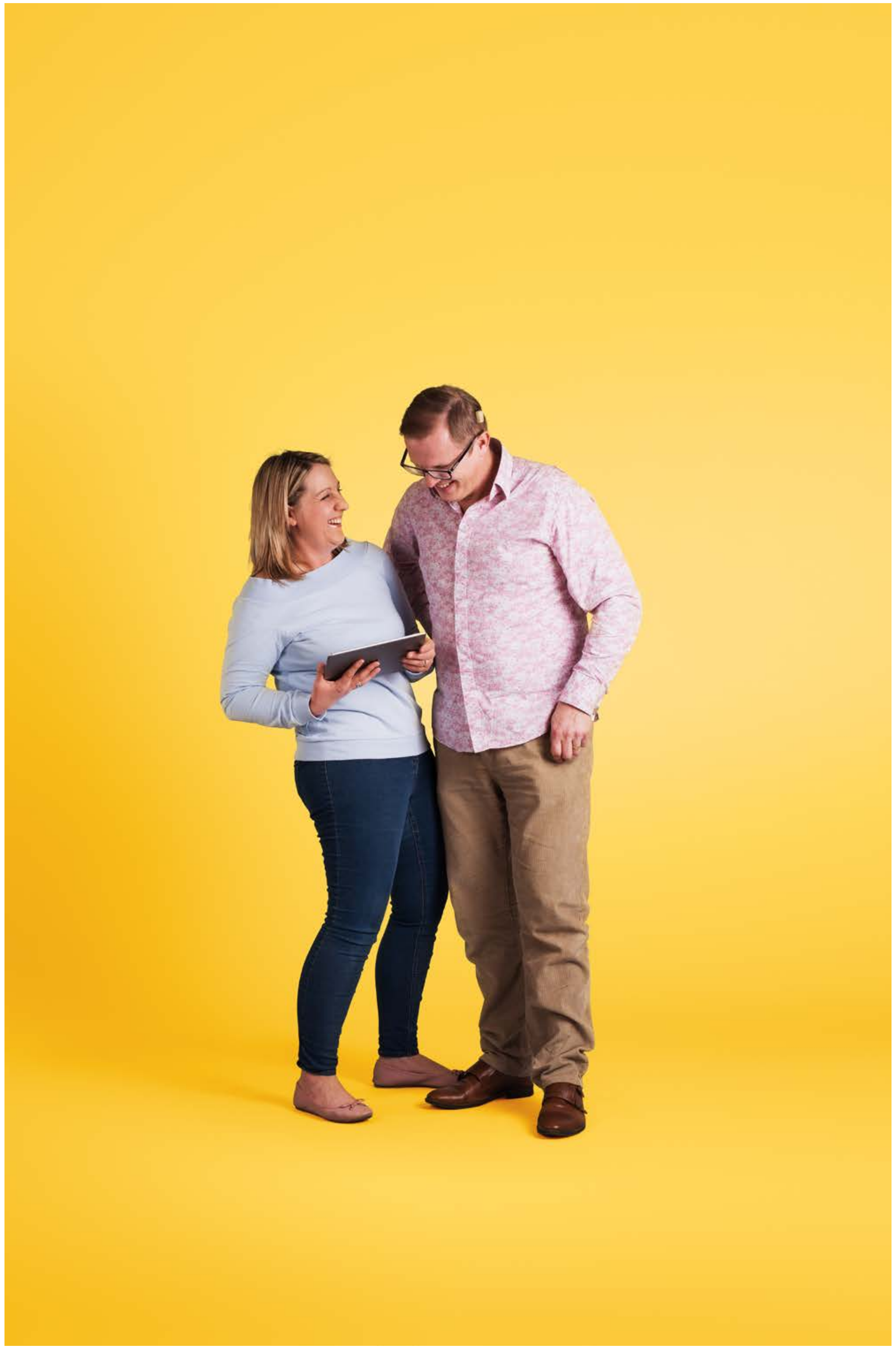
1 Recalculation of technical provisions on a Solvency II best estimate plus prudence basis – Non-profit fund.

2 Recalculation of technical provisions on a Solvency II best estimate plus prudence basis – With-profits funds.

3 Recalculation of reinsurers share of technical provisions on a Solvency II best estimate plus prudence basis.

4 Recalculation of acquired PVIF to align to adjusted technical provisions.

During the year the Society has reassessed the accounting presentation of the contractual obligations regarding operating expenses incurred on behalf of other Group companies and the subsequent recharges to those Group companies. As a result, the 2020 comparative of the Society's income and expenditure account now includes the gross up of expenses incurred and recharged of £40,600k with the associated income and expense being shown separately. This has had no effect on the Group or on the Society's Excess of income over expenditure after tax or the statement of financial position.



Glossary

Best Companies	Best Companies b-Heard survey is an employee survey designed to improve engagement levels in a business and, in doing so, create stronger teams, effective managers and a happier working life
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 using the requirements of the current Solvency II (SII) regulatory regime adjusted to remove the SII risk margin and include a margin of prudence appropriate under United Kingdom reporting standards

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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