OneFamily

Annual Report and Consolidated Financial Statements

31 December 2016

Contents

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Chairman
Christina McComb

Chairman's review

Overview

Welcome to our 2016 Report and Accounts which marks another significant year of progress for OneFamily Group (the Group). It is pleasing that our strategy to build a modern mutual is starting to bear fruit, particularly in relation to the capital strength of the business, the retained profits generated and our overall cost efficiency. I would also like to draw attention to our entry into the Lifetime Mortgage market, where we have brought new features to the market and already captured a significant market share. Simon Markey, our CEO, will discuss this in more detail later.

Market Commentary

Our members could be forgiven for thinking there is nothing more markets can throw at them after a notably eventful 2016.

What started with concerns about the slowdown in the Chinese economy was followed by a significant decline in oil prices. Of potentially greater significance to the UK was the result of the EU Referendum on 23 June, the impact of which remains difficult to predict. In the immediate aftermath, we experienced some market turmoil, although thankfully short lived.

The US presidential election brought further uncertainty but equities were remarkably resilient after the Trump victory as the wind of sentiment started to shift, with investors considering the likely boost to infrastructure and public spending which might drive US 'reflation'.

Remarkably, despite such a volatile year in geo-politics, all the main indices made gains during the year, with markets in the US and Japan hitting record highs. The UK market has recorded a healthy 16.8% gain (as measured by the FTSE All-Share Total Return Index), which in turn all contributes to delivering returns for our members with investment products.

The outlook for 2017 remains fragile. However, as a purely UK based financial services business, whilst we remain alert to the global economic position, the OneFamily Board will continue to prioritise a medium to long term investment strategy for the benefit of our members.

Making Mutuality Meaningful

As you know, one of the tenets of our modern mutual strategy is to give back a proportion of any profits we generate to initiatives with a social purpose. So I'm pleased to report that, in line with the success of our business, we've been able to donate considerable sums to the OneFamily Foundation.

In 2015, in the inaugural year of the OneFamily Foundation, we paid out £500k to deserving beneficiaries through a combination of Personal Grants and Community Awards. I'm proud to say that we surpassed that figure in 2016, awarding £846k through our Foundation to some tremendous causes, nominated by customers and voted for by their supporters. That's more than 18,000 individuals and projects we've been able to help in a substantial way. I'd refer interested readers of this Report and Accounts to the OneFamily website, where you can see some case studies of those we've been able to help, which really brings the story of our Foundation to life.

Having been in operation in its present guise for two years now, our intention is to review some aspects of the Foundation during 2017, to improve some of the logistics as well as to align it better to our strategy.

Our commitment to support deserving beneficiaries continues.

Board Changes

As our business continues to move forward, with the development of the Group's strategy and as we respond to an ever changing regulatory environment, it is important for us to ensure that our governance framework evolves with us.

During the year, we said farewell to two longstanding directors. Norman Riddell retired in July having joined the Board of Family Investments in 2006 as a non-executive director, becoming Vice-Chairman in 2010.

Keith Meeres also stood down from the Board and as Secretary to the Group, having originally joined in 1993 before being appointed to the Board in 1997.

In addition, John Adams and Karl Elliott stood down from the Board at the end of the year but remain key members of the senior executive team. I would like to take this opportunity to thank Norman, Keith, John and Karl, on behalf of the Board, for their long service and substantial contributions to our business.

I am pleased to announce that earlier in 2016, we welcomed Teddy Nyahasha to OneFamily as our new Chief Finance Officer. Teddy has worked within the mutual sector for the last few years with Royal London and brings 20 years of experience and leadership to our Finance team. In addition, we were fortunate to secure the appointment of two new non-executive directors, Graham Lindsay and Steve Colsell. Both bring considerable senior management and board room experience in the financial services sector, covering insurance, banking and lending.

With such changes, the Board is confident that our financial strength, ambition and our talented leadership team will enable us to continue to grow and succeed in future years.

Last but not least, I would like to take this opportunity to thank our Executive team and all our staff for their hard work during 2016 and their ongoing commitment to the future success of our Society.

Chairman
Christina McComb

Chief Executive
Simon Markey

Chief Executive's report

I am pleased to report that 2016 has been a year of strong performance and growth for OneFamily ("the Group"). We have ended the year with a strong capital position and increased profitability. Our strategy of expanding our customer base and diversifying our product range through mergers and acquisitions has continued to reap benefits and create value for our members.

We started the journey to transform our business four years ago, with the objective of becoming a 'modern mutual'. Our strategy was to increase the scale of our business through acquisitions in growing markets to make us more relevant to customers' future needs. The successful execution of this strategy has resulted in better financial performance with the long term value of the Group's business almost doubling since 2012.

2016 has been a challenging but successful year. Members will notice from the accompanying charts on pages 14 to 15 that in multiple areas our business has gone from strength to strength.

- We have experienced a net increase in the amount of money that our customers entrust to us (funds under management),
- Our retained earnings (net of reinvestment) have increased over the prior year, and
- The number of customers that we serve has grown.

I am satisfied with our performance in 2016 and confident in our ability to withstand any changes to the pace of growth, or unexpected economic shocks, in the immediate future.

Financial Highlights

2016 represents our first year of applying the new prudential regulatory framework for insurers called Solvency II (SII). Our capital position has remained strong in our first year operating under this new regime. Under Solvency II we calculate how much the value of our regulatory net assets exceeds the total capital that we are required to hold to ensure that we are able to meet our liabilities in an extreme event. This is referred to as our surplus regulatory capital, which for our non-profit fund at the end of 2016 amounted to £73.5m and this results in an unaudited estimated coverage ratio of 184%. The coverage ratio means that we have 1.8 times the amount of capital that the regulatory basis requires us to hold to protect the interests of our policyholders. This means that our members can be confident that the Society is well capitalised and by today's measures, more than adequately funded to meet its future financial commitments.

We have continued to focus on reducing costs and increasing the efficiency of our operations. We measure cost efficiency by expressing our operating expenses as a percentage of funds under management. This year, the underlying operating costs, which exclude costs for acquiring new business and exceptional expenses, stand at £26.7m, representing an improved operating efficiency ratio of 0.34% compared with 0.36% in 2015. This improvement is an indicator of a healthy business and we expect this ratio to continue to improve going forward.

2016 was also marked by an increase in our profitability and retained earnings which rose to £158.1m from £150.9m in 2015. On the longer term value of the business the actions we took in 2016 primarily around cost efficiency and the acquisition of the Child Trust Fund (CTF) portfolio should result in an improvement in our profits for future years.

Constantly looking for ways to improve our profitability and efficiency means we can maintain our strong capital position. This enables us to develop and bring new products to the market and improve the services we offer to you, our members, to help you reach your financial goals.

Notable Achievements

There have been many notable achievements this year, which have contributed to these results, but I will focus on three in particular:

1) **The completion of the integration project following the 2015 merger** – In 2016, we completed, on time and within budget, integration activities following the previous year's merger with Engage Mutual, resulting in considerable savings of £5.5m across both office and staff costs. This was achieved by consolidating our business into one central site in Brighton and closing our offices in Harrogate. We have also invested in our Brighton head office by modernising our building and infrastructure to support our future growth plans, and to create a more favourable environment for our staff to work in.

2) **Acquisition and transfer of a book of Child Trust Funds** – We completed the acquisition and transfer of an asset comprising a number of Child Trust Funds in November 2016, welcoming approximately 200,000 additional customers to our family. A transfer of so many customers over one weekend is not an insignificant project and I am happy to report that the whole exercise was executed seamlessly. The net result reinforces our historic leadership in this product line and brings our children's savings and investment book to 1.7 million plans.

3) **Expansion of our product range** – We broadened our product range through the acquisition of a Lifetime Mortgage business, Aldeburgh Chelsea Enterprises Ltd (ACE Ltd), to create OneFamily Lifetime Mortgages, which we launched in May 2016. Subsequently, we have originated £48m of lifetime mortgages.

OneFamily Lifetime Mortgages – In More Detail

We were pleased to acquire a start-up business called ACE, in April 2016, to facilitate our entry into the Lifetime Mortgage market. Lifetime Mortgage products (also known as equity release mortgages) are long-term loans secured on the property of the borrower which do not need to be repaid until the borrower dies or goes into long-term care. These products offer customers the ability to release in cash some of the equity contained in the value of their residential property without having to sell their home. We believe that the Lifetime Mortgage sector will continue to grow, given the trend of ageing populations, the amount of wealth locked up in UK properties and the financial challenges faced by those reaching or in retirement. As an area of family finance that is poorly served by the mainstream banks and lenders, we believe it represents an attractive business line and for some time has been an area of considerable interest to us.

Not content to follow the herd, we have worked hard to listen to the needs of both customers and mortgage intermediaries, launching a range of products with innovative features to the market, including a lowering of the headline interest rates associated with these products, as well as simplified early redemption charges.

The significance of an organisation such as OneFamily moving into a market sector where we haven't previously operated shouldn't be underestimated, but we knew that we got things right when within weeks of launch, we were writing significant levels of mortgages, operating as the 3rd biggest originator of new business in the market by the end of the year.

Our task for the remainder of 2016 was to consolidate and build upon those green shoots. When I look at Lifetime Mortgages and the 'at retirement' sector in general, with our skills, focus and mutual values, I am convinced we are well placed to lead and offer differentiated services. Our capabilities in this sector were further validated when, in the inaugural year of OneFamily Lifetime Mortgages, it was recognised as the 'best provider of product innovation' at the Equity Release Awards, sponsored by the Mortgage Solutions publication.

Given the wealth of opportunity in this area, we plan to expand our business by focusing on getting our products to a wider range of customers and on extending our product range. In 2017 we will launch more product variations including Lifetime Mortgages that allow the borrower to repay the interest during the lifetime of the loan. We will be working very hard to build on our positive start and unlock all the potential value in this exciting area.

Customer Satisfaction Measures

A key part of our strategy is to build a modern mutual that customers trust. Poor customer service can erode that trust and our wider reputation amongst our customers, target audience and key stakeholders. Therefore, we have enacted a series of initiatives that will allow us to evidence and measure customer satisfaction.

Unsurprisingly, given the rapid integration of two separate businesses, we have experienced some operational challenges. In particular, we experienced some backlogs in servicing claims on some of the Ex-Engage Mutual products in the first quarter of the year, which in turn led to a reduction in customer satisfaction. Clearly, such a situation wasn't acceptable and I'm pleased to report that we resolved the customer service issues swiftly. However, the events did make us question some of our measures, how we compare to benchmark organisations, and our over-reliance at the time on complaints data.

Therefore, we prioritised a sweeping set of changes within a Customer Strategy project in order to listen to more customers, so that we gain a more accurate picture of the service and experience we are providing. The changes we implemented range from surveying greater volumes of customers to get a more representative view of customer satisfaction, to more complex projects around mapping customer journeys to identify areas where we can improve our practices. This will enable us to quickly understand the underlying factors causing any customer dissatisfaction and address them effectively. I can reassure our customers that service will always remain a key priority for this business.

Investing In Our Business

Building upon the new business strategy, our Board has agreed a series of investment plans for 2017 which include developing our Information Technology (IT) infrastructure and utilising new technology to meet the demands of our growing business.

In the last decade, the world of investing has been revolutionised by new digital technologies, which have sometimes left OneFamily playing catch up. Our M&A activity and rapid growth has put further stress on our existing IT systems and created a need to update our IT functions and capabilities. Just having a good website is no longer enough. We need to capitalise on new technology throughout the product lifecycle, from inception through to maturity or claim. We now operate a number of legacy systems, some of which are increasingly becoming outdated. Our intention is to upgrade our IT function and systems to support the execution of our strategy to remove any IT capability bottlenecks which have an adverse impact on customer service or decision making.

We believe that Cloud technologies should be exploited to increase the speed at which solutions can be delivered. We will be implementing a number of initiatives to modernise our IT systems covering internal re-development, wholesale outsourcing as well as wholesale migration onto new IT platforms.

In summary, we know that an increasing number of customers prefer engaging with their insurer through digital channels. However, many of our products are not able to be accessed in this way. We are determined to join the digital market leaders in the industry. Customers today rightly expect fair charges on their products and the freedom to take control of their own finances at a time that suits them. Only the companies that can deliver digitally will thrive and we will start our journey to become a digital winner.

Final Thanks

I would like to take this opportunity to thank our fantastic employees and our Executive team for making 2016 such a successful year. I've been fortunate enough to have managed this business through significant change over the last four years and I've always been impressed by the hard work, dedication and professionalism shown by all employees.

Chief Executive
Simon Markey

Strategic report

OneFamily's vision is to become a modern mutual, helping families to meet the financial demands of modern life. We aim to provide good value products and excellent service for our members. We continuously evaluate our performance against these objectives by monitoring the performance of our products and obtaining feedback from our customers. Our members also expect us to thrive and grow in order to achieve economies of scale whilst maintaining prudent control over costs, maintaining adequate financial resources and complying with all relevant legislation and regulation.

Our strategy is based upon the five key principles that we consider to be the building blocks of the Group. Our performance against these principles plays an important role in the determination of future success and is monitored on an ongoing basis.

OneFamily strategic principles	How we have performed in 2016
1. Operate with a clear strategy and vision.	We updated our business strategy to give a greater emphasis to organic growth in the markets where we can add most value.
2. Focus on understanding our customers and offering products that match their needs.	We successfully entered the Lifetime Mortgages market and launched a range of innovative mortgage products. We now have a range of products that: - provides both cash and equity-based investment opportunities; - offers savings, investments and insurance-based protection products; and - offers lifetime mortgage arrangements.
3. Operate the business efficiently by streamlining costs and improving technological capabilities.	Our operating efficiency ratio (operating expenses as a percentage of customers' funds under management) improved from 0.36% in 2015 to 0.34% in 2016, indicating that we have incurred proportionately lower expenses.
4. Give back a proportion of our profits to the wider society.	We committed £846k to customers, their families and communities through the OneFamily Foundation, taking us closer to our aspiration of donating £5 million over a five year period.
5. Maintain strong governance and risk management.	The annual evaluation conducted by the Board on the performance of the Chairman, Directors and the sub-committees showed that the Board considers that all Non-Executive Directors, including the Chairman, were independent and the Board was assessed as effective.

< Back to contents

A Clear Strategy and Vision

Our business strategy has been updated in 2016 and it remains true to our core principles. We will not only continue to deliver products in areas where we have been traditionally strong such as tax-efficient savings and investment bonds, but will also explore opportunities to deepen our presence in high-potential growth markets such as specialised lending and income protection.

We are constantly re-evaluating our business relationships and partnerships. We continue to seek partnerships to increase the reach of our existing products and to realise cost savings.

Going forward, with our strong capital position and robust operations platform in place, we will place more emphasis on expanding the business through organic growth. We plan to concentrate our efforts on growing the market by offering innovative product features and differentiated services to provide customers with a better proposition. Our entry this year into the exciting area of Lifetime Mortgages has a big role to play in this future strategy and is the right strategic investment for the business and our customers.

Understanding Our Customers and Offering Products That Match Their Needs

We aim to create long-term value for our members by providing great products and appropriately managing financial risks. As such, we have enabled our customers to save for the future by providing investment products that resulted in attractive returns, as highlighted in the 2016 investment report on pages 16 to 17.

OneFamily continues to build on its strong reputation and deliver real benefits to its members and customers. In 2016 significant progress was made by:

- **Broadening our product range** to include Lifetime Mortgages through the acquisition of a start-up business. This has already started to contribute positively to our performance and is projected to continue to do so as the Group builds upon its newly acquired capability. Just six months after the launch of our new products, OneFamily Lifetime Mortgages was awarded 'Best Provider for Product Innovation' at the Equity Release Awards.

- **Consolidating our existing product lines** through the purchase of a portfolio of Child Trust Funds ("CTFs") in November 2016. This transaction added around 198,000 new customers, securing OneFamily's position as the largest CTF provider in the UK with over 1.7 million customers. This transaction offers significant synergies from OneFamily's experience and expertise in this area.

As a strong, forward-looking Group, our commitment to delivering excellent service, security and stability for our customers means we are well placed to continue to support customers whatever the prevailing economic conditions. We face the future with confidence, driven by a desire to do the right thing for our customers even in uncertain times.

Operate the Business Efficiently By Reducing Cost and Improving Technological Capabilities

The successful completion of our integration activities with Engage Mutual, following the 2015 merger, has resulted in considerable savings of £5.5m across both office and staff costs. We have realised the full integration benefits in 2016, within our three year target.

In 2016, we started transforming our core process and systems to meet the needs of the business over the coming years. We are investing in our IT system, designed to reduce cost while ensuring that we continue to generate value for our members and customers. By investing to enhance the security of our systems, we also commit to keeping our customers' cash and investments safe.

Back to contents >

Give Back a Proportion of Our Profits to the Wider Society

The OneFamily Foundation directly benefits members, their families and communities, with funds committed to personal grants and community awards totalling £846k during 2016.

Strong Governance and Risk Management

The principal risks and uncertainties faced by the Group, as well as the actions taken to mitigate those risk exposures, are further discussed in the Risk Management Report on pages 22 to 25.

As far as regulatory and reporting governance is concerned, our focus will be on the monitoring and careful management of the Group's capital position under the new insurance regulatory rules (Solvency II). We will also keep a close eye on changing financial reporting requirements.

Financial Review

We are delighted to report another financially successful year at OneFamily. The Group's operating profits and retained earnings have grown from £150.9m in 2015 to £158.1m in 2016. Our capital position (measured under the principles of Solvency II) is such that we hold regulatory capital in excess of our unaudited capital requirements of £73.5m within the non-profit fund. This represents an unaudited estimated coverage ratio of 184%. The net total amount of money that we manage for our customers (funds under management) has grown by 6% to £7.9bn (2015: £7.4bn).

As a mutual Group, we are always mindful that we are owned by our members and as such, are accountable to them for how we manage the business. Our financial objective is to balance our goal of helping our members and customers achieve their financial goals whilst maintaining the Group's long term financial and capital strength. This has been particularly important this year, given the uncertainty and market volatility surrounding the EU referendum and US election results.

At A Glance: 2016 Has Seen Significant Positive Progress for the Group

- We completed our integration activities relating to last year's merger of Family Investments and Engage Mutual, on time and within budget, resulting in cost savings of £5.5m and improving our operating efficiency ratio.

- We generated 92,000 total new sales of policies mainly across the Cash ISA, Over 50s Life Cover and Junior ISA products. Cash ISA sales have suffered this year as a result of low cash interest rates in the market following ongoing economic uncertainty. We continue to see impressive sales for our Over 50s Life Cover with 19,000 policies sold (22% year on year increase), driven by close relationships with new intermediary partners.

- Since May 2016, OneFamily Lifetime Mortgages (OFLM) has been successful in generating income for the Group based on £48m of mortgage completions as at the year end.

Capital Position Under Solvency II

2016 represents our first year of reporting under Solvency II (SII), the new prudential regulatory framework which came into force on 1 January 2016. SII was designed to strengthen consumer protection and insurance sector stability by ensuring that insurance companies manage and evaluate their risks properly and hold adequate capital to protect policyholder money under adverse future conditions. The new regime is intended to result in improved resilience to shocks and enhanced policyholder protection. We are pleased to report that our capital position has remained robust in our first year operating under SII and our members can be confident that the Group is well capitalised and adequately funded to meet its future financial commitments. The SII surplus and coverage metrics are used for measuring and reporting OneFamily's risk profile and capital adequacy. As at 31 December 2016 the Group's unaudited estimated capital position within its non-profit fund can be summarised as follows:

Group Solvency II capital position within its non-profit fund (estimated and unaudited)	31 December 2016 £000's
Solvency II Own Funds	160,600
Solvency Capital Requirements (SCR)	87,100
Surplus	73,500
Solvency coverage ratio	184%

SII introduces two capital requirements: the solvency capital requirement (SCR) and the minimum capital requirement (MCR). The SCR is the quantity of capital required to provide protection against unexpected losses, over the following year, up to the statistical level of a '1 in 200 event' i.e. the impact of scenarios like the recent global financial crisis. The MCR denotes the level below which policyholders would be exposed to an unacceptable level of risk. The SII surplus represents the excess of the Group's total eligible own funds over the Solvency Capital Requirements (SCR). The SII coverage ratio is a measure of the Group's ability to cover its losses in a 1 in 200 event and is calculated as the ratio of the Group's total eligible own funds to the SCR. A ratio of 100% means the Group would be just able to cover its obligations in a 1 in 200 event. A ratio in excess of 100% means the Group is more than able to meet those obligations.

The Group operates two with profits funds, which were well capitalised as at 31 December 2016. Our With Profits fund, WP 1, closed to new business on 1 October 2016.

Solvency surplus (estimated and unaudited)	31 December 2016 £000's	Coverage ratio
With profits 1	10,900	194%
With profits 2	3,900	314%

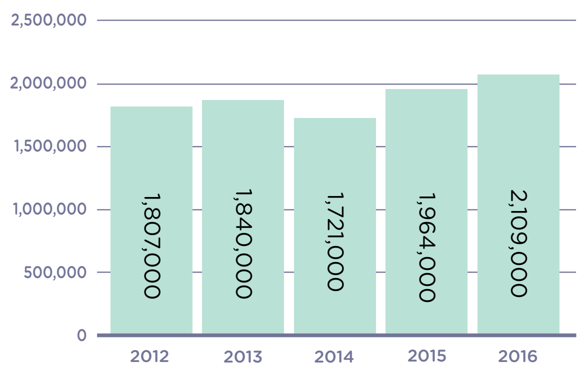
More information is available on the OneFamily website.

Outlook

As a mutual we are not compelled to maximise profits in the short term for the benefit of shareholders. Instead we are able to retain sufficient earnings to support future growth and sustain a strong capital position for the long term benefit of our members and customers. Achieving continued growth and long term value for members and customers underpins our plans for new product development and capabilities as we look to 2017 and beyond.

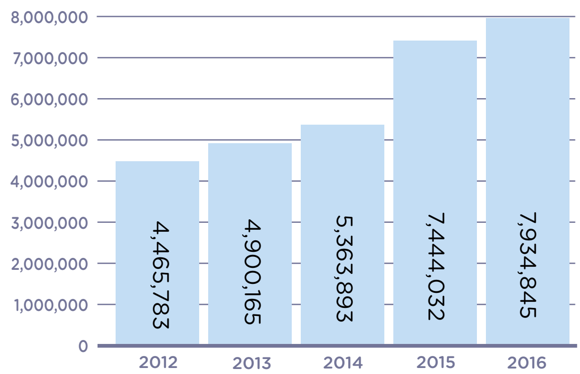
Group Performance Highlights

Membership



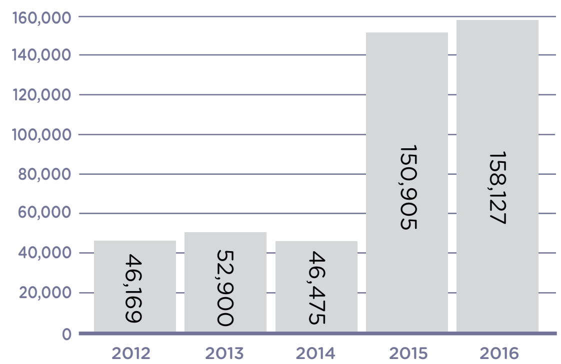
Membership increased by 145,000 in 2016 representing the net increase from sales less policy exits.

Customers' Funds Under Management (£'000)



There was an increase in funds under management of £0.5 billion in 2016. This represents the impact of the acquisition of the CTF book and growth on equity funds, less the value of policy exits.

Retained Earnings (£'000)

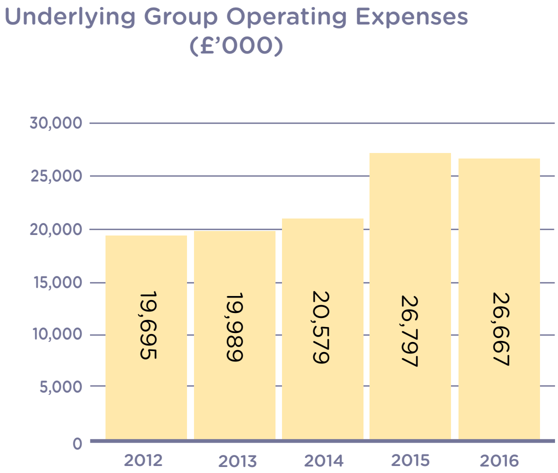


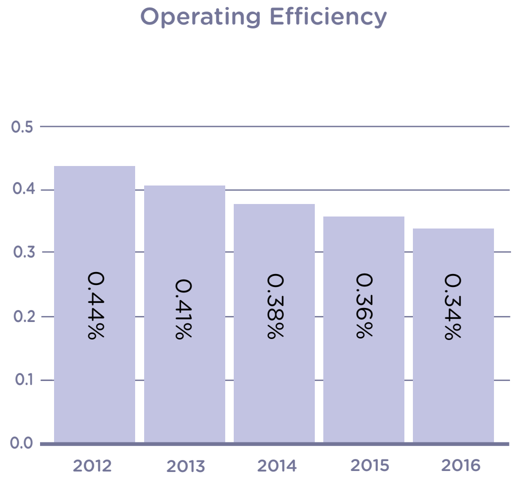
Retained earnings have increased by £7,222k from 2015 to 2016, partly as a result of cost savings arising in the consolidated business. The increase from 2014 to 2015 is a result of the merger with Engage Mutual.

Net Operating Expenses Summary

	Group 2016 £'000	Group 2015 £'000
Net operating expenses	**69,043**	63,596
Acquisition costs & cost of sales	**(15,896)**	(10,158)
Non-recurring business development costs	**(27,884)**	(28,449)
Investment expenses	**3,547**	2,316
Less: Linked fund investment expenses	**(2,143)**	(508)
Total	**26,667**	26,797
Members funds under management	**7,934,845**	7,444,032
Operating efficiency %	**0.34**	0.36

< Back to contents





Underlying Group operating expenses are the expenses incurred in running the business. These exclude costs for acquiring new business and exceptional expenses, such as one-off investments in the business or expenses related to building the franchise and brand. Pre 2015 costs relate only to Family Investments and 2016 costs include costs relating to OFLM following the acquisition.

Operating efficiency measures the underlying expenses of running the business, as a pecentage of funds under management. This shows an improvement in the year from 0.36% to 0.34%. This improvement has been driven by the efficiencies that have emerged following the merger with Engage Mutual in 2015. It includes the additional running costs of Lifetime Mortgages.

> "2016 saw an increase in our profitability and in our retained earnings, which rose to £158.1m from £150.9m in 2015."
>
> **Simon Markey**
> Chief Executive

Investment Report

OneFamily Investment Fund Performance

In 2016 as in 2015, we have helped our customers to deal with a persistently low interest rate environment by offering diverse investment opportunities in a range of assets, including shares, bonds, property and cash. Overall, our funds had a positive year in 2016, with all our funds showing double digit unit price growth % increases, as shown in Table 1 below.

Table 1

Unit price growth*			
Funds**	One Year %	Three Years %	Five Years %
Family Balanced International Fund (FIBI) (share class A)	13.7	20.1	46.2
Family Investments Child Trust Fund	17.2	21.1	55.7
Family Asset Trust	15.3	14.5	48.7
Family Charities Ethical Trust	15.0	10.8	43.2
Family Sovereign Fund	13.7	22.6	48.1
Santander Stockmarket 100 Tracker Growth Unit Trust	16.2	12.4	39.8

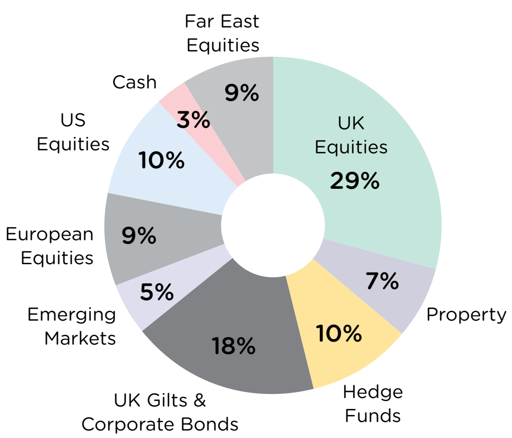
* Past performance should not be seen as an indication of future performance. Investors are reminded that the price of units and the income from them is not guaranteed and may go down as well as up.

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

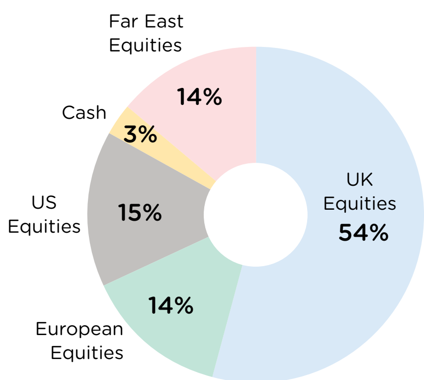
Our two largest funds, in which most of our members are invested, showed positive returns. The Family Investments Child Trust Fund (CTF), which invests in UK, US, European and Far East Equities, grew by 17.2% in the year, whilst the Family Balanced International Fund (FIBI) which also invests in emerging market equities, property and fixed interest, in addition to the global equities referred to above, grew by 13.7%. The Family Sovereign Fund is the Group's largest member investment fund where many of our Family and Junior Bond policies are invested. Sovereign owns 88% of FIBI and grew by 13.7% in the year.

The composition of the two funds by asset class are shown in the following charts:

Sovereign Fund



Family Investments Child Trust Fund



More information about where our funds invest can be found on our website at www.onefamily.com/connect-with-us

2016 Market Review

Equities

As 2016 got under way, international financial markets struggled to find their footing. Volatility dominated in the opening weeks as China market controls and a tumbling oil price unsettled investors already anxious about economic growth prospects. In spite of some big electoral surprises like Donald Trump's presidential victory in the United States and the UK's decision to exit the European Union (EU), global equities ended the year in positive territory and had achieved a return of about 10% in local currency terms.

2016 proved to be a mixed year, both in terms of the fluctuating nature of market performance and where the best returns could be achieved. Broadly, equity markets continued to be underpinned by low interest rates. The US Federal Reserve's aim of four rate increases in 2016 faded as market volatility, economic uncertainty, the Brexit vote and US elections put the central bank's plans on hold and it announced only one rate increase in December 2016.

US equities were among the best performers in 2016. The investment returns on FTSE World North America Index was 12.3%. Top performing sectors included energy, financial services and telecoms followed by healthcare, real estate and consumer staples. The UK FTSE All-Share Total Return Index returned 16.8% for the 12 months, with many large global companies listed on the London Stock Exchange benefiting from a weaker pound which served to increase the value of overseas revenues and export competitiveness. In the euro area, Germany's DAX Index gained 6.9% and France's CAC 40 Index was up 4.9%. However, Italy's market was down 10.2% due to worries about it's banks amid little improvement in the size of the non-performing loan portfolios. A Government referendum on political reforms failed in early December and the Prime Minister resigned. A generally good year for emerging markets was tempered by a weak finish as rising US bond yields and the stronger dollar diverted funds from emerging market assets. The MSCI Emerging Markets Index achieved a local currency return of 9.7% for the year.

Bonds

Developed global bond markets generally posted gains in 2016, notwithstanding a final quarter sell-off. For much of the year, sluggish growth, low inflation and intermittent geopolitical jitters made government bonds attractive to investors, despite the very low yields being offered. However this trend reversed as investors looked to riskier assets amid shifting inflation and interest rate expectations and the implications of a Trump US election victory became clear. This eroded the scale of bond gains. UK gilt yields hit record lows as the Bank of England cut interest rates in response to the EU referendum result. Having started 2016 close to 2%, the 10-year UK gilt yield fell to just 0.52% in early August before ending the year at 1.5% as the economy looked more robust and inflation moved higher.

The other big story for 2016 was the fall in the value of the British pound as a result of the electorate unexpectedly voting to leave the EU. Sterling lost almost 16% against the euro, 19% against the US dollar and 23% against the Japanese yen.

Market Outlook

Looking forward to 2017 there are plenty of potential headwinds, putting a return to more robust economic growth and earnings in jeopardy. The outlook for global equity markets this year is cautiously optimistic. International developed markets may be impacted by a perceived decline in the level of monetary policy support in both the Eurozone and Japan. Global productivity growth remains subdued, with no sign of improvement any time soon. 2017 is likely to be the sixth year of below-average performance.

In the UK, the nature of UK's exit from the EU ("soft" or "hard" Brexit) could have a major impact on overall market performance. Inflation is likely to pick up significantly on the back of sterling weakness, higher commodity prices and a more reflationary global environment. It is projected to climb to 3.0% by the end of 2017 which may prompt a 0.25% rise in interest rates later in the year.

Board of Directors

Christina McComb

Chairman

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

Christina has wide ranging experience of advising and investing in smaller companies, having spent 14 years at leading venture capital group 3i Group plc.

Christina is currently Senior Independent Director at British Business Bank plc and Standard Life Private Equity Trust plc, and a non-executive director at Baronsmead Venture Trust plc & Nexeon Limited.

Ian Buckley

Vice Chairman and Senior Independent Director

Ian was appointed to the Board in December 2009 before being appointed as Vice Chairman and Senior Independent Director in March 2016. Ian is Chairman of the Remuneration and Investment & Product Committees, and a member of the Risk, With Profits and Nominations Committees.

Ian has previously held Chief Executive roles at Smith & Williamson, EFG Private Bank Limited and Tenon Group plc, as well as serving over 11 years as a director and then special advisor to Rathbone Brothers plc.

Ian is currently Chairman of Vision Independent Financial Planning Ltd, a non-executive director at Miller Insurance Services LLP, and a consultant to Rathbones Trust Company Limited.

Nigel Masters

Non-Executive Director

Nigel was appointed to the Board in April 2015, having previously served on the Board of Engage Mutual Assurance since June 2012. He is Chairman of the Risk and With Profits Committees, and a member of the Audit and Nominations Committees.

Nigel has over 35 years of experience in financial services, during which time he has held a number of senior actuarial positions including President of the Institute of Actuaries, Group Chief Life Actuary for Zurich Financial Services and partner in the actuarial consulting practice at PricewaterhouseCoopers.

Nigel is a Fellow of the Institute and Faculty of Actuaries and is currently a non-executive director at Wesleyan Assurance Society and JPMorgan Life Limited.

Peter Box

Non-Executive Director

Peter was appointed to the Board in December 2009. He is Chairman of the Audit Committee and a member of the Risk, With Profits, Remuneration and Nominations Committees.

During his career Peter has developed a deep understanding of the major issues affecting the insurance sector and has significant experience of regulatory and governance matters. Previously an audit and business advisory partner for PricewaterhouseCoopers, he has experience of a broad range of companies from large international business to specialist national firms.

Peter is currently Vice Chairman of Marsh Limited and a non-executive director at Pool Reinsurance Company Limited and Cardif Pinnacle Insurance Holdings plc.

Back to contents >

Steve Colsell

Non-Executive Director

Steve was appointed to the Board in July 2016. He is a member of the Risk, With Profits, Investment & Product and Nominations Committees.

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

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

Graham Lindsay

Non-Executive Director

Graham was appointed to the Board in July 2016. He is Chairman of the Member & Customer Committee and a member of the Audit, Remuneration and Nominations Committees.

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

Graham is currently Vice Chairman of the board of trustees of The Brain Tumour Charity and a non-executive director at Vista Limited and Wonga Group Limited.

Simon Markey

Chief Executive

Simon was appointed to the Board and as Chief Executive in November 2012. He is a member of the Investment & Product, Nominations and Member & Customer Committees.

Simon started his career in 1984 with Lloyds Bank, and over 20 years there held numerous positions including Head of Savings and Director of Customer and Sales. Following Lloyds, Simon went on to hold positions as Managing Director at Lifestyle Services Group Limited, Chief Executive of Consumer at Marsh Limited and Programme Director at NBNK Investments plc.

Teddy Nyahasha

Chief Finance Officer

Teddy was appointed to the Board and as Chief Finance Officer in July 2016.

Teddy is a chartered accountant with over 20 years' experience in financial and capital management in the insurance sector. Teddy worked at the Financial Services Authority for a number of years before joining Aviva plc where he held several positions including Financial Director Emerging Markets (Europe). Prior to joining OneFamily he was Group Financial Controller at Royal London.

Risk management report

Our focus on risk management helps us to understand our business well so that we can deliver strongly for our members and our people, while retaining sufficient capital to cover our risks and grow our business.

Risk Governance

The Board retains responsibility for setting OneFamily's risk appetite which expresses the degree of risk we are prepared to accept as we work to deliver on our strategy. The risk appetite is recommended to the Board by the Risk Sub-Committee which oversees risks and the ongoing development and operation of the risk management framework on behalf of the Board. Each Risk Sub-Committee meeting receives a report from the Chief Risk Officer on changes to the risk profile and risk mitigants, as well as emerging risks. These reports cover strategic, financial and operational risks, including conduct risks. The Committee also monitors the impact of regulatory change and receives reports on compliance with regulation. In addition, the control framework is overseen by the Audit Sub-Committee and investment and product related risks are overseen also by the Investment and Product Sub-Committee.

At an Executive level there are a number of committees and forums which focus on specific areas of risk such as capital management, conduct risks, business continuity, and data governance. These report to the Chief Executive's Group which also meets regularly to discuss reports from the Chief Risk Officer and to ensure that actions taken to manage the risk profile and implement the risk management framework are effective.

We adopt a "3 lines of defence" model for risk management. The first line of defence entails management and staff in our businesses and shared functions being responsible for identifying and managing risks in their area. The second line of defence is the Risk and Compliance functions who advise and challenge the first line on dealing with their risk exposures and the risk implications of business change projects. The second line produces independent reports on its opinions for the Board and Executive. The third line is the Internal Audit function which provides assurance as to the effectiveness of control frameworks operated by both first and second lines of defence.

Our Risk Management Framework

OneFamily's risk management framework is designed to ensure that management is aware of all material risks we are taking on, the actions in place to mitigate those risk exposures, and the implications for capital requirements. It also serves to ensure that business incidents are escalated and resolved in a timely fashion.

Business functions log risks identified, and associated controls and management actions, to their risk registers. These are then overseen centrally by the Risk function and serve to inform reporting to the Board and Executive. Principles for managing key risks are articulated in our suite of policies.

Solvency II came into force on 1 January 2016, with OneFamily complying with its requirements as a Standard Formula firm with capital based on prescribed stresses. As well as meeting regulatory capital requirements, and providing the related reporting required by our supervisors, we have performed our Own Risk and Solvency Assessment ("ORSA") process which is required under Solvency II. The ORSA is central to our assessment of risk and resulting capital needs, and considers a range of stress and scenario tests. It covers the whole of the business written in Family Assurance Friendly Society Limited (the Society), including the risks arising from business written in its non-insurance subsidiaries, and involves a full and forward looking assessment of qualitative and quantitative risks over our business planning period. This has supported the Board in considering the impact of business plans on financial strength and risk profile over the medium term. We recognise that Solvency II has been a key driver for improvements in risk management practices and we will seek to build on these as we continue to deliver enhancements to our risk management framework.

Principal Risks and Uncertainties

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

Risk	Description	Management and Mitigation
Strategy Risk	This encompasses the risks that strategic goals are not met due to the actions of competitors, commercial partners, or other marketplace developments such as changes to government or regulatory policy. It includes the failure of projects to grow the business. In implementing a sustainable business strategy these are the greatest risks to the achievement of our business plans.	Major strategic initiatives need to be approved by the Board and the progress of these and other change initiatives is then closely monitored against delivery plans. Stress testing reflects the impact of strategy risks such as political events, regulation and competition on sales.
Equity Risk	This principally relates to falls in fund values reducing the value of income from annual management and other fund related charges. With Profits Funds also invest in equities and are thus exposed to market falls.	Investment policies are in place to manage equity, currency and other market risks, supplemented by our investment management principles of operation. Asset mix and performance are overseen by the Board's Investment and Product Sub-Committee (I&PC). Stress testing includes the impact of equity and other market falls.
Currency Risk	A rise in the value of Sterling will reduce the value of overseas assets and hence fund values and the value of future charges. With Profits Funds will also be exposed to falls in overseas assets they hold.	
Interest Rate Risk	In general, there is exposure to falling bond yields which amongst other things, increases the present value of (i) expenses; (ii) future claims less premiums on protection business; and (iii) pension liabilities.	Falls in bond yields would boost bond values and unit-linked charge income, offsetting these impacts. Staff pension schemes use swaps to hedge interest rate risk.
Credit Risk	Rising bond spreads, downgrades and defaults will reduce fund values and charge income, and will also have an adverse effect on OneFamily's small annuity book. There is also modest counterparty exposure to reinsurers, to whom most mortality and morbidity risk is transferred, and to banks where we deposit money.	OneFamily generally holds investment grade bonds through Exchange Traded Funds (ETFs). Counterparty credit risk is managed through risk limits and monitoring of exposure, with bank and investment related counterparty and credit exposures reported quarterly to the I&PC.

Risk	Description	Management and Mitigation
Lapse Risk	The risk of higher than expected lapses will reduce the value of business in-force. This is a key risk for OneFamily, and persistency is a key focus for management.	Lapse experience is closely monitored, with regular investigations to ensure lapse assumptions are appropriate. Stress testing includes the impact of economic downturns on lapses.
Expense Risk	This relates to higher than expected expenses, not just in-period but going forward in terms of reduced future profits emerging.	Expenses are managed against budgets, with regular expense analyses performed to ensure long-term expense assumptions are appropriate.
Mortality and Morbidity Risks	This principally relates to higher than expected death and critical illness claims on Over 50s business.	Mortality and morbidity risks are substantially reinsured; residual mortality risk acts as a natural hedge against longevity risk.
Longevity Risk	OneFamily has a small annuity portfolio which is vulnerable to the effect of annuitants living longer than expected. There is also longevity risk in respect of pension schemes.	These risks will be partially offset by mortality risk exposure on Over 50s business with longer life expectancy associated with lower death claims.
Staff Pension Scheme Risk	The risk of (a) balance sheet strains; and/or (b) higher contributions from adverse movements in the assets and liabilities of defined benefit staff pension schemes. This will encompass equity, currency, interest rate and credit risks above, as well as longevity risk in respect of scheme members living longer than expected.	While investment policy is a matter for the Trustees of the schemes, OneFamily monitors pension scheme funding; gets advice on the investment policy of schemes; and makes its views on investment policy and risk known to the Trustees.
Liquidity Risk	Relating to the risk of being unable to meet our financial obligations as they fall due or only at an excessive cost.	Liquidity is monitored on a daily basis and the Group holds liquid assets to meet outgoings in stress conditions. The I&PC receives quarterly liquidity reports including liquid assets by fund.
Operational Risk	This includes project risk, IT security risk, outsourcing risk and more generally other risks from failed internal processes, personnel or systems, or from external events.	Extensive policies and controls are in place to mitigate operational losses. These are supplemented by buildings and other insurance to cover losses from fire and other perils. Scenario analysis is carried out to identify operational risk exposures.
Conduct Risk	This is a subset of operational risk and relates to the failure of OneFamily to conduct its business fairly and properly in relation to customers and other stakeholders. This overlaps with (and is considered in conjunction with) risks of failure to comply with regulations.	Conduct risks are actively monitored with regular conduct risk reports produced for the Risk Sub-Committee. The risk assessment of new products and initiatives has regard to conduct risks.

Changes in Risk Profile Over 2016

Key business developments during 2016 were the launch of our Lifetime Mortgages business and the acquisition of a book of Child Trust Fund business.

The move into Lifetime Mortgage origination diversifies our product offering and supports the development of a sustainable strategy. The key risks of the launch of OneFamily Lifetime Mortgages (OFLM) were closely managed and frequent Risk, Compliance and Credit Sub-Committee meetings of the OFLM Board were held during the initial period of operation. The Lifetime Mortgages business is now being integrated into the broader OneFamily risk management and governance frameworks. While we are exposed to the operational risks involved in the origination of Lifetime Mortgages, we did not provide advice to customers on Lifetime Mortgages or provide funding for loans on our own balance sheet. We were not, therefore, exposed to the conduct, market and longevity risks associated with these activities.

Data Protection Policy

Historically OneFamily has sought to ensure that personal data of its customers and personnel is processed exclusively with the EEA for security purposes. With the globalisation of outsourced service offerings, and the enhanced security made available, we are increasingly using cross border service providers and in the current year changed our data protection policy to permit customer personal data to be exported outside the EEA for limited purposes and with meaningful contractual restraints to ensure enhanced protection of the data. OneFamily has strenuously sought to notify affected customers of this policy change.

Corporate responsibility report

Foundation

The OneFamily Foundation

Through our Foundation, we redistribute a portion of our profits back to our customers, helping them support their families, their communities and those they care about most.

OneFamily members can apply for a £500 Personal Grant, or nominate a project close to their heart for a Community Award of up to £25k. In 2016, £846k was awarded through Personal Grants and Community Awards.

Our Community Awards have helped to fund things like networks for parents with autistic children, sports equipment, school libraries, and a choir for those suffering with Alzheimer's and Dementia. Over 100,000 people directly benefitted from the Community Awards in 2016 alone, a legacy we're building on this year by opening up the awards to a more diverse range of people and projects.

Foundation Community Awards are always the most engaging posts on our social media networks, attracting hundreds of Likes, Comments and Shares. These encourage thousands of people to vote for the projects they see as the most in need of the extra cash on offer. The video stories of our past winners such as Newquay rowing club also do really well on social media, achieving engagement rates of over 50% – incredibly high for OneFamily and industry-wide.

Community

OneFamily is proud to be a part of a diverse local community in Brighton. In 2016 we were actively involved in the UK's largest LGBT festival and a hugely successful charitable public art exhibition.

Brighton & Hove Pride Festival

More than 50 staff members joined the OneFamily float in the Brighton & Hove Pride Community Parade, adorned in fancy dress and holding banners aloft. We also supported the Pride Festival Family Diversity Area, complete with children's entertainment, face painting and games, as well as massages for tired parents and carers in need of some relaxation!

The OneFamily team met hundreds of visitors on the Parade and at the Festival field, talking with them about OneFamily and the joys of being a Brighton employer. It was a truly enjoyable day for OneFamily, raising awareness about us and supporting our local community. The event raised over £100k for local organisations and good causes.

Snowdogs By The Sea

The Martlets Hospice teamed up with Wild in Art to stage an extraordinary public art trail in Brighton & Hove. A trail of 45 Snowdog sculptures inspired by the much loved Raymond Briggs film The Snowman and The Snowdog, descended on the streets of Brighton and Hove for a period of eight weeks. OneFamily sponsored Bella, a Brighton-themed dog, created by Sussex artist Chris Dawson.

In total Snowdogs by the sea raised £310k for the Martlets. OneFamily employees took Bella to their hearts and she now has her forever home, on public display, at our Brighton HQ.

Staff Nominated Charity Support

In addition to our Foundation and local community support, OneFamily is also very proud to support our employees when taking part in charity events and giving something back to their communities.

Tax

Over the last few years, tax has become an extremely contentious issue, with claims hitting the headlines that companies are not always paying an equitable amount of tax.

At OneFamily we believe in transparency and go to great lengths to ensure that we pay the right amount of tax. Our business is based in the UK and therefore most of the tax we pay relates to UK taxes. Whilst some of the Group's products represent tax exempt business, for other types of business, such as life assurance policies, tax is charged on taxable income less expenses relating to the policies and paid directly to HMRC by the Group as corporation tax on behalf of policyholders.

We are open and accountable in our dealings with relevant tax authorities whatever the type of tax we pay including corporation tax, employment taxes on salaries, transaction taxes and indirect taxes such as VAT.

We provide a full analysis of the tax charge in note 15 to the financial statements.

Employees

Employee Engagement

OneFamily communicates with its employees on a regular basis to ensure that they are fully aware of OneFamily's core values and business strategy and the part which they play in achieving a successful outcome. Employees are consulted, either directly, or via the Talking Family Staff forum, on any decisions that are likely to affect their interests.

Other channels of communication have been used to good effect during the year including newsletters, cascades of information from key influences, face to face communication and via the upgraded corporate intranet that was launched this year.

Equal Opportunities and Diversity

It is OneFamily's policy to treat job applicants and employees equally, regardless of their sex, race, ethnic origin, religion, age, sexual orientation, marital or parental status or disability. OneFamily is committed to recruiting, developing, progressing and training employees on the basis of their individual aptitude, competencies and performance.

Apprentice Schemes

OneFamily signed up to Brighton & Hove employer pledge, an initiative recommended by the Employer Skills Task Force set up by Brighton & Hove City Council, and has committed to providing employment opportunities for the young people of Greater Brighton. Following a successful pilot scheme in 2016, further apprentice opportunities will be provided in the coming year.

Reward and recognition

OneFamily reviews the pay and benefits of its employees to ensure that our people are rewarded fairly and recognised appropriately for the work they do on behalf of members and customers.

Career Development

OneFamily is committed to developing the skills of its employees and invests in providing training and development opportunities for all staff. This year a new Learning Management System has been launched, which includes an eLearning platform to enhance the range and quality of learning available for its employees.

Health and Wellbeing

OneFamily recognises the importance of having a healthy team and takes a supportive approach to the health and wellbeing of its employees, using occupational health advice where necessary and providing a confidential employee assistance helpline for any individuals who need assistance in managing the demands on modern life.

Sustainable Travel Initiative (Easit Travel Green)

In 2016 OneFamily became a participating employer in the Brighton & Hove EasitNetwork. The scheme is aimed at encouraging increased use of public transport, by providing discounted travel options around public transport and cycling, and so contribute to the reduction in congestion in the City.

Our Environment

Health and Safety Report

OneFamily has developed a health and safety framework to ensure compliance with applicable laws and regulations including a Health and Safety Committee that comprises senior management and employee representatives.

Environment

OneFamily recognises that its day-to-day operation will impact on the environment in a number of ways and wishes to minimise the potentially harmful effects of such activity wherever possible. OneFamily's environmental policy can be found in the 'Our Story / Company Information' section of our website www.onefamily.com

OneFamily has been very pro-active in introducing energy saving measures throughout the main office building in Brighton. An Energy Savings Opportunity Scheme (ESOS) assessment was carried out in 2015 to identify energy saving opportunities.

OneFamily will consider almost all opportunities to improve energy performance and energy efficiency, provided the return on investment is reasonable. In the interests of making a positive contribution towards helping with climate change, reducing their environmental impact and acting as a positive role model, the Group has made a conscious decision not to establish fixed or rigid financial pay back criteria for cost effectiveness and is instead prepared to consider a wider range of potential energy efficiency measures.

Building Refurbishment

A full building refurbishment took place in 2016 of the Brighton building. This included all floors except the 6th, which is currently let out. Major works took place to the ground floor for a new open plan reception area, courtyard and new entrance and also to the 5th floor to accommodate a new coffee shop. This refurbishment also included installation of new energy-efficient LED lighting throughout the building. The refurbishment was carried out to create a more modern working environment, to maintain the value of the asset, to increase capacity of agile seating, to improve employee satisfaction and staff engagement, to help attract and retain employees, to enhance staff collaboration and communication and to reduce overall running costs.

Recycling

OneFamily use the Recycling Partnership to collect and process many recyclables including glass, plastics, wood, paper, cardboard, tins, drinks cans, aluminium foil and packaging. We use a Zero Waste to Landfill company that continues to find new and innovative ways to process mixed waste and recyclables. Food waste bins have also been provided on every floor.

Directors' report

The Annual Report and Accounts 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 2016 a Board of Directors comprising the Chairman, five other independent non-executive directors and two executive directors governs the Group. The Board is led by the Chairman whose role, along with that of the Chief Executive, has been set out and approved by the Board.

The Board delegates management of the business to the executive directors, who meet as a group at least monthly. 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 18 to 21.

Statement of Responsibilities of The Board of Directors

The Friendly Societies Act 1992 ('the Act') requires the Board of Directors to prepare accounts 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 financial statements in accordance with UK Accounting Standards and applicable law (UK generally Accepted Practice) including FRS 102 (the Financial reporting standard applicable in the UK and Republic of Ireland).

In preparing those accounts, 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; and
- Prepare the accounts on a going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

The annual report provides the information necessary for the members to assess the Society and Group's performance, business model and strategy.

As at 31 December 2016 the Group's margins of solvency comfortably exceeded the minimum requirements, as prescribed by the Prudential Regulation Authority.

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

The Board is responsible for OneFamily's systems of control and acknowledges that such systems can provide only reasonable and not absolute assurance against material misstatement or loss.

The Board conducts, through the Risk and Audit Sub-Committees, an ongoing review of the effectiveness of OneFamily's systems of internal controls and risk management and is satisfied that there is no material shortcoming (see the Risk Sub-Committee and Audit Sub-Committee reports on pages 37 to 38).

In accordance with the Act, the Board confirms that all activities carried out during the year by the Society and its subsidiary undertakings are believed to have been carried out within their respective powers.

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

Going Concern

Directors need to satisfy themselves that it is both reasonable and appropriate for them to conclude that the financial statements have been prepared on a going concern basis. The Group's business activities, financial performance, solvency and liquidity position, as well as future outlook, including principal risks it faces are summarised in the Strategic report on page 10 to 17. This information helps our readers to understand 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.

As a result of the Board's consideration of its longer term viability as set out on page 43 the directors are confident that the Group has adequate financial resources to continue in operation as a going concern for the foreseeable future and continue to prepare the financial statements on that basis.

Principal Risks and Uncertainties

As a result of its normal business activities, the Group is exposed to a variety of risks. The Group has established a number of committees and policies to successfully manage these risks. These principal risks and uncertainties are set out in the Risk Management Report on pages 22 to 25 and in note 1 to the Accounts.

Number of Members

As at 31 December 2016, OneFamily had 2,109,366 members (2015: 1,964,131).

Employees

OneFamily employed an average of 518 employees during 2016 at a total cost of £25.6m. The Board recognises that OneFamily's most valuable resource is its employees and that they are key to its success in implementing its strategy. The Board believes that the continued learning and development of employees is essential, in order to ensure effective management of OneFamily and provision of appropriate service to members.

As at 31 December 2016 the gender mix at management levels is

	Male		Female	
	2015	2016	2015	2016
Board of Directors	89%	87.5%	11%	12.5%
Senior managers	63%	70%	37%	30%

Complaints

It is OneFamily's policy to investigate and resolve all complaints promptly and fairly, but in the event that members are not satisfied with the response the Financial Ombudsman Service provides a complaints resolution service. Full details can be obtained from the Secretary or from OneFamily's website at www.onefamily.com. In 2016 we resolved 99% of complaints within four weeks (2015: 98%).

Financial Crime

OneFamily continuously reviews its exposure to financial crime, including cyber security, and takes appropriate measures, including anti-fraud and anti-money laundering training of its employees, to mitigate these risks. Regular fraud and money laundering risk assessment occurs within OneFamily with this activity underpinned by the respective corporate anti-fraud, anti-money laundering, anti-bribery and whistle-blowing policies.

OneFamily is a member of the Investment Association Fraud Alert Scheme, whose main objectives are to protect member assets and work with the industry in reducing financial crime.

Appointment of Auditor

A resolution to re-appoint the auditor to the Group will be proposed at the 2017 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 he/she ought to have taken as a director to make himself/herself 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. David Addison, Willis Towers Watson, is the Group's Chief Actuary.

Charitable and Political Donations

During the year the Group made charitable donations of £4.8k (2015: £3.4k), primarily through matching donations raised by staff for charities of their choice. No political donations were made (2015: 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 and those interests specifically disclosed in note 31 to the accounts.

Simon Allford
Secretary
27 April 2017

Corporate governance report

OneFamily is committed to high standards of corporate governance and has adopted The Annotated Corporate Governance Code for Mutual Insurers (dated April 2015) ('the Code'). The Code applies to these Report and Accounts.

Compliance with the Annotated Corporate Governance Code

OneFamily considers the Code to be closely aligned to the standards that it has set itself and has endeavoured to comply with the main principles for many years. The Board has set the values and standards for OneFamily and its employees, taking account of the principles of the Code, and requires senior management to report to the Board on adherence. The Board considers that throughout the period under review it has applied and complied with the relevant principles and provisions of the Code with the following exception:

- The UK Corporate Governance Code (CGC) now requires all directors to stand for re-election annually: OneFamily did not comply with this provision during 2016.

  The Board has reviewed the length of service of the non-executive directors and considers that they all meet the criteria of independence. The Code for Mutual Insurers recommends that all directors should stand for re-election annually. The Board has not followed this recommendation in 2016 as it considered that retirement of each Director at least every three years was appropriate, given that the Group's Rules provide other means for members to make directors accountable for their actions. Additionally, the Board continued to require any non-executive director who has exceeded nine years' service to, if still considered independent by the Board, seek re-election on an annual basis rather than every three years. The Board does not regard the exception to be a material departure.

The Nominations Committee reconsidered annual re-election during 2016 and confirmed that annual re-election is in line with best practice regulatory guidance, and appropriate for a mutual organisation such as OneFamily. Annual re-election will be introduced at the 2017 AGM.

The Role of The Board

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

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

The division of responsibilities between the Chairman and the Chief Executive has been agreed by the Board and documented. The Vice Chairman undertakes the role of Senior Independent Director.

Board Diversity

OneFamily recognises the benefits of having a diverse Board. Our policy is to ensure that there is broad experience and diversity on the OneFamily Board. Diversity embraces knowledge and understanding of relevant diverse geographies, peoples and their backgrounds including race, disability, gender, sexual orientation, religion, belief and age, as well as culture, personality and work-style. Appointments to the Board should be made in the context of complementing and expanding the skills, knowledge and experience of the Board as a whole.

The Nominations Committee reviews and assesses Board composition on behalf of the Board and recommends the appointment of new directors. The Committee also oversees the conduct of the annual review of Board effectiveness.

In reviewing Board composition, the Nominations Committee will consider the benefits of all aspects of diversity including, but not limited to, those described above, in order to maintain an appropriate range and balance of skills, experience and background on the Board.

In identifying suitable candidates for appointment to the Board, the 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, Committees and individual directors, the Committee will consider the balance of skills, experience, independence and knowledge of OneFamily on the Board, and the diversity representation of the Board.

Board Performance Monitoring and Evaluation

Each year the Board sets key business objectives for the Group for that year and as part of its rolling three year plan, which are based on the objectives outlined in the Strategic report on pages 10-17. The Board uses a 'Balanced Scorecard' approach to monitor performance against these objectives at regular intervals.

In compliance with the UK Corporate Governance Code (as annotated for Mutual Insurers), the Board conducts a formal evaluation annually of the performance of the Chairman and each director and of the performance of the Sub-Committees and Board as a whole. In addition, the Chairman holds periodic meetings with each executive director and formal meetings with the non-executive directors to evaluate the performance and development needs of the individual directors.

In line with the Code, the review of the Boards effectiveness will be conducted by an external party at least every three years. In 2016, a review of Board Effectiveness was performed by PwC. This concluded that for a firm of its size and complexity, overall governance is effective. The review identified a number of areas for improvement. In response, the Board has agreed an action plan and progress against this plan is reviewed at each Board meeting. The actions identified included:

Recommendation from 2016 Board Effectiveness Review	Actions taken
Ensure that the skills of the Board remain relevant to the strategic ambition.	2 new Non-Executives and 1 new Executive Director joined the Board during the second half of 2016, broadening and deepening the collective skills of the Board. A Skills Assessment has been completed by the Board members to identify areas for further development.
Consider reviewing the composition of the Board and the balance between Executive and Non-Executive Directors.	The Board now primarily consists of Non-Executive Directors with the CEO and CFO being the only Executive Directors.
Ensure that the Board focuses the majority of its time on discussing strategic rather than operational issues.	Agendas are now structured to direct time to strategic initiatives.
Enhance the reporting from Sub-Committees to the Board.	Board meetings have been structured to allow more detailed reporting from Sub-Committee and Subsidiary Chairs at each Board meeting.
Ensure that papers presented to the Board highlight key issues for discussion and alternative courses of action.	The approach to constructing Board papers has been reviewed and we will continue this development taking account of feedback from Board members.

The Board Effectiveness Review also included assessment of the Risk and Audit Sub-Committees. Actions taken during the year to enhance the resourcing and frameworks of the Risk and Finance functions are consistent with recommendations made.

Board of Directors

During 2016 the Board of Directors was:

Non-Executives

Christina McComb (Chairman)

Norman Riddell (resigned 31 July 2016)

Peter Box

Ian Buckley (Vice Chairman and Senior Independent Director)

Nigel Masters

Steve Colsell (appointed 1 July 2016)

Graham Lindsay (appointed 1 July 2016)

Executives

Simon Markey (Chief Executive)

John Adams (Commercial Director) (resigned from the Board on 31 December 2016)

Karl Elliott (Marketing Director) (resigned from the Board on 31 December 2016)

Shingirai (Teddy) Nyahasha (Chief Finance Officer) (appointed 25 July 2016)

Keith Meeres (Governance and Risk Director and Secretary) (resigned 15 July 2016)

Secretary

Keith Meeres (resigned 15 July 2016)
David Heard (appointed 15 July 2016, resigned 10 April 2017)
Simon Allford (appointed 10 April 2017)

Sub-Committees

The Board of Directors operates the following Sub-Committees:

Nominations Sub-Committee

Christina McComb (Chairman)

Norman Riddell (resigned 31 July 2016)

Peter Box

Ian Buckley

Nigel Masters

Steve Colsell (joined 22 September 2016)

Graham Lindsay (joined 22 September 2016)

Simon Markey

The Nominations Sub-Committee comprises all non-executive directors and the Chief Executive, and the Board appoints its Chairman. It may obtain such outside legal or other independent professional advice as it deems necessary.

When assessing the current and future composition of the Board, the Nominations Sub-Committee considers the balance of skills, experience, independence, knowledge, diversity and effectiveness of the directors. In line with the Diversity Policy, the Nominations Sub-Committee recognises the benefits of having a diverse senior management team and views increasing diversity at senior levels as an essential element in maintaining an effective Board.

The Nominations Sub-Committee also satisfies itself that there are appropriate succession plans in place for all directors and other senior management positions, and that all directors devote sufficient time to their duties. It makes recommendations to the Board regarding membership of the Risk, Audit, Remuneration, With Profits and Investment and Product Sub-Committees.

During the year a number of vacancies arose on the Board. The Nominations Sub-Committee engaged a search and recruitment specialist, The Norman Broadbent Group to assist the committee in filling the vacancies. The Norman Broadbent Group is independent of the Board and has no other connection with the Group.

Investment and Product Sub-Committee

Ian Buckley (appointed Chairman on 1 August 2016)

Christina McComb

Steve Colsell (joined 22 September 2016)

Simon Markey

Norman Riddell (Chairman, resigned 31 July 2016)

The Investment and Product Sub-Committee is responsible for monitoring the Group's investment and product performance as well as assessing the effectiveness of the investment strategy. This includes reviewing and monitoring the activity and performance of investment managers.

In particular the Sub-Committee recommends the investment strategy and policy to the Board and reviews the implementation of the policy.

The Sub-Committee agrees and regularly reviews the investment guidelines, objectives, asset allocation benchmarks including a review of counterparty, credit, liquidity and market risks.

The Sub-Committee sets appropriate performance benchmarks for each fund and regularly reviews performance relative to those benchmarks.

The Sub-Committee meets with the Chief Actuary at least once a year to review and approve recommendations regarding the Non Linked funds, and to review the investment strategy of other funds.

The Sub-Committee reviews overall performance of OneFamily's existing products. It also reviews all new product development proposals and makes recommendations to the Board. The Sub-Committee reviews product maintenance and pricing proposals, and will monitor the performance of new products within an appropriate period following launch. It will also review risks to customers in relation to the products.

Remuneration Sub-Committee

Ian Buckley (Chairman)

Peter Box (joined 22 September 2016)

Graham Lindsay (joined 22 September 2016)

Norman Riddell (resigned 31 July 2016)

Christina McComb (joined 01 January 2016, resigned 22 September 2016)

The purpose of the Remuneration Sub-Committee is to set and oversee the implementation of the remuneration policy.

The Sub-Committee meets at least twice each year to review remuneration policy and determine the remuneration packages of the Chairman, executive directors (excluding the Chief Executive) and senior management. In doing so, the Sub-Committee will take into consideration all factors which it deems necessary including relevant legal and regulatory requirements, the Financial Conduct Authority's Remuneration Code, OneFamily's culture, the UK Corporate Governance Code (as annotated for Mutual Insurers) and associated guidance. The Chief Executive's remuneration is determined by the non-executive directors.

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.

Details of the directors' remuneration can be found in the Remuneration report on pages 44 to 48. The Chief Risk Officer has appropriate input into the setting of the remuneration policy and remuneration decisions other than her own.

Further details of these duties are contained in the Terms of Reference which can be viewed in the 'Our Story/Company Information' section of our website www.onefamily.com.

Risk Sub-Committee

Nigel Masters (Chairman)

Peter Box

Ian Buckley

Steve Colsell (joined 22 September 2016)

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

The Group Chief Risk Officer and Company Secretary support the committee by assisting the committee chairman plan the committees work and ensuring that the committee receives accurate and timely information.

The key duties of the Risk Sub-Committee are:

- Review and approve the Group's Risk Management Framework (including the review of significant capital investments);
- Recommend to the Board the Group's overall risk appetite and strategy;
- Set and manage the capital management policy;
- Develop and report on the Own Risk and Solvency Assessment (ORSA) process;
- Oversee the development, management and monitoring of Conduct Risk policies; and
- Consider and approve the remit of the Risk Management Function, its resourcing and its independence.

Further details of these duties are contained in the Terms of Reference which can be viewed in the 'Our Story / Company Information' section of our website www.onefamily.com.

The key activities of the Sub-Committee in 2016 have been focused on:

- The ongoing performance and further development of the Own Risk and Solvency Assessment (ORSA) process, including:
    - Review of the specification and outcomes of stress and scenario testing
    - The current and projected profile of risks over the planning period
    - Review of the methodologies and assumptions for quantifications performed as part of the ORSA process
- The continuing development of the Group's response to IT security;
- The assessment of the impact of legislative and regulatory changes on conduct risk and policyholder outcomes;
- Completing the integration of the business following the merger of Engage Mutual and Family Investments, which necessitated changes to governance and risk frameworks and integration of operational areas; and
- Review of the capital management framework and associated risk appetite statement.

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

The Sub-Committee approved the Risk Management Work Plan for 2016 and for the coming year.

Audit Sub-Committee

Peter Box (Chairman)

Nigel Masters

Graham Lindsay (joined 22 September 2016)

Norman Riddell (resigned 31 July 2016)

The members of the Audit Sub-Committee have been selected with the aim of providing a wide range of financial and commercial expertise.

The duties and responsibilities of the Sub-Committee are contained in the Terms of Reference which can be viewed in the 'Our Story / Company Information' section of our website www.onefamily.com.

Sub-Committee Meetings

The Sub-Committee meets at least four times a year. The Sub-Committee comprises three independent non-executive directors named above and meetings are attended also, by invitation, by the Chief Executive, Chief Finance Officer, Chief Risk Officer and Head of Internal Audit. Other relevant managers from the business attend meetings to provide greater insight into current issues.

The Group's Chief Actuary and external auditor are also invited to meetings as required.

Internal Control Environment

The internal control environment is underpinned by a robust system of governance and an enterprise-wide risk management framework. To support the Board in discharging its responsibilities, the Group operates a three lines of defence model to ensure 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 have been focused on the assessment of the outputs from the work of the Compliance and Internal Audit functions, external assurance providers and external auditor in relation to the internal control environment. The work of the Sub-Committee in 2016 required particular focus on the launch of the OneFamily Lifetime Mortgages and in reviewing the Groups' adherence to the Client Assets and Client Money (CASS) regulations.

Compliance

The Sub-Committee assessed the outcomes and effectiveness of the Compliance Monitoring activity throughout the year. It approved the Compliance Charter which sets out the authority and scope of the compliance department as regards its role in securing adherence to financial services regulation.

The Sub-Committee also approved the Compliance plan and budget for the coming year.

Internal Audit

The Sub-Committee assessed the effectiveness of the Internal Audit function throughout the year. It approved the Internal Audit Charter, setting out the authority and scope of Internal Audit. The Sub-Committee also approved the annual Internal Audit plan, received reports on the progress of the audit plan and results of their audit activity.

The Sub-Committee met privately with the Head of Internal Audit during the year and provided input to the annual performance appraisal. The Sub-Committee approved the audit plan and Internal Audit budget for the coming year.

Financial and Regulatory Reporting

The Sub-Committee reviews, with management and external auditor, the appropriateness of the Annual Financial Statements including:

- changes to regulatory requirements
- whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable so that members can assess OneFamily's performance, business model and strategy
- consideration of material issues in which significant judgement has been applied or where there has been discussion with the external auditor
- quality and appropriateness of accounting policies and practices
- quality of disclosures and compliance with the relevant financial reporting standards and governance requirements
- major judgemental areas, the viability statement and the "going concern" assumption
- significant adjustments resulting from the audit
- actuarial methodology and assumptions

The primary areas of judgement and risk considered by the Audit Sub-Committee in relation to the 2016 accounts were as follows:

Area of focus	How the Sub-Committee dealt with the risk
Assumptions underlying the long term insurance technical provisions.	The key assumptions are investment return and associated discount rates, future expenses, mortality and persistency. The Chief Actuary reports upon the key assumptions and methodology associated with the computation. The work of the Chief Actuary is peer reviewed. The Sub-Committee challenges and approves any change to assumptions and methodology. In addition observations from the external auditors are considered in finalising our position.
Valuation of investments and other assets or liabilities, where there is a risk of misstatement of values or inappropriate values.	Consideration has been given to the associated processes and controls, and the vast majority of assets are valued with reference to externally available market information.
Risk associated with changing legislation and the presentation of key accounting judgements.	Changes in accounting policies are approved by the Sub-Committee. In particular the Sub-Committee discussed and approved the basis of accounting for the acquisition of OneFamily Lifetime Mortgages, the acquisition of the Child Trust Fund book of business and the capitalisation of the costs associated with the OneFamily building refurbishment. Consideration of the ongoing valuation of Policies In Force (PVIF) recognised in relation to the Engage Mutual business. Advice was sought from external consultants in the purchase and valuation of the acquisitions.
Internal Control	Consideration has been given to the effectiveness of the various processes and controls associated with the reporting process, to ensure in particular that any override of controls does not enable fraudulent accounting records.
Going concern requirements and the risk of insufficient capital to cover the ability to continue to trade.	Regular business projections are produced to check sufficiency of liquidity and capital to enable continued trading for at least 12 months. As part of the ORSA process forward plans are prepared for a three year period which align with the strategy approved by the Board. The process and the resulting reports are reviewed. Key assumptions of investment return, expenses, persistency, new business and mortality are tested against various scenarios and sensitivities.

Overall, the Sub-Committee is satisfied that, taken as a whole, the accounts are fair, balanced and understandable within the constraints of legal requirements.

External Audit

The Sub-Committee is responsible for safeguarding auditor objectivity, independence and the effectiveness of the external audit. It considers the appointment of, and fees for, the external auditor and meets regularly with the audit partner and audit manager. The criteria against which the external auditor's performance is assessed includes independence, expertise, resource, timeliness and accuracy of reporting, and fee levels.

The Sub-Committee held a private meeting with the external auditor during the year. Discussions with the external auditors include their assessment of business risks and confirmation that there has been no restriction placed on them by management.

The Sub-Committee considers the reappointment of the external auditor including the rotation of the audit partner and also assesses their independence on an on-going basis. KPMG LLP was appointed in 2015, following a full tender process. Their maximum tenure before the audit is subject to re-tender is 10 years.

Non Audit Services

The Sub-Committee regularly reviews the nature and extent of non-audit work and related fees. The Board has developed a policy setting out the terms and conditions for engaging OneFamily's external audit to supply non-audit services. The policy is designed to protect objectivity and independence.

With Profits Sub-Committee

Nigel Masters (Chairman)

Peter Box

Ian Buckley

Steve Colsell (joined 22 September 2016)

Sub-Committee Meetings

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

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

The Sub-Committee approved the closure of the With-Profit 1 fund during the year.

Detailed duties and responsibilities of the Sub-Committee are contained in the Terms of Reference which can be viewed in the 'Our Story / Company Information' section of our website www.onefamily.com.

Member & Customer Sub-Committee

Graham Lindsay (Chairman, joined 22 September 2016)

Christina McComb (resigned as Chairman on 22 September 2016)

Simon Markey

Karl Elliott

The objectives of the Member & Customer Committee are to:

- Receive and approve recommendations from Executive in relation to the Society's Membership, Customer, Foundation and broader corporate responsibilities strategies
- Receive and approve recommendations from Executive of associated Operational Plans
- Receive and review updates as to the performance against key indicators for Membership, Customer and Foundation objectives against targets to include TCF and Customer Satisfaction reporting.
- Ensure that appropriate governance, risk mitigation and controls are in place in relation to Foundation, Customer and Member experience

The Sub-Committee meets at least four times each year.

Further details of these duties are contained in the Terms of Reference which can be viewed in the 'Our Story / Company Information' section of our website www.onefamily.com.

Attendance at Meetings In 2016

The Chairman and non-executive Directors meet independently of the executive Directors at least four times a year. Details of the activities of each individual Sub-Committee are summarised above and the terms of reference for each Sub-Committee can be found in the 'Our Story / Company Information' section of our website www.onefamily.com.

	Board of Directors	Nominations sub-Committee	Risk sub-Committee	With profits sub-Committee	Audit sub-Committee	Investment and product sub-Committee	Remuneration sub-Committee	Member and customer sub-Committee
Christina McComb (Chairman)	13 (13)	2 (2)				5 (5)	3 (3)	5 (5)
Norman Riddell (resigned 31.07.16)	8 (9)	1 (1)			8 (8)	2 (3)	1 (2)	
Nigel Masters	13 (13)	2 (2)	4 (4)	4 (4)	10 (10)			
Peter Box	13 (13)	2 (2)	4 (4)	4 (4)	10 (10)		2 (2)	
Ian Buckley	13 (13)	2 (2)	4 (4)	4 (4)		5 (5)	5 (5)	
Simon Markey	13 (13)	2 (2)				5 (5)		4 (5)
John Adams (resigned 31.12.16)	13 (13)							
Keith Meeres (resigned 15.07.16)	8 (8)							
Karl Elliott (resigned 31.12.16)	12 (13)							5 (5)
Steve Colsell (appointed 01.07.16)	4 (5)	1 (1)	1 (2)	3 (3)		2 (2)		
Graham Lindsay (appointed 01.07.16)	4 (5)	1 (1)			1 (2)		2 (2)	1 (1)
Teddy Nyahasha (appointed 25.07.16)	4 (4)							

The attendance of directors at scheduled Board meetings and attendance of those who are also members of the Sub-Committees at Sub-Committee meetings during the year is set out above. The number of meetings that each Director or subcommittee member could have attended is shown in brackets.

Member Relations

The Board is committed to maintaining good communications with members and is keen to develop its understanding of members' views and provide members with sufficient relevant information to enable them to understand the performance of OneFamily and its products. From time to time OneFamily conducts independent research and surveys with its members who provide valuable feedback to help OneFamily measure, and where necessary improve, its services. We hope that members will continue to participate in our surveys. Details of the Group's Member Relations strategy are available on our website at www.onefamily.com or from the Secretary.

Our Role as an Institutional Investor

The UK Stewardship Code has been introduced by the Financial Reporting Council (FRC) 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 (SSGA) for all our collective investment schemes and some of our unit linked funds and the remainder of our unit linked funds to Santander Asset Management and EdenTree Investment Management. We are not involved ourselves with undertaking stewardship activity on a day-to-day basis and so do not have direct engagement with companies held within the portfolios managed by these third parties. We monitor the stewardship activities of our investment managers through regular meetings and reporting.

As a responsible investor, we take seriously our role as an owner of the companies and endorse the UK Stewardship Code ('the Code') in which we are directly or indirectly invested. We expect all our third party investment managers to support and endorse the Code and its underlying Principles.

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 2019. A three-year period is appropriate for this viability assessment because the Group's internal strategic planning process also covers this time frame. Our business model and strategy are integral to understanding the Group's future prospects.

OneFamily adopts a prudent approach to Group strategy, with a focus on delivering value to our members and improving brand awareness, whilst meeting the needs of regulators under the new Solvency II capital regime. The Board participates fully in the planning process and performs a thorough review and challenge of the strategy and assumptions used, through stress and scenario testing of key economic, insurance and operational risks.

The Assessment Process

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

As part of the annual risk management and business planning cycle, OneFamily produces an Own Risk and Solvency Assessment (ORSA), which also covers the 2017-19 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.

Outcome of the Assessment Process

On the basis of the ORSA and the three-year Business Plan, the Directors are satisfied that the Group has appropriate risk management and governance procedures in place to manage and mitigate the risks that have been identified over the planning period. They are also confident that OneFamily's strategy is robust and that the Group has sufficient capital and liquidity to:

- meet regulatory capital requirements
- satisfy its capital risk appetite and
- grow the business going forward.

On the final point because OneFamily has no shareholders and therefore has no requirement to pay dividends, it is in a better position to invest in growing the business going forward.

Viability Statement

This detailed assessment was made recognising the principal risks and uncertainties that could have an impact on the future performance of the Group as detailed on pages 22 to 25 and its longer-term prospects in light of these. The Directors are confident that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to 31 December 2019.

Christina McComb

Chairman

27 April 2017

Remuneration report

This report sets out the Group's policy in relation to the remuneration of directors. The report, which will be submitted to the 2017 Annual General Meeting for approval, explains how the Group has applied the UK Corporate Governance Code as annotated for Mutual Insurers (the Annotated Code) requirements and the changes that have been made to directors' bonus schemes.

Remuneration Sub-Committee

The role of the Remuneration Sub-Committee is outlined on page 37.

Remuneration Policy

The Group's remuneration policy is set and overseen by the Remuneration Sub-Committee, and complies with the requirements of the Annotated Code and the Remuneration Code (the latter governed by the Financial Conduct Authority) and is reviewed annually. The policy is designed to attract, motivate and retain key executives (indeed all employees) with the relevant skills to help achieve the Group's objectives and to ensure that employees are rewarded for enhancing the level of service that we provide to our members. It is also designed to achieve an effective link between pay and performance whilst not encouraging undue risk taking.

The Group believes it is important that its mutual status is reflected in its remuneration policy. Bonus schemes are designed to be aligned to our members' interests by rewarding performance against key criteria that are important to our members, for example customer service, product performance and financial strength. This means that our bonus schemes are clear and measurable and reward performance that is of benefit to our members.

All employees were able to participate in a bonus scheme and 92% received a pro-rata bonus under the 2016 scheme.

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

Service Contracts

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. Fees for non-executive directors are reviewed each year.

Remuneration Components for Executive Directors Comprise

Base Salary

Base salaries reflect an individual's 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.

Bonus Schemes

The Remuneration Sub-Committee designed the 2016 bonus schemes to motivate and reward the implementation and delivery of the new strategy through the achievement of short term and longer term objectives. The bonus schemes are outlined below. The scheme rules have been defined to ensure compliance with the relevant remuneration codes and in 2017 the Remuneration Sub-Committee will seek independent advice as to how the current bonus schemes remain aligned to market practice and regulatory standards.

In 2016, the key principles underpinning each scheme include:

- Reward linked to individual and business performance (using balanced scorecard measurement against key criteria including customer service, financial and operational performance, employee engagement and risk control). There is an appropriate balance between fixed and performance-related, immediate and deferred remuneration. Performance related elements include non-financial metrics where appropriate and are relevant, stretching and designed to promote the long term success of the Group for the benefit of its members.

- Deployment of appropriate moderators to discourage excessive risk-taking, including the requirement for deferral of payment of a proportion of bonus and provisions to enable reduction, claw-back or forfeiture of bonus under certain defined scenarios.

- Reward of between 25-50% of maximum bonus potential for achievement of budgeted targets and up to 100% for achievement of stretch targets. Ultimately, any payment under the bonus schemes is at the discretion of the Remuneration Sub-Committee.

a) Short Term Incentive Scheme

The 2016 scheme was open to four executive directors and four non-board executives.

The key threshold targets are to generate specified minimum levels of income and profit, at an appropriately managed level of risk. The scheme rules require that 60% of all bonus entitlements are paid following completion of the financial year. The remaining 40% must be deferred and is payable in two equal parts on the first and second anniversary of the initial payment.

b) Long Term Incentive Scheme

The 2014 - 2016 scheme was open to three executive directors. Following the merger with Engage Mutual, the scheme was extended and the 2015 - 2017 scheme is open to four executive directors. The 2016 – 2018 scheme is open to four executive directors. The key threshold targets are to achieve specific Embedded Value growth targets. The scheme rules provide that payment of 50% of any bonus award shall be made only upon the third anniversary of the completion of the financial year on which the bonus award is made.

The remaining 50% must be deferred and is payable in equal parts on the first and second anniversary of the initial payment. An accounting provision has been made for potential awards under this scheme.

Pension

The Group participates in a Stakeholder pension scheme managed by Legal & General. Both the employer and the employee can make payments into this scheme. The Group previously operated a defined benefits pension scheme. The Family Assurance Staff Pension Scheme closed to future accrual of benefit from 31 December 2009 and the Homeowners Friendly Society Pension Scheme closed to future accrual of benefit from 31 December 2012.

Other Benefits

The Group provides other benefits to the executive directors including life assurance and private medical insurance, in line with market practice.

Board of Directors remuneration

		Salary/Fees		Bonuses[2]		Other Benefits[3]		Sub-total		Deferred Bonuses[2]		Total remuneration	
		2016 £'000	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000	**2016 £'000**	2015 £'000
Executives													
Simon Markey		**420**	388	**420**	403	**56**	51	**896**	842	**344**	327	**1,240**	1,169
John Adams[1]		**200**	196	**102**	113	**27**	26	**329**	335	**84**	91	**413**	426
Keith Meeres	Resigned 15.07.2016	**184**	164	**–**	94	**13**	22	**197**	280	**–**	69	**197**	349
Karl Elliott[1]		**168**	126	**40**	42	**20**	20	**228**	188	**27**	28	**255**	216
Teddy Nyahasha	Joined 25.07.2016	**105**	–	**79**	–	**10**	–	**194**	–	**69**	–	**263**	–
Peter Burrows	Resigned 30.06.2015	**–**	355	**–**	–	**–**	–	**–**	355	**–**	–	**–**	355
Non-Executives													
Christina McComb	Joined 01.04.2015	**105**	79	**–**	–	**–**	–	**105**	79	**–**	–	**105**	79
Norman Riddell	Resigned 31.07.2016	**36**	86	**–**	–	**–**	–	**36**	86	**–**	–	**36**	86
Peter Box		**59**	45	**–**	–	**–**	–	**59**	45	**–**	–	**59**	45
Ian Buckley		**63**	45	**–**	–	**–**	–	**63**	45	**–**	–	**63**	45
Nigel Masters	Joined 01.04.2015	**59**	34	**–**	–	**–**	–	**59**	34	**–**	–	**59**	34
Caroline Fawcett	Resigned 23.12.2015	**–**	34	**–**	–	**–**	–	**–**	34	**–**	–	**–**	34
Veronica Oak	Resigned 31.03.2015	**–**	9	**–**	–	**–**	–	**–**	9	**–**	–	**–**	9
Steve Colsell	Joined 01.07.2016	**23**	–	**–**	–	**–**	–	**23**	–	**–**	–	**23**	–
Graham Lindsay	Joined 01.07.2016	**23**	–	**–**	–	**–**	–	**23**	–	**–**	–	**23**	–
Total		**1,445**	1,561	**641**	652	**126**	119	**2,212**	2,332	**524**	515	**2,736**	2,847

Note 1 – Mr Adams and Mr Elliott resigned from the Society Board on 31 December 2016.

Note 2 – Bonuses include amounts added to, and movement in, the value of the long term incentive scheme and the short term incentive scheme.

Note 3 – Other benefits include pension contributions and cash payments in lieu of pension due to fixed protection into the Stakeholder Pension Scheme.

< Back to contents

Current long term incentive scheme

		Value at 01.01.2016 £'000	Bonus paid during 2016 £'000	Bonus added to be paid 2017 £'000	Deferred bonus added to be paid after 2017 £'000	Value of deferred bonus at 31.12.2016 £'000
Executives						
Simon Markey		350	(175)	193	193	561
John Adams[1]		96	(48)	48	48	144
Keith Meeres	Resigned 15.07.2016	82	(41)	–	–	41
Total		**528**	**(264)**	**241**	**241**	**746**

Note 1 – Mr Adams resigned from the Society Board on 31 December 2016.

Short term incentive scheme

		Value at 01.01.2016 £'000	Bonus paid during 2016 £'000	Bonus added to be paid 2017 £'000	Deferred bonus added to be paid after 2017 £'000	Value of deferred bonus at 31.12.2016 £'000
Executives						
Simon Markey		577	(356)	227	151	599
John Adams[1]		161	(100)	54	36	151
Keith Meeres	Resigned 15.07.2016	113	(71)	–	–	42
Karl Elliott[1,2]		149	(84)	40	27	132
Teddy Nyahasha	Joined 25.07.2016	–	–	29	19	48
Total		**1,000**	**(611)**	**350**	**233**	**972**

Note 1 – Mr Adams and Mr Elliott resigned from the Society Board on 31 December 2016.

Note 2 – Values include amounts transferred from the Homeowners Friendly Society bonus scheme which closed 31 December 2014.

Back to contents >

Pension Entitlements

Three executive directors have retirement benefits accruing under the Group's defined benefit pension schemes. The Family Assurance Staff Pension Scheme closed to future accrual of benefits from 31 December 2009, the Homeowners Friendly Society Pension Scheme closed to future accrual of benefits from 31 December 2012. Five executive directors receive either benefits under the Group's defined contribution pension scheme or a payment in lieu of these benefits where lifetime allowances have been reached. The table below sets out the contributions received under the Group pension schemes:

		Age at 31.12.2016	Normal retirement age	Total deferred DB pension at date of Scheme closure[2] £'000	Single pension figure for 2016[3] £'000	Comparison single pension figure for 2015 £'000
Executives						
Simon Markey		51	65	–	–	–
John Adams[1]		61	65	58	–	–
Keith Meeres	Resigned 15.07.2016	59	65	56	–	–
Karl Elliott[1]		44	60	32	18	19
Teddy Nyahasha	Joined 25.07.2016	42	65	–	9	–

Note 1 – Mr Adams and Mr Elliott resigned from the Society Board on 31 December 2016.

Note 2 – The total deferred pension is the annual pension amount accrued by the exectuive director as at 31 December 2009 under the Family Assurance Staff Pension Scheme and 31 December 2012 under the Homeowners Friendly Society Pension Scheme, the dates the Schemes closed to all future accrual. Deferred defined benefit pensions receive statutory revaluation up to Normal Retirement Age and inflationiary increases in payment as specified in the Scheme rules.

Note 3 – This single figure is equal to the contributions to the directors' stakeholder pension scheme paid by the Society during 2016. Contributions into the defined benefit scheme were £nil.

The main terms applying to the Family Assurance final salary pension of John Adams and Keith Meeres are that their pension is payable from normal retirement age of 65 and that a spouse's pension is payable on death at 50% of that executive director's pension. The main terms applying to the Homeowners Friendly Society final salary pension of Karl Elliott is that his pension is payable from normal retirement date of 60 and that a spouse's pension is payable on death at 2/3rds of his pension.

Ian Buckley
Chairman of the Remuneration Committee
27 April 2017

Independent auditor's report

To the Members of Family Assurance Friendly Society Limited Only.

Opinions and Conclusions Arising from our Audit

Our Opinion on the Financial Statements is Unmodified

We have audited the financial statements of Family Assurance Friendly Society Limited for the year ended 31 December 2016 set out on pages 54 to 115. In our opinion the financial statements:

- give a true and fair view, in accordance with UK Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland of the state of the Group's and of the Society's affairs as at 31 December 2016 and of the income and expenditure of the Group and of the Society for the year then ended; and

- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Our Assessment of Risks of Material Misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

Long Term Business Provision £264m (2015: £255m) Risk vs 2015

Refer to page 38 (Audit Committee Report), pages 60 to 72 (accounting policy) and page 104 (note 23: Technical Provisions of the notes to the financial statements).

The risk:

The Society has significant insurance liabilities representing 15% of the Society's total liabilities and 15% of the Group's total liabilities. This is an area that involves significant judgement as there is usually a significant period over which policies are in force, during which time premiums will be paid in and, subsequently, benefits may be paid out at an indeterminable time in the future, and it is necessary to make provisions for the future liability to pay benefits to the policyholders.

Economic assumptions such as future investment return and the allowance for credit risk in the valuation interest rates and non-economic assumptions, such as future expenses, mortality and persistency are all key inputs into estimating the long term business provision and are inherently uncertain.

The Chief Actuary makes recommendations to the Directors based on significant judgements. Due to the subjective and complex nature of the judgements supporting the recommendations that need to be considered and adopted by the Directors, there is an inherent risk that actuarial reserves may not be sufficient to cover future cost of claims. There is also a risk that the reserves may be materially misstated as the calculations are complex. The actuarial models have been moved to a new platform in the year, which is a complex process that might be completed incorrectly, and hence the models may produce results that are materially misstated.

Our response:

We were assisted by our own actuarial specialists to understand and challenge the Society's reserving practices and valuation of provisions established throughout our audit procedures in this area.

In considering the appropriateness of the key non-economic assumptions we involved our actuarial specialists to assess the Society's historical experience and considered those assumptions against industry data and our knowledge of the business. In respect of economic assumptions we considered the Society's assumptions for investment mix and projected investment returns by reference to Society-specific and industry data.

We considered the reserving assumptions and methodology for prudence and consistency with prior years, and benchmarked those against peer companies where appropriate. We also set expectations for the year end reserves based upon our understanding of changes to the business and economic environment and tested the reported movements against those expectations. In particular, we looked to identify whether there was any material bias arising in the reserving.

Our audit procedures also included evaluating and testing the effectiveness of controls around the reserving process, including the controls applied in the model transfer. We also tested that the model accurately calculated the prior year reserves, and that the model was working as expected.

We also assessed whether the Society's disclosures in relation to the assumptions used in the calculation of the long term business provision, in particular the sensitivities of these assumptions to alternative scenarios or inputs, are compliant with relevant accounting requirements.

Carrying Value of Present Value of In-Force Business £49m (2015: £52m) Risk vs 2015

Refer to page 38 (Audit Committee Report), pages 60 to 72 (accounting policy) and page 104 (notes to the financial statements).

The risk:

A Present Value of In-force Business ('PVIF') intangible asset was recognised on the Society statement of financial position upon the acquisition of Homeowners Friendly Society Limited by Family Assurance Friendly Society Limited to reflect the expected emergence of value from the acquired business. The carrying value of the PVIF is amortised using an amortisation profile that estimated the run-off profile of the acquired business at the point of recognition. The carrying value of the PVIF asset is material to the Society statement of financial position, and it could be materially misstated due to possible variations in the underlying cash flows that were analysed to support the asset on recognition.

In testing the recoverability of the PVIF asset, the Society is required to also consider the carrying amount of the associated contract liabilities and deferred acquisition cost asset. The expected future cash flows used to test the aggregated balance for impairment incorporate experience variances from policyholder data and up-to-date economic assumptions to revise the original cash flow expectations. Current expectations of the discounted future cash flows could be materially below the carrying value of the aggregated asset as a result of changes in management's assumptions based on their experience analysis and changes in the economic environment.

Our response:

With assistance from our own actuarial specialists we challenged the Society's assessment of the carrying value of PVIF.

We assessed the Society's process and methodology for determining whether the PVIF asset was impaired with reference to the requirements of the relevant accounting standards.

We tested the inputs to the calculation by challenging the judgements applied by management in updating the assumptions for experience variance and economic changes by validating the assumptions against actual experience and market information. Further, we set our own expectation for the assumptions based upon our understanding of the business and economic environment and compared that to management's own assumptions.

We also assessed the adequacy of the Society's disclosures in respect of the carrying value of PVIF.

Our Application of Materiality and an Overview of the Scope of our Audit

The materiality for the Group financial statements as a whole was set at £5.6m (2015: £3.1m), determined with reference to the Group's retained earnings and funds for future appropriations ('FFA'), of £198.3m (2015: £193.5m), of which it represents 2.8% (2015: 1.6%).

We consider Group retained earnings and FFA to be the most appropriate benchmark as all profit in the mutual is reinvested and therefore retained earnings and FFA represent the security of the policyholders' interests as well as capital to develop the business.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £280,000, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 reporting components, we subjected 12 to audits for group reporting purposes. Audits of the components were performed by the group audit team. These 12 audits covered 100% (2015: 100%) of the Group's income, 100% (2015: 100%) of surplus of technical income over technical charges before taxation and 100% (2015: 100%) of total assets.

The audits of the components were undertaken using materiality levels that were applicable to each component and which individually were lower than the materiality set for the group financial statements as a whole. These materiality levels ranged from £85k to £5.5m.

Our Opinion on Other Matters Prescribed by the Friendly Societies Act 1992 is Unmodified

In our opinion:

- the Strategic Report and the Directors report have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the accounting records and the financial statements for the financial year.

We Have Nothing to Report in Respect of the 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:

- proper accounting records have not been kept;

- the financial statements to be audited are not in agreement with the accounting records; or

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

In addition to our audit of the financial statements, the Board of Directors has engaged us to review whether the Corporate Governance Statement reflects the society's compliance with the 11 provisions of the Annotated Corporate Governance Code for Mutual Insurers (published by the Association of Financial Mutuals) specified for our review.

Respective Responsibilities of the Board of Directors and Auditor

As explained more fully in the Statement of Responsibilities of the Board of Directors set out on page 30, the Board of Directors is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of an Audit of Financial Statements Performed in Accordance with ISAs (UK and Ireland)

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made subject to important explanations regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeother2014 which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

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 and the terms of our engagement by the Society. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and the further matters that we have agreed to state to them in accordance with the terms agreed with the Society, 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.

Jonathan Holt (Senior Statutory Auditor)

for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants
One St Peter's Square
Manchester
M2 3AE

27 April 2017

Group and Society Statement of Income and Expenditure Accounts

for the year ended 31 December 2016

Technical Account Long-Term Business	Notes	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Earned premiums, net of reinsurance					
Gross premiums written	5	**37,187**	26,870	**37,187**	26,870
Outward reinsurance premiums	5	**(10,567)**	(7,825)	**(10,567)**	(7,825)
Investment income	6	**66,485**	69,294	**70,109**	80,543
Unrealised gains/(losses) on investments	6	**117,183**	(45,365)	**117,183**	(45,365)
Other technical income	13	**7,828**	4,876	**8,913**	7,080
Claims incurred, net of reinsurance					
Gross claims incurred	7	**(34,868)**	(21,104)	**(34,868)**	(21,104)
Outward claims reinsurance	7	**9,281**	5,851	**9,281**	5,851
Change in long-term business provision, net of reinsurance	23	**6,976**	15,416	**6,976**	15,416
Change in gross liability for investment contracts		**(148,057)**	(14,410)	**(148,057)**	(14,410)
Other technical charges		**(7,427)**	(4,230)	**(7,427)**	(4,231)
Goodwill and intangibles amortisation	16, 23	**(5,903)**	(4,644)	**(5,903)**	(4,644)
Net operating expenses	9	**(33,577)**	(37,412)	**(33,577)**	(37,412)
Investment expenses and charges	6	**(3,547)**	(2,316)	**(3,547)**	(2,316)
Taxation credit	15	**1,377**	2,175	**1,377**	2,175
Transfer from the fund for future appropriations		**2,401**	3,359	**2,401**	3,359
Balance on the long-term business technical account		**4,772**	(9,465)	**9,481**	3,987

The notes to the financial statements on pages 74 to 115 are an integral part of these financial statements.

Group and Society Statement of Income and Expenditure Accounts (continued) for the year ended 31 December 2016

Technical Account General Business **Discontinued operations**	Notes	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Earned premiums					
Gross premiums written		**-**	2,601	**-**	-
Change in unearned premiums		**-**	494	**-**	-
Claims incurred					
Claims paid		**-**	(2,952)	**-**	-
Change in provision for claims		**-**	531	**-**	-
Other technical charges		**-**	(134)	**-**	-
Net operating expenses	9	**-**	**(934)**	**-**	-
Balance on the general business technical account (discontinued)		**-**	**(394)**	**-**	**-**

The Technical Account – General Business contains the results of Engage Mutual Health that became part of the Group as a result of the merger with Homeowners Friendly Society Group (see note 3). Subsequently, Engage Mutual Health was sold on 30 October 2015 and hence the operations are disclosed as discontinued (see note 4).

Non-Technical Account **Continuing operations**	Notes	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Balance on the long-term business technical account		**4,772**	(9,465)	**9,481**	3,987
Balance on the general business technical account (discontinued)		**-**	(394)	**-**	-
Other income	14	**41,124**	36,124	**-**	-
Net operating expenses	9	**(35,466)**	(25,250)	**-**	-
Goodwill and intangibles amortisation	16	**(114)**	-	**-**	-
Other costs		**-**	-	**-**	-
Profit on disposal of subsidiary	4	**100**	300	**-**	-
Excess of income over expenditure on ordinary activities before tax		**10,416**	1,315	**9,481**	3,987
Tax on excess of income over expenditure on ordinary activities	15	**(855)**	285	**-**	-
Excess of income over expenditure after tax		**9,561**	1,600	**9,481**	3,987

The notes to the financial statements on pages 74 to 115 are an integral part of these financial statements.

Group and Society Statement of Other Comprehensive Income
for the year ended 31 December 2016

	Notes	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Excess of income over expenditure after tax		**9,561**	1,600	**9,481**	3,987
Remeasurement of defined benefit scheme	29	**(2,501)**	(2,534)	**(2,000)**	(2,000)
Unrealised gain on property revaluation		**162**	1,000	**162**	1,000
Total recognised profit in the year		**7,222**	66	**7,643**	2,987

Group and Society Statement of Changes in Equity
for the year ended 31 December 2016

	Notes	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Retained earnings					
Reported at 1 January		**150,905**	46,475	**151,048**	46,475
Increase in equity due to business combination	3	**-**	104,364	**-**	101,586
Total recognised profit in the year		**7,222**	66	**7,643**	2,987
As at 31 December		**158,127**	150,905	**158,691**	151,048

The notes to the financial statements on pages 74 to 115 are an integral part of these financial statements.

Group and Society Statement of Financial Position
as at 31 December 2016

Assets	Notes	Group 2016 £'000	Group 2015 £'000	Society 2016 £'000	Society 2015 £'000
Intangible assets					
Goodwill	16	**2,548**	1,061	**946**	1,061
Other intangible assets	16	**5,957**	4,069	**957**	4,069
Investments					
Investment in land and buildings	17 & 19	**4,513**	9,350	**4,513**	9,350
Investment in group undertakings	18	**-**	-	**15,577**	6,035
Assets held to cover linked liabilities	19	**1,349,451**	1,305,993	**1,349,451**	1,305,993
Non-linked financial investments	19	**283,749**	273,215	**274,468**	266,219
Debtors	19 & 20	**11,197**	11,978	**25,592**	13,449
Reinsurers' share of technical provisions					
Long-term business provision	23	**91,971**	76,028	**91,971**	76,028
Other assets					
Tangible assets	21	**1,432**	154	**1,112**	-
Cash at bank	19	**47,782**	54,663	**36,245**	51,524
Deferred taxation	15	**1,404**	1,378	**-**	-
Prepayments and accrued income					
Accrued interest and rent		**2,541**	3,056	**1,256**	1,408
Deferred acquisition costs	22	**19**	104	**19**	104
Other prepayments and accrued income		**1,386**	1,701	**1,367**	1,324
Total assets		**1,803,950**	**1,742,750**	**1,803,474**	**1,736,564**
Net pension asset	29	**-**	**-**	**-**	**-**
Total assets including the pension asset		**1,803,950**	**1,742,750**	**1,803,474**	**1,736,564**

The notes to the financial statements on pages 74 to 115 are an integral part of these financial statements.

Group and Society Statement of Financial Position
as at 31 December 2016

Liabilities	Notes	Group 2016 £'000	Group 2015 £'000	Society 2016 £'000	Society 2015 £'000
Retained earnings	28	**158,127**	150,905	**158,691**	151,048
Fund for future appropriations (FFA)	27	**40,160**	42,561	**40,160**	42,561
Technical provisions					
Long-term business provision	23	**215,248**	203,281	**215,248**	203,281
Claims outstanding	23	**7,905**	8,635	**7,905**	8,635
Technical provision for linked liabilities	24	**1,348,522**	1,304,487	**1,348,522**	1,304,487
Deposits from reinsurers		**7,421**	6,337	**7,421**	6,337
Creditors					
Creditors arising out of insurance operations	25	**993**	776	**993**	1,390
Other creditors including taxation and social security	26	**4,592**	5,893	**8,779**	6,346
Accruals and deferred income		**20,982**	19,875	**15,755**	12,479
Total liabilities		**1,803,950**	1,742,750	**1,803,474**	1,736,564

The notes to the financial statements on pages 74 to 115 are an integral part of these financial statements. Approved at a meeting of the Board of Directors on 27 April 2017 and signed on its behalf by:

Simon Markey
Chief Executive

Christina McComb
Chairman

Simon Allford
Secretary

Statement of accounting policies

General Information

Family Assurance Friendly Society Limited (FAFSL or the Group) is incorporated under the Friendly Societies Act 1992. The address of the registered office is 16-17 West Street, Brighton, BN1 2RL. FAFSL together with its Subsidiaries forms the consolidated Group known as 'OneFamily'.

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 FRS 103 "Insurance contracts" (FRS 103) as it applies to the financial statements of the Group for the year ended 31 December 2016.

B. Summary of Significant Accounting Policies

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

C. Basis of Preparation

These consolidated and separate 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.

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

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

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

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

D. Business Combinations and Goodwill

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

Statement of accounting policies

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 new 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 financial statements 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 dates 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.

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.

Back to contents >

Statement of accounting policies

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 'Gross liability for investment contracts.'

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, but 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 with dpfs.

H. Long-Term Business

Premiums

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

Claims

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

Statement of accounting policies

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

Certain 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 P - 'Valuation of insurance liabilities' and policy Q – '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 7, 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, offset against any premium income.

I. General Business

Premiums

General business premiums comprise the total premiums due for the whole period of cover excluding insurance premium tax. Unearned premiums are calculated as the unexpired element of risk spread on a straight line basis across the period of the policy.

Claims

General business claims incurred comprise claims paid during the financial year together with the movement in the provision for outstanding claims, including an estimate of claims incurred but not reported (IBNR) at the year end. Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the statement of financial position date whether reported or not.

J. 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 share holdings 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.

Back to contents >

Statement of accounting policies

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.

K. 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 profit and loss, 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 less attributable transaction costs. Basic financial liabilities including trade and other creditors are recognised initially at transaction price plus 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 profit or loss.

Loans and receivables, comprising mortgages 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 profit or loss

The Group measures other financial assets including investments in equity instruments which are not subsidiaries at fair value, using the transaction price. Such assets are subsequently carried at fair value and the changes in fair value are recognised in profit or loss. 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 prices; and
- unlisted investments are carried at fair value as determined by the Directors.

Statement of accounting policies

In compliance with FRS 102, the Group discloses in note 19 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 active quoted prices	1
Using other observable inputs	2
Using ‘other’ (valuation technique)	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 mortgages 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 profit and loss as permitted under FRS 102.

Other Financial Instruments

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

Derivative financial instruments

Derivatives are initially recognised at fair value, which usually represents their cost, including any premium paid. They are subsequently re-measured 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 is 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.

Statement of accounting policies

L. 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.

Origination and service income in relation to Lifetime Mortgages is recognised, as services are provided. Origination fees, which take the form of one-off payments, are generated on each loan originated and are based on the value of the property. They are receivable in advance of completion. Service income received on mortgages under management is received one month in arrears.

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.

M. 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). Goodwill arising on long term business is amortised over a period of 10 years.

The UEL of other intangible assets recognised at acquisition are as follows:

Brand and Foundation	2 years
IT & Systems	3 Years
Beneficial Contracts	4 Years
Acquired funds under management	10 Years

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

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 for impairment annually at the statement of financial position date or if the above factors indicate that the carrying amount may be impaired.

Present Value of In-force (PVIF) Business

PVIF business 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.

This is amortised over the expected life of the acquired policies.

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

Statement of accounting policies

N. 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
Motor vehicles	4 Years

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

A review for 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. 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 profit or loss. Any deficit on revaluation is recognised in Profit or Loss 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 profit or loss 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 FRS102 until a reliable measure of fair value becomes available.

Back to contents >

Statement of accounting policies

O. 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 account.

P. Valuation of Insurance Liabilities

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

No explicit provision is made for future final (terminal) bonuses under this basis. Implicit provision for part of future yearly (reversionary) bonuses is included in the Long Term Business Provision.

Q. 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).

R. 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.

Statement of accounting policies

Except as set out in FRS 102, 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.

S. 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, and

(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.

T. 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 team are included in the Remuneration report.

Statement of accounting policies

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 Family Assurance Staff Pension Scheme (the 'Family Scheme')

The Group operates 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 new 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.

A defined contribution scheme was introduced for staff whose employment commenced after 6 April 2001.

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 profit or loss.

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

Statement of accounting policies

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. The key threshold target is to generate specified minimum levels of income and profit. 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. The key threshold target is to achieve specific Embedded Value growth targets. A liability for the plan is raised on the estimated amount payable.

U. Foreign Currency

i. Functional and Presentation Currency

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

V. Operating Leases

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

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

W. Cash Flow Statement

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

Statement of accounting policies

X. Retained Earnings and Fund for Future Appropriations

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

The non-profits fund surplus, which has previously been included within the Fund for Future Appropriations (FFA) is designated as retained earnings and all profits and losses of the Group and Society that do not relate to with-profits funds are reclassified within retained earnings in the statement of financial position.

The Group includes two 100% ring-fenced with-profits funds, the surpluses on these have previously been included within the reported FFA. 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, 'Fund for future appropriation'. 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.

Y. Contingent Reinsurance Financing

The Group receives reinsurance financing on sales of its Over 50s life cover from reinsurers. The financing repayment is contingent upon margins emerging on the business in future years. The advances are receivable at the inception of a policy and are included as income within Other Technical Income in the Technical Account – Long-Term Business. The repayment of the financing advance is repayable as the margins emerge and is included in Other Technical Charges. The amount of refinancing repayable at the statement of financial position date is included on the statement of financial position as deposits from reinsurers.

Z. Related Party Transactions

The Group discloses transactions with related parties which are not wholly owned within the same 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.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Notes to the financial statements

for the year ended 31 December 2016

1. Management of Financial and Insurance Risk.

a. Market Risk – Interest Rate and Equity

Interest Rate Risk

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

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

Equity Price Risk

The Group has exposure to equity securities both directly through equity securities held and indirectly through holdings in Open Ended Investment Companies (OEICs) and Authorised Unit Trusts which in turn invest, partially and wholly, in equity securities. Exposure to individual companies is managed for solvency purposes.

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

b. Credit Risk

Credit risk is the risk that counterparties will be unable to pay amounts in full when they fall due. The Group is primarily exposed to credit risk in relation to 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, and on corporate bonds and bank deposits.

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.

Notes to the financial statements

for the year ended 31 December 2016

1. Management of Financial and Insurance Risk (continued)

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 on-going 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 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Reinsurers Share of Technical Provisions	**91,971**	76,028	**91,971**	76,028
Non linked financial investments	**213,629**	199,978	**204,348**	199,550
Debtors	**11,197**	11,978	**25,592**	13,449
Cash at bank	**47,782**	54,663	**36,245**	51,524
Total assets bearing credit risk	**364,579**	342,647	**358,156**	340,551
Debt and other assets rated as:				
UK government	**155,431**	151,084	**155,431**	151,084
A rated and above	**179,498**	157,464	**178,328**	154,325
B Rated – BBB	**19,174**	19,993	**19,174**	19,993
Below BBB or not rated	**10,476**	14,106	**5,223**	15,149
Total assets bearing credit risk	**364,579**	342,647	**358,156**	340,551

Credit risk on linked assets is borne by the policyholder, since policy benefits are linked directly to assets. These assets are therefore not disclosed in the above credit risk exposures.

c. 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 it may defer the payments until such time liquid assets can be realised.

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.

Notes to the financial statements

for the year ended 31 December 2016

1. Management of Financial and Insurance Risk (continued)

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

Liquidity Risk	Total £'000	Within 1 Year £'000	1-5 Years £'000	5-15 Years £'000	More than 15 Years £'000
At 31 December 2016					
Long term business					
Non profit fund	**78,351**	**2,998**	**15,283**	**30,001**	**30,069**
With profit 1	**54,672**	**7,198**	**25,646**	**19,795**	**2,033**
With profit 2	**46,723**	**5,300**	**19,045**	**15,842**	**6,536**
Total	**179,746**	**15,496**	**59,974**	**65,638**	**38,638**
At 31 December 2015					
Long term business					
Non profit fund	83,557	2,900	15,100	30,793	34,764
With profit 1	51,585	4,200	21,300	22,485	3,600
With profit 2	50,603	5,700	21,300	16,700	6,903
Total	185,745	12,800	57,700	69,978	45,267

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 are classed as repayable on demand and 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 completed.

d. Lapse Risk

Lapse rate is a measure of the proportion of long-term policies that leave the Group over a period of time, excluding deaths and maturities. Lapse risk arises where the value of policies remaining in force is lower than anticipated.

The methodology for calculating the long-term business provision for the majority of whole of life business allows the utilisation of PRA Policy Statement 06/14 (PS06/14). Under PS06/14 negative reserves, which are assets sat within the overall long–term business provision, are permitted subject to an allowance for lapses. Higher lapses will lead to the negative reserves being lower.

e. Expense Risk

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

Notes to the financial statements

for the year ended 31 December 2016

1. Management of Financial and Insurance Risk (continued)

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

f. Mortality and Longevity Risk

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

Longevity risk in relation to the annuity business would arise if annuitants lived longer than anticipated. The Group manages annuitant longevity risk by setting a prudent valuation assumption and monitoring actual experience. The Group also monitors the need for reinsurance as a tool for managing longevity risk. An increase in longevity would expect to be offset, to an extent, by a decrease in mortality on the whole of life business, and vice versa.

g. 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.

h. Capital Management

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

The Group is a mutual organisation and there are no shareholders. As at 31 December 2016 the available capital resources consisted of the Retained Earnings and Fund for Future Appropriations (FFA). The FFA is the accumulated surplus that has not yet been allocated to policies. It is ring fenced and can only be used to fund the with-profit schemes to which it relates.

The Group is subject to regulation by the Prudential Regulation Authority (PRA). In reporting financial strength, capital resources and solvency are measured following the regulations provided by the PRA.

Modified statutory solvency, based on the INSPRU rules as at 31 December 2015, and reported in these financial statements sets liabilities on a prudent basis so that the margins of prudence are expected to be sufficient to withstand shocks or stresses. Additional reserves are also held to ensure that the Group can be expected to discharge its responsibilities to policyholders at all times up until their policies mature.

Notes to the financial statements

for the year ended 31 December 2016

1. Management of Financial and Insurance Risk (continued)

The PRA requires companies to undertake capital tests using a number of market consistent approaches and to report privately to the PRA on the results. The PRA has developed a new set of capital requirements based on EU rules for insurers – Solvency II. The Solvency II rules have applied from 1 January 2016. The Group (including the Society and its regulated subsidiaries) have been monitoring the development of the Solvency II requirements and a project to ensure it meets the requirements from 1 January 2016, has been successful.

Capital Management Objectives

The Group'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.

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 faced, in the tables below, on the Group's long term business liabilities in both the current and prior year.

Long-term Business Provision (LTBP) Sensitivities – £'000 – 2016

	Mortality		Lapse	Expenses		Fix Int Yield		Equities/Property	
Fund	**5%**	**-5%**	**10%**	**10%**	**-10%**	**20%**	**-20%**	**10%**	**-10%**
Non profit fund	700	2,000	(400)	2,400	(2,300)	(5,600)	6,800	–	–
With profits fund 1	–	–	–	300	(300)	(600)	800	–	–
With profits fund 2	(100)	100	–	–	–	(600)	700	100	–
Change in LTBP	**600**	**2,100**	**(400)**	**2,700**	**(2,600)**	**(6,800)**	**8,300**	**100**	–

Long-term Business Provision (LTBP) Sensitivities – £'000 – 2015

	Mortality		Lapse	Expenses		Fix Int Yield		Equities/Property	
Fund	**5%**	**-5%**	**10%**	**10%**	**-10%**	**20%**	**-20%**	**10%**	**-10%**
Non profit fund	954	1,863	(290)	3,950	(3,839)	(6,508)	8,158	–	–
With profits fund 1	(19)	21	–	258	(240)	(599)	911	–	–
With profits fund 2	(53)	56	–	–	–	(865)	1,024	–	–
Change in LTBP	**882**	**1,940**	**(290)**	**4,208**	**(4,079)**	**(7,972)**	**10,093**	–	–

Notes to the financial statements

for the year ended 31 December 2016

1. Management of Financial and Insurance Risk (continued)

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

Operational Risk – Key Suppliers / Business Partners

As part of our risk and capital management we consider all aspects of the operational risks relating to our internal processes and business model. Within the evaluation we consider our resilience and protections against financial or operational failure of key suppliers.

Our strategic suppliers and the services they provide to us are as follows:

Strategic Supplier	Services Provided
Munich Re	Risk transfer and financial reinsurance services
Hannover Re	Risk transfer and financial reinsurance services
National Australia Banking Group	Savings and protection distribution
Santander Asset Management	Investment management services
Insight Investments	Investment management services
EdenTree Investment Managers	Investment management services
The Bank of New York Mellon	Custody services
The Bank of New York Mellon (International) Limited	Accounting and administration services
Oracle	Database management for policy administration
Microsoft	Software and operating systems for end user computing
Barclays	Principal banker/Investment management services
Bank of Ireland	Savings distribution
State Street Group	Investment management, custody & trustee services
Willis Towers Watson	Actuarial services
KPMG LLP	External auditors
Royal Bank of Scotland	Principal banker

Funding of Subsidiary Undertakings

All Group Companies are wholly owned subsidiaries of Family Assurance Friendly Society Limited (the Group).

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.

Notes to the financial statements

for the year ended 31 December 2016

1. Management of Financial and Insurance Risk (continued)

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 restrictions on the available capital held in the non profit fund.

Guarantees

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

- Maturity values – on conventional and unitised with profits policies there is a guarantee that on the maturity date there will be a minimum pay out of the sum assured plus any declared bonuses.
- Return of premium guarantees – on certain unitised with profits policies there is a guarantee that an amount not less than the initial premium will be paid out on the policies' 5th, 10th and each subsequent 10th anniversary. An explicit charge is made for this guarantee.

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

Notes to the financial statements

for the year ended 31 December 2016

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 2015.

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

Key economic and longevity assumptions are considered and approved by the Board having sought appropriate guidance from the Chief Actuary. Assumptions are compared to market available data sources in order to ensure that assumptions adopted are in line with general practice for the relative business types.

Further information is provided in Accounting Policies P and in note 23 to these financial statements.

Defined Benefit Pension Scheme

The Group has obligations to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the statement of financial position. Further information is provided in note 29 to these financial statements.

Acquisition Accounting for the Business Combination in the Prior Year.

In accounting for the merger of FAFSL and HFSL during the prior year, the Directors have necessarily made judgements in the areas of:

- The application of acquisition accounting as required under FRS 102 to a transaction with no cash consideration and a combination that took the form of a merger;
- Intangible assets – their valuation at fair value and their useful economic lives;
- Imputed consideration – the value of the equity interests of the Engage business at the point of merger; and
- The recognition of the Present Value of In-Force (PVIF) of the Engage business.

In making these judgements and estimates the Directors have utilised existing skills and experience within the business, third party experts and actuarial valuation techniques applied by appropriately skilled individuals.

Further information as to the basis of these calculations is provided in note 3 to these financial statements.

Notes to the financial statements

for the year ended 31 December 2016

3. Mergers and Acquisitions

Acquistion of OneFamily Lifetime Mortgages Limited (OFLM)

On 18 April 2016, Family Assurance Friendly Society Limited (FAFSL) acquired OneFamily Lifetime Mortgages Limited (OFLM), formerly known as ACE, whose principal activity is the provision and servicing of lifetime mortgages.

As set out in accounting policy D 'Business combinations and goodwill,' business combinations are accounted for under Section 19 Business Combinations and Goodwill of FRS 102. Under the purchase method required by this standard, an acquirer (FAFSL) and acquiree OFLM (ACE) are identified.

The acquisition took the form of a share purchase. On 18 April 2016, the sole previous owner of ACE transferred 1,000 A Ordinary shares of £0.10 to FAFSL for a purchase price of £37,573 and FAFSL simultaneously acquired the pre 24 September 2015 accumulated ACE shareholder indebtedness of £237,427 from the previous owner. Immediately upon completion of the purchase OFLM amended its Articles of Association to create 2,957,427 B Ordinary shares of £1 each which were then issued at par to FAFSL, satisfied by inter-company debt of £2,957,427.

When OFLM was acquired there was a contractual agreement in place resulting in a 10% non-controlling interest (NCI), comprising of a shareholding of 111 A Ordinary Shares in OFLM valued at £30k. The Group was committed to re-acquiring these shares and in October 2016 a share buy-back agreement was put in place, which enables the NCI shareholder to sell their shares back to FAFSL, and for FAFSL to purchase the same shares. The purchase consideration is a performance-based exit price, and is to be settled in cash, after a three year period. The financial impact of this payment on the Group's financial statements for the year ended 31 December 2016 is not material. This has resulted in OFLM being a 100% subsidiary of the Society.

Net assets with a fair value of £1,279k were acquired. In addition, £1,716k of Goodwill was also recognised at Group level. In accordance with purchase (acquisition) accounting under FRS 102, the acquirer is required to identify and measure at fair value (on an arm's length basis) any intangible assets that exist at the acquisition date.

FAFSL has included in goodwill the value of any acquired intangible asset that is not identifiable as of the acquisition date. Goodwill is the excess amount of consideration and transaction costs over the fair value of the assets acquired and liabilities assumed. It is considered that the acquisition of OFLM presents strategic and financial benefits for the Group and provides it with a vehicle for entering the lifetime mortgages market. In accordance with FRS 102, goodwill is considered to have a finite useful life. This line of business is expected to grow over the next decade and as such goodwill is to be amortised over its UEL of 10 years. This also complies with the maximum useful life of goodwill being set in FRS 102 at 10 years if companies are unable to make a reliable estimate.

All intangible assets will be reviewed for impairment should there be a change in conditions that affect the fair value of these assets.

< Back to contents

Notes to the financial statements

for the year ended 31 December 2016

3. Mergers and Acquisitions (continued)

Merger of Family Assurance Friendly Society Limited (FAFSL) and Homeowners Friendly Society Limited (HFSL)

On 1 April 2015, Family Assurance Friendly Society Limited (FAFSL) merged with Homeowners Friendly Society Limited (HFSL). The merger was effected under paragraph 86 (5)(a) of the Friendly Society Act 1992, transferring all of the assets into Family Assurance Friendly Society Ltd, trading as OneFamily.

Accounting Treatment Adopted Under UK GAAP

UK GAAP provides little guidance as to how to apply acquisition accounting to the merger of two mutuals. Under such circumstances guidance may be sought from the corresponding International Accounting Standards.

International Financial Reporting Standard 3 Business Combinations (“IFRS 3”), not only provides greater guidance in respect of business combinations where there is no consideration, it also provides specific application guidance to the situation of two mutuals merging. As such these financial statements have adopted the accounting treatment prescribed under IFRS 3.

Under this approach a ‘deemed acquirer’ and a, ‘deemed acquiree’ are required to be identified. As the assets and liabilities of HFSL were transferred into FAFSL the convention of defining FAFSL as ‘the deemed acquirer’ and HSFL as the ‘deemed acquiree’ has been adopted.

Under the application of IFRS 3 it is the assets and liabilities of HFSL that are fair valued in accordance with general acquisition accounting principles.

Under the merger there was no cash consideration, the assets and liabilities of both legacy Groups were combined all having equal rights in the enlarged Group.

IFRS requires that for a merger of this type an ‘imputed consideration’ should be calculated to determine the amount of goodwill arising on the acquisition. In describing the basis of this imputed consideration, the Standard draws comparisons to the value that ‘equity holders’ would place on their interest in a proprietary business and draws comparisons to the total ‘equity interests’ that members would have in a mutual.

Nature and Impact of Merged Business

The business of HFSL is that of insurance and investment business. The long term insurance business includes two with-profits funds, which are ring fenced and any surpluses arising in those funds are for the benefit of the relevant with-profits policyholders only. As a result the with-profits Fund for Future Appropriations (FFA) have been determined as a liability in accordance with FRS103. The remainder of the long-term business is written out of a non-profit fund.

The merged business included Engage Mutual Health (EMH), a general insurance business providing cover of the cost of health care. This business was disposed of on 30 October 2015, see note 4.

The investment business consists of unit linked and externally fund managed investment contracts and Child Trust Fund business similar to that of the Group prior to the business combination.

Notes to the financial statements

for the year ended 31 December 2016

3. Mergers and Acquisitions (continued)

The acquisition had the following effect on the Group's assets and liabilities.

Acquisition of HFSL	Book values £'000	Accounting policy alignments £'000	Fair value adjustments £'000	Recognised values on acquisition £'000
Acquiree's net assets at the acquisition date:				
Assets				
Goodwill	–	–	1,147	1,147
Other intangible assets	–	–	6,108	6,108
Investments	613,982	(13,494)	–	600,488
Reinsurers' share of technical provisions	80,309	–	–	80,309
Other assets including cash	36,281	–	–	36,281
Total	**730,572**	**(13,494)**	**7,255**	**724,333**
Liabilities				
FFA	–	–	45,920	45,920
Technical provisions for insurance business	279,579	–	(54,200)	225,379
Gross liability for investment contracts	338,952	–	–	338,952
Other creditors	15,678	(3,182)	–	12,496
Total	**634,209**	**(3,182)**	**(8,280)**	**622,747**
Net identifiable assets – Fund for Future appropriations and retained earnings	96,363	(10,312)	15,535	101,586
Total cost of business combination				
Imputed consideration	97,486			
Costs of merger incurred	4,100			
Total consideration	**101,586**			
Goodwill on acquisition	**1,147**			

At Group level, upon consolidation additional net assets of £2,778k were recognised in respect of Engage Mutual Health and a corresponding increase in imputed consideration was also recognised. The result of this was that £1,147k of Goodwill was also recognised at Group level.

Notes to the financial statements

for the year ended 31 December 2016

3. Mergers and Acquisitions (continued)

The following table summarises the value and nature of the fair value adjustments included above.

Description of fair value adjustments	Note	£'000
Recognition of intangible assets upon acquisition	1	
- Brand and Foundation		2,878
- Beneficial contracts		1,757
- Systems and favourable contracts		1,473
Recognition of Present Value of In Force (PVIF) business of the acquired entity	2	54,200
Categorise the FFA surpluses of the acquired with-profits funds as liabilities	3	(45,920)
Recognition of Goodwill on the business combination	4	1,147
Total fair value adjustments		**15,535**

Notes to the fair value adjustments:

1. In accordance with acquisition accounting under FRS102 the deemed acquirer must identify and value at open market fair value any intangible assets that they believe exist in the acquiree, at the acquisition date.

   The intangible assets are amortised over the Useful Economic Lives, which have been determined as 2 years for Brand and Foundation reflecting that the Engage brand is not being maintained and between 2 and 4 years for the IT and Systems and Beneficial Contracts.

2. The Present Value of the In-Force (PVIF) business, of the acquired business has been appropriately recognised under acquisition accounting and has been offset against the long term business provisions of that business.

   The PVIF will amortise in line with the expected emergence of value from the underlying contracts.

3. The acquired business includes two with-profits funds. These funds are ring-fenced and the surplus is for the benefit of the with-profits policyholders in each of those funds. As such we have treated the surplus as liabilities and not as part of the equity or retained earnings being acquired.

4. The Goodwill is the excess amount of imputed consideration and transaction costs surplus over the fair value of the assets and liabilities acquired.

The accounting policy alignments are in respect of recognising the acquired subsidiaries in line with the Group's accounting policy for the valuation of Subsidiary Companies.

It is considered that the merger of the two businesses presents strategic and financial benefits over several future years. As such it has been concluded that any goodwill is to be amortised over a period of 10 years. The PVIF will emerge of the expected timings of the cash flows of the underlying valuation calculation. All intangible assets will be reviewed for impairment should there be a change in conditions that affect the fair value of these assets.

Back to contents >

Notes to the financial statements

for the year ended 31 December 2016

4. Disposal of Business in the Prior Period

Discontinued Operations – Engage Mutual Health (EMH)

On 30 October 2015, Engage Mutual Health was sold. The disposal was by way of a sale of 100% of the equity shares held by an intermediary holding company, 'Engage Mutual Health Holdings, of the business to a third party. The profit on disposal has been included in the non-technical account for the year. The profit on disposal within the Society was £2.9m reflecting that the investment in subsidiary at the point of disposal had been previously impaired to £nil. The profit at Group level was £0.3m reflecting the sale proceeds less the net assets transferred with the business.

The sale proceeds of £0.4m, included £0.1m of deferred consideration payable 12 months after the date of acquisition and £0.1m of contingent consideration based on the future persistency of the business. The deferred consideration has been recognised in 2016.

5. Premium Analysis

	Group 2016 £'000	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Gross Premiums Written	**37,187**	26,870	**37,187**	26,870
Less: Reinsurers' Share	**(10,567)**	(7,825)	**(10,567)**	(7,825)
Net earned premium – Insurance business	**26,620**	19,045	**26,620**	19,045

As set out in accounting policy H under FRS103, the Technical Account – Long Term Business only includes premiums in respect of insurance business. Premiums in respect of investment contracts are treated as customer deposits and taken directly to the statement of financial position (see Note 24).

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 14).

Notes to the financial statements

for the year ended 31 December 2016

6. Investment Income

	Group 2016 £'000	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Income from other investments	**40,330**	50,732	**43,954**	64,117
Realised gains on investments	**26,155**	18,562	**26,155**	16,426
Total investment income	**66,485**	69,294	**70,109**	80,543
Unrealised gains/(losses) on investments	**117,183**	(45,365)	**117,183**	(45,365)
Investment management expenses	**(3,547)**	(2,316)	**(3,547)**	(2,316)
Total net investment return	**180,121**	21,613	**183,745**	32,862

All of the above gains and losses are at fair value through the Income and Expenditure accounts.

7. Claims Incurred, Net of Reinsurance

Society and Group – technical account – long term business	**2016 £'000**	2015 £'000
Gross claims paid	**35,598**	23,145
Change in provision for claims outstanding at year-end	**(730)**	(2,041)
Gross claims incurred	**34,868**	21,104
Outward claims reinsurance received	**(9,281)**	(5,851)
Total claims incurred, net of reinsurance	**25,587**	15,253

As described in Accounting Policy G – 'Classification of contracts', in accordance with FRS 103 policies defined as investment rather than insurance contracts are accounted for on a deposit basis. The claims analysis above excludes £129.4m (2015: £112.9m) which would otherwise be included.

Notes to the financial statements

for the year ended 31 December 2016

8. Bonuses

The value of terminal bonuses paid to with profit policyholders in the year was £1,372k (2015: £1,204k).

9. Net Operating Expenses

	Group 2016 £'000	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Technical account – long-term business				
Acquisition costs	**8,819**	5,202	**8,819**	5,202
Change in deferred acquisition costs	**85**	88	**85**	88
Administrative expenses	**24,673**	32,122	**24,673**	32,122
Net operating expenses	**33,577**	37,412	**33,577**	37,412
Technical account – general business-discontinued				
Net operating expenses	**-**	934	**-**	-
Non-technical account				
Acquisition costs	**7,069**	4,125	**-**	-
Adminstrative expenses	**28,397**	21,125	**-**	-
Net operating expenses	**35,466**	25,250	**-**	-
Total operating expenses	**69,043**	63,596	**33,577**	37,412

Acquisition costs relate solely to insurance products and exclude the costs of generating investment business.

Total commission paid by the Group on new business was £7,826k (2015: £6,681k).

Notes to the financial statements

for the year ended 31 December 2016

10. Auditor's Remuneration

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

Auditor's remuneration	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Audit services				
Fees payable to the Society's auditor for the audit of the annual accounts;	**269**	197	**269**	197
Audit of the accounts of subsidiaries	**68**	42	**-**	-
Audit-related assurance services	**295**	168	**200**	28
Non-audit services				
Tax compliance services	**-**	-	**-**	-
Other assurance services	**-**	120	**-**	-
Other non audit services	**151**	160	**151**	-
Total	**783**	687	**620**	225

Excluded from the numbers above was £28k (2015: £7k) incurred in connection with the fund audits.

11. Operating Lease Rentals

Operating lease amounts payable – Group and Society	**2016 £'000**	2015 £'000
Operating leases amounts payable:		
– less than one year	**-**	96
– between one and five years	**136**	121
Total	**136**	217
Payments made under operating leases		
Hire of fixtures and fittings – rental under operating leases	**133**	113
Hire of other assets – rental under operating leases	**10**	17
Total	**143**	130

These payments relate to leases for office equipment and motor vehicles.

Notes to the financial statements

for the year ended 31 December 2016

12. Staff Costs

Staff costs – Group and Society	**2016 £'000**	2015 £'000
Wages and salaries	**21,995**	18,883
Social security costs	**2,305**	1,587
Other pension costs	**1,316**	993
Total staff costs	**25,616**	21,463

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	**2016 FTE**	2015 FTE
Administration	**449**	426
Management	**29**	15
Marketing	**40**	36
Total FTE	**518**	477

All staff are employed and remunerated by Family Assurance Friendly Society Limited (FAFSL) or Engage Mutual Administration Limited (EMAL), the Group administration companies. The Directors have been wholly remunerated by FAFSL or EMAL for their services to the Society and other group undertakings. The costs of the Directors are recovered through charges to the group companies. During 2016 the total remuneration paid to the Directors was £2,736k (2015: £2,847k) and the total remuneration paid to the highest paid director was £1,240k (2015: £1,169k).

13. Other Technical Income, Net of Reinsurance

Technical income – long term business	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Property rental	**-**	4	**163**	297
Annual management rebates	**510**	524	**510**	524
Mortgage interest receivable	**105**	114	**105**	114
Reassurance financing advances	**7,213**	4,234	**7,213**	4,234
Other	**-**	-	**922**	1,911
Total other technical income	**7,828**	4,876	**8,913**	7,080

Notes to the financial statements

for the year ended 31 December 2016

13. Other Technical Income, Net of Reinsurance (continued)

Other technical income in the Society includes rental charged to its subsidiary Engage Mutual Administration Limited, for the use of Gardner House, until its sale on 2 June 2016. It also includes interest on bank deposits, mortgages and reinsurance financing advances receivable in relation to the sale of new Over 50s life cover policies.

14. Other Income

Other income comprises	**Group 2016 £'000**	Group 2015 £'000
Annual management charges	**36,325**	35,396
Lifetime Mortgage income	**3,503**	-
Other operating income	**1,296**	728
Total other income	**41,124**	36,124

15. Taxation

Analysis of the tax charge for the year is:	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Tax (credit)/charge				
Technical account	**(1,377)**	(2,175)	**(1,377)**	(2,175)
Non-technical account	**855**	(285)	**-**	-
Total tax credit	**(522)**	(2,460)	**(1,377)**	(2,175)
Analysed as follows:				
Corporation tax				
Tax credit	**(822)**	(2,175)	**(1,377)**	(2,175)
Deferred tax				
Timing differences, origination and reversal	**300**	(285)	**-**	-
Total tax credit	**(522)**	(2,460)	**(1,377)**	(2,175)

The tax credit for the Group is £522k (2015: tax credit £2,460k).

The applicable UK corporation tax rate is 20% for the subsidiaries (2015: 20.25%), due to the reduction of the UK corporation tax rate from 21% to 20%, which was effective from 1 April 2015.

Notes to the financial statements

for the year ended 31 December 2016

15. Taxation (continued)

The Finance Bill 2016 substantively enacted on 6 September 2016 included legislation reducing the UK corporate tax rate to 17% from 1 April 2020. This is in addition to the reduction in the rate from 20% to 19% with effect from 1 April 2017, which was substantively enacted in 2015.

The Group primarily writes tax exempt business, with a small proportion of taxable business. The UK rate of income tax applicable to the Group is 20% (2015: 20%).

Deferred tax expected to reverse in the year ending 31 December 2017 has been remeasured using the effective rate of 19.25% that is expected to apply in the period. Deferred tax expected to reverse after the year ending 31 December 2017 has been remeasured at 19%.

At 31 December 2016, the Group did not hold any provisions for uncertain tax positions.

Reconciliation of current year tax charge	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Excess of income over expenditure	**9,039**	1,600	**8,104**	3,987
Result for year	**9,039**	1,600	**8,104**	3,987
Tax on result	**1,808**	324	**1,621**	807
Factors affecting tax charge:				
Accounting profit not subject to policyholder tax	**(1,808)**	1,917	**(1,621)**	(807)
Items taxed on a different basis	**(1,039)**	(2,175)	**(1,377)**	(2,175)
Items disallowable in tax computation	**217**	199	**-**	-
Profit on disposal – not taxable	**-**	(574)	**-**	-
Group consolidation adjustments	**-**	82	**-**	-
Movement in provided deferred tax asset	**300**	(2,233)	**-**	-
Current corporation tax credit for the year	**(522)**	(2,460)	**(1,377)**	(2,175)

Analysis of deferred tax asset	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Timing differences	**-**	-	**-**	-
Deferred tax provision on unrealised gains	**-**	-	**-**	-
Deferred tax losses recognised	**1,404**	1,378	**-**	-
Total recognised deferred tax asset	**1,404**	1,378	**-**	-
Unrecognised deferred tax assets	**9,727**	13,393	**7,469**	11,265
Total	**11,131**	14,771	**7,469**	11,265

Notes to the financial statements

for the year ended 31 December 2016

15. Taxation (continued)

The Society has an unrecognised deferred tax asset of £7,469k at 31 December 2016 after utilising £3,796k in the period. Whilst some of the asset has been utilised in the period it is considered unlikely that the remaining net deferred tax asset will be used and therefore it continues not to be recognised. The unrecognised net deferred tax asset is made up of deductible expenses carried forward reduced by carried forward taxable gains.

Movement in recognised deferred tax asset/(provision)	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Deferred tax asset at start of the period	**1,378**	-	**-**	-
Deferred tax asset acquired	**326**	-	**-**	-
Deferred tax charge to Technical Account – Long-term business	**-**	1,093	**-**	-
Deferred tax charge to Non-Technical Account	**(300)**	285	**-**	-
Deferred tax asset at the end of the period	**1,404**	1,378	**-**	-

16. Goodwill and Intangible Assets

Goodwill and intangible assets – Group	**Goodwill £'000**	**Brand & foundation £'000**	**Beneficial contracts £'000**	**IT & systems £'000**	**Acquired funds under management £'000**	**Total £'000**
Cost						
At 1 January 2016	1,147	2,878	1,757	1,792	-	7,574
Additions	1,716	-	-	-	5,000	6,716
Disposals	-	-	-	(1,109)	-	(1,109)
At 31 December 2016	**2,863**	**2,878**	**1,757**	**683**	**5,000**	**13,181**
Amortisation						
At 1 January 2016	86	1,075	792	491	-	2,444
Amortisation during the year	229	1,444	594	750	-	3,017
Amortisation on disposals	-	-	-	(785)	-	(785)
At 31 December 2016	**315**	**2,519**	**1,386**	**456**	**-**	**4,676**
Net book value at 31 December 2016	**2,548**	**359**	**371**	**227**	**5,000**	**8,505**
Net book value at 31 December 2015	1,061	1,803	965	1,301	**-**	5,130

During the year the Group purchased a portfolio of CTF assets for £5m.

Goodwill of £1,716k arose on the acquisition of OneFamily Lifetime Mortgage Limited.

During the year there was a disposal of the Prophet IT system.

Notes to the financial statements

for the year ended 31 December 2016

16. Goodwill and Intangible Assets (continued)

Goodwill and intangible assets – Society	**Goodwill £'000**	**Brand & foundation £'000**	**Beneficial contracts £'000**	**IT & systems £'000**	**Total £'000**
Cost					
At 1 January 2016	1,147	2,878	1,757	1,792	7,574
Additions	–	–	–	–	–
Disposals	–	–	–	(1,109)	(1,109)
At 31 December 2016	**1,147**	**2,878**	**1,757**	**683**	**6,465**
Amortisation					
At 1 January 2016	86	1,075	792	491	2,444
Amortisation during the year	115	1,444	594	750	2,903
Amortisation on disposals	–	–	–	(785)	(785)
At 31 December 2016	**201**	**2,519**	**1,386**	**456**	**4,562**
Net book value at 31 December 2016	**946**	**359**	**371**	**227**	**1,903**
Net book value at 31 December 2015	1,061	1,803	965	1,301	5,130

During the year there was a disposal of the Prophet IT system.

Notes to the financial statements

for the year ended 31 December 2016

17. Land and Buildings

Land and buildings – Group and Society	Current value			Historical cost		
	Occupied £'000	Investment £'000	Total £'000	Occupied £'000	Investment £'000	Total £'000
– Opening balance	5,000	4,350	9,350	8,147	2,442	10,589
– Disposal	(5,000)	–	(5,000)	(8,147)	–	(8,147)
– Revaluation/Fair value adjustment	–	163	163	–	–	–
Balance at 31 December 2016	**–**	**4,513**	**4,513**	**–**	**2,442**	**2,442**

Land and buildings – Group and Society	Current value			Historical cost		
	Occupied £'000	Investment £'000	Total £'000	Occupied £'000	Investment £'000	Total £'000
– Opening balance	–	2,037	2,037	–	1,626	1,626
– Impact of business combination	4,000	2,313	6,313	8,147	816	8,963
– Revaluation/Fair value adjustment	1,000	–	1,000	–	–	–
Balance at 31 December 2015	5,000	4,350	9,350	8,147	2,442	10,589

Land and buildings are all freehold. The full external professional valuation of the investment property in Brighton was carried out by G L Hearn, Chartered Surveyors at 31 December 2016.

The full external professional valuation of the investment property in Kew was carried out by W Hallett & Co. Chartered Surveyors at 29 April 2015, and has been reviewed by the Directors at 31 December 2016.

Gardner House was sold on 2 June 2016 for £5.0m which was equal to the carrying value of the property and accordingly no gain or loss has arisen.

Notes to the financial statements

for the year ended 31 December 2016

18. Investments in Group Undertakings

Society investments	Society 2016 £'000	Society 2015 £'000
The Society investment in subsidiaries can be analysed as follows:-		
Fair value at 1 January	**6,035**	19,364
Impact of business combination	**2,995**	(362)
Dividends paid to Society	**-**	(14,098)
Investment in group undertakings during the year	**2,550**	-
Other fair value changes in the period	**3,997**	1,131
Fair value at 31 December	**15,577**	6,035

Included in the 'impact of business combinations' is the purchase of OneFamily Lifetime Mortgages Limited. In the prior year included in the 'impact of business combination' are investments in subsidiaries from the merger with Homeowners Friendly Society Limited (being the 'Engage' subsidiaries named below), and the sale of Engage Mutual Health.

Investments are carried at net asset value which is deemed to be equivalent to fair value, with the exception of Investments held for less than twelve months, which are carried at cost.

Set out below are the Society's investments in subsidiary undertakings as at 31 December 2016 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
Family Equity Plan Limited	Child Trust Fund Management
Family Investment Management Limited	Fund Management
Family Enterprise Limited	Administration Services
Family PEP Managers Limited	ISA Fund Management
Governor Finance Limited	Fund Management
Engage Mutual Funds Limited	Child Trust Fund Management
Engage Mutual Administration Limited	Administration Services
Engage Mutual Services Limited	Insurance and Non-Regulated Financial Product Intermediary
Engage Health Holdings Limited	Holding Company
OneFamily Foundation Limited	Funding for Community Projects
OneFamily Lifetime Mortgages Limited	Provider of Mortgage Products

The subsidiaries are wholly owned by the Society.

Notes to the financial statements

for the year ended 31 December 2016

19. Financial Instruments

Management consider that the carrying value of all Financial Assets and Liabilities in the financial statements are approximate to their fair value.

The financial investments held by the Group are valued as:	2016 £'000	2015 £'000
Land and buildings	**4,513**	9,350
Linked financial investments	**1,349,451**	1,305,993
Non-linked financial investments	**283,749**	273,215
Debtors	**11,197**	11,978
Cash at bank	**47,782**	54,663
Total financial investments	**1,696,692**	1,655,199

The above investments, excluding Land & Buildings, can then be further analysed out into the following categories;

Group financial assets held at fair value through profit and loss	Fair value 2016 £'000	Fair value 2015 £'000	Cost 2016 £'000	Cost 2015 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,227,989**	1,178,066	**890,344**	944,801
Debt securities and other fixed income securities	**293,557**	285,580	**253,648**	261,455
Derivatives held at fair value through profit and loss	**(1,032)**	199	**-**	-
Financial assets held at fair value through profit and loss	**1,520,514**	1,463,845	**1,143,992**	1,206,256
Loans and receivables				
Loans secured by mortgage	**1,107**	1,707	**1,106**	3,333
Deposits with credit institutions	**157,066**	161,948	**157,066**	161,948
Accrued income and receivables	**13,492**	18,349	**13,492**	18,349
Loans and receivables	**171,665**	182,004	**171,664**	183,630
Total Group financial assets	**1,692,179**	1,645,849	**1,315,656**	1,389,886
Financial liabilities				
Financial liabilities held at fair value through profit and loss	**1,353,114**	1,310,380	**1,070,073**	1,310,380
Financial liabilities held at amortised cost	**1,627**	2,658	**1,627**	2,658
Total Group financial liabilities	**1,354,741**	1,313,038	**1,071,700**	1,313,038

Back to contents >

Notes to the financial statements

for the year ended 31 December 2016

19. 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 2016 £'000**	**Non-Linked Fair value 2016 £'000**	**Total Fair value 2016 £'000**	Linked Fair value 2015 £'000	Non-Linked Fair value 2015 £'000	Total Fair value 2015 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,193,886**	**34,103**	**1,227,989**	1,147,006	31,060	1,178,066
Debt securities and other fixed income securities	**51,745**	**241,812**	**293,557**	52,000	233,580	285,580
Derivatives held at fair value through profit and loss	**(1,032)**	**-**	**(1,032)**	-	199	199
Financial assets held at fair value through profit and loss	**1,244,599**	**275,915**	**1,520,514**	1,199,006	264,839	1,463,845
Loans and receivables						
Loans secured by mortgage	**-**	**1,107**	**1,107**	-	1,707	1,707
Deposits with credit institutions	**150,339**	**6,727**	**157,066**	155,279	6,669	161,948
Accrued income and receivables	**13,492**	**-**	**13,492**	18,349	-	18,349
Loans and receivables	**163,831**	**7,834**	**171,665**	173,628	8,376	182,004
Total Group financial assets	**1,408,430**	**283,749**	**1,692,179**	1,372,634	273,215	1,645,849
Financial liabilities						
Financial liabilities held at fair value through profit and loss	**1,353,114**	**-**	**1,353,114**	1,310,380	-	1,310,380
Financial liabilities held at amortised cost	**-**	**1,627**	**1,627**	-	2,658	2,658
Total Group financial liabilities	**1,353,114**	**1,627**	**1,354,741**	1,310,380	2,658	1,313,038

< Back to contents

Notes to the financial statements

for the year ended 31 December 2016

19. Financial Instruments (continued)

The financial investments held by the Society are valued as:	2016 £'000	2015 £'000
Land and buildings	4,513	9,350
Linked financial investments	1,349,451	1,305,993
Non-linked financial investments	274,468	266,219
Debtors	25,592	13,449
Cash at bank	36,245	51,524
Total financial investments	**1,690,269**	1,646,535

The above investments, excluding Land & Buildings, can then be further analysed out into the following categories:

Society financial assets held at fair value through profit and loss	Fair value 2016 £'000	Fair value 2015 £'000	Cost 2016 £'000	Cost 2015 £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,227,989	1,171,467	890,344	944,373
Debt securities and other fixed income securities	290,921	285,183	251,012	261,455
Derivatives held at fair value through profit and loss	(1,032)	199	-	-
Financial assets held at fair value through profit and loss	**1,517,878**	1,456,849	**1,141,356**	1,205,828
Loans and receivables				
Loans secured by mortgage	1,107	1,707	1,107	3,333
Deposits with credit institutions	138,884	158,809	128,231	158,809
Accrued income and receivables	27,887	19,820	27,886	19,820
Loans and receivables	**167,878**	180,336	**157,224**	181,962
Total Society financial assets	**1,685,756**	1,637,185	**1,298,580**	1,387,790
Financial liabilities				
Financial liabilities held at fair value through profit and loss	1,357,301	1,310,833	1,074,260	1,310,833
Financial liabilities held at amortised cost	1,739	2,761	1,739	2,761
Total Society financial liabilities	**1,359,040**	1,313,594	**1,075,999**	1,313,594

Notes to the financial statements

for the year ended 31 December 2016

19. 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 2016 £'000**	**Non-Linked Fair value 2016 £'000**	**Total Fair value 2016 £'000**	Linked Fair value 2015 £'000	Non-Linked Fair value 2015 £'000	Total Fair value 2015 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,193,886**	**34,103**	**1,227,989**	1,140,435	31,032	1,171,467
Debt securities and other fixed income securities	**51,745**	**239,176**	**290,921**	52,000	233,183	285,183
Derivatives held at fair value through profit and loss	**(1,032)**	**-**	**(1,032)**	-	199	199
Financial assets held at fair value through profit and loss	**1,244,599**	**273,279**	**1,517,878**	1,192,435	264,414	1,456,849
Loans and receivables						
Loans secured by mortgage	**-**	**1,107**	**1,107**	-	1,707	1,707
Deposits with credit institutions	**138,802**	**82**	**138,884**	158,711	98	158,809
Accrued income and receivables	**27,887**	**-**	**27,887**	19,820	-	19,820
Loans and receivables	**166,689**	**1,189**	**167,878**	178,531	1,805	180,336
Total Society financial assets	**1,411,288**	**274,468**	**1,685,756**	1,370,966	266,219	1,637,185
Financial liabilities						
Financial liabilities held at fair value through profit and loss	**1,357,301**	**-**	**1,357,301**	1,310,833	-	1,310,833
Financial liabilities held at amortised cost	**-**	**1,739**	**1,739**	-	2,761	2,761
Total Society financial liabilities	**1,357,301**	**1,739**	**1,359,040**	1,310,833	2,761	1,313,594

Notes to the financial statements

for the year ended 31 December 2016

19. Financial Instruments (continued)

Valuation methods – these are based on FRS102 (section 11) disclosure requirements on the three levels indicated **2016** **Group**	**Level 1** Active quoted prices **£'000**	**Level 2** Other observable inputs **£'000**	**Level 3** Other **£'000**	**Total** **£'000**
Total Group financial assets				
Shares, other variable yield securities and holdings in collective investment schemes	1,011,488	106,135	110,366	**1,227,989**
Debt securities and other fixed income securities	243,813	49,744	-	**293,557**
Derivatives held at fair value through profit and loss	(1,032)	-	-	**(1,032)**
Total Group financial assets held at fair value through profit and loss	**1,254,269**	**155,879**	**110,366**	**1,520,514**
Financial liabilities held at fair value through profit and loss	**-**	**1,353,114**	**-**	**1,353,114**

2016 **Society**	**Level 1** Active quoted prices **£'000**	**Level 2** Other observable inputs **£'000**	**Level 3** Other **£'000**	**Total** **£'000**
Total Society financial assets				
Shares, other variable yield securities and holdings in collective investment schemes	1,011,488	106,135	110,366	**1,227,989**
Debt securities and other fixed income securities	241,177	49,744	-	**290,921**
Derivatives held at fair value through profit and loss	(1,032)	-	-	**(1,032)**
Total Society financial assets held at fair value through profit and loss	**1,251,633**	**155,879**	**110,366**	**1,517,878**
Financial liabilities held at fair value through profit and loss	**-**	**1,357,301**	**-**	**1,357,301**

Notes to the financial statements

for the year ended 31 December 2016

20. Debtors

Debtors Group and Society	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Amounts owed from Group undertakings	**-**	-	**22,155**	9,024
Amounts owed from policyholders	**476**	451	**476**	451
Amounts owed from intermediaries	**80**	694	**72**	694
Debtors arising out of reinsurance operations	**1,095**	620	**1,109**	620
Other debtors	**9,546**	10,213	**1,780**	2,660
Total debtors	**11,197**	11,978	**25,592**	13,449

All amounts fall due to be paid within one year.

21. Tangible Assets

Property, plant and equipment Group	**Motor vehicles £'000**	**Computer equipment £'000**	**Fixtures, fittings and office equipment £'000**	**Total £'000**
Cost				
At 1 January 2016	7	6,482	1,673	**8,162**
Additions	-	360	1,180	**1,540**
Disposals	(7)	(890)	(919)	**(1,816)**
At 31 December 2016	**-**	**5,952**	**1,934**	**7,886**
Depreciation				
At 1 January 2016	7	6,408	1,593	**8,008**
Provided in the year	-	120	134	**254**
On disposals	(7)	(884)	(917)	**(1,808)**
At 31 December 2016	**-**	**5,644**	**810**	**6,454**
Net book value at 31 December 2016	**-**	**308**	**1,124**	**1,432**
Net book value at 31 December 2015	-	74	80	154

The charge for depreciation for the Group in the year ended 31 December 2016 was £254k (2015: £134k).

The Group policy on depreciation of fixed assets is as described in accounting policy N – 'Tangible assets'. Depreciation is included in operating expenses.

Notes to the financial statements

for the year ended 31 December 2016

21. Tangible Assets (continued)

During 2016 a number of assets were disposed of due to the closure of the Harrogate office. The assets were deemed to be at the end of their useful life and had no residual value; the assets were subsequently disposed of.

Property, plant and equipment Society	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost			
At 1 January 2016	4,676	639	**5,315**
Additions	–	1,171	**1,171**
Disposals	–	–	**–**
At 31 December 2016	**4,676**	**1,810**	**6,486**
Depreciation			
At 1 January 2016	4,676	639	**5,315**
Provided in the year	–	59	**59**
On disposals	–	–	**–**
At 31 December 2016	**4,676**	**698**	**5,374**
Net book value at 31 December 2016	**–**	**1,112**	**1,112**
Net book value at 31 December 2015	–	–	–

The charge for depreciation for the Society in the year ended 31 December 2016 was £59k (2015: nil).

22. Deferred Acquisition Costs (DAC)

Deferred acquisition costs (DAC) – Group and Society	2016 £'000	2015 £'000
At 1 January	**104**	–
DAC acquired under business combination	**–**	192
Amortisation in period	**(85)**	(88)
At 31 December	**19**	104

The direct costs of acquiring certain policies are capitalised and are amortised in line with the expected life of the policies.

Back to contents >

Notes to the financial statements

for the year ended 31 December 2016

23. Technical Provisions

Technical provisions Group	Long-term business provision £'000	Acquired value of in force business £'000	Reinsurers share £'000	Provision for outstanding claims £'000
At 1 January 2016	255,281	(52,000)	(76,028)	8,635
Amortisation of PVIF	-	3,000	-	-
Movement in provision for outstanding claims	-	-	-	(730)
Change in long-term business provision	8,967	-	(15,943)	-
At 31 December 2016	**264,248**	**(49,000)**	**(91,971)**	**7,905**
Society				
At 1 January 2016	255,281	(52,000)	(76,028)	8,635
Amortisation of PVIF	-	3,000	-	-
Movement in provision for outstanding claims	-	-	-	(730)
Change in long-term business provision	8,967	-	(15,943)	-
At 31 December 2016	**264,248**	**(49,000)**	**(91,971)**	**7,905**

The acquired PVIF is being netted off against Long term business provision (LTBP).

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 (LTBP) 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.

Notes to the financial statements

for the year ended 31 December 2016

23. Technical Provisions (continued)

Process for Determining Assumptions

The process used to determine any assumptions is intended to result in conservative estimates of the most likely, or expected, outcome. The assumptions are checked to ensure they are consistent with observed market practice or other published information.

For insurance contracts the Group regularly considers whether the technical provisions are adequate. The assumptions that are considered include the expected number and timing of deaths, other claims and investment returns, over the period of risk exposure. A reasonable allowance is made for the uncertainty within the contracts.

The principal assumptions underlying the calculation of the long-term business provision are:

Mortality – a base mortality table is selected which is most appropriate for each type of contract taking into account rates charged to the Group by reinsurers.

Valuation Rates of Interest – these are set in relation to the risk adjusted yields on the underlying assets as per the regulations and guidance under the Prudential source book for Insurers (INSPRU) as at 31 December 2015.

Expenses – these assumptions are determined from the results of an internal expenses investigation with additional margins for prudence.

The LTBP has been calculated on the basis of the following principal interest assumptions for 2016:

Class of business	**2016**
Non-linked Annuities tax exempt/taxable	1.62% gross/1.69% net
Index-linked Annuities tax exempt/taxable	1.58% gross / 1.58% net
Term Assurance/whole of life	1.67%
With Profits I unitised with profits tax exempt/taxable	1.67% gross / 0.06% net
With Profits I conventional with profits tax exempt/taxable	1.17% gross / 1.33% net
With Profits II with profits bond taxable	2.17% net
With Profits II conventional with profits tax exempt/taxable	1.67% gross / 0.82% net

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

With Profits Bonuses

The LTBP includes £0.2m (2015: £0.3m) for reversionary bonuses already declared. The cost of any bonuses is included in "Change in Long Term Business Provision" in the Long-Term Business – Technical Account. The cost of terminal bonuses on with profits policies is included in "Gross claims incurred" in the Long-Term Business – Technical Account.

Notes to the financial statements

for the year ended 31 December 2016

24. Gross Liabilities for Investment Contracts

Gross liabilities for investment contracts Group and Society	**2016 £'000**	2015 £'000
At 1 January	**1,304,487**	1,036,314
Unit linked liabilities acquired under business combination	**-**	338,952
Deposits received from policyholders	**25,411**	27,702
Withdrawals made by policyholders	**(129,433)**	(112,891)
Annual management charges	**(13,860)**	(13,011)
Change in fair value of gross liabilities	**161,917**	27,421
At 31 December	**1,348,522**	1,304,487

As described in the Accounting Policy G – 'Classification of Contracts', in accordance with FRS103, policies defined as investment, rather than insurance contracts are accounted for on a deposit basis.

25. Creditors Arising Out of Insurance Operations

At 1 April 2015, creditors related to reinsurance contracts and health insurance business, with £210k being an unexpired risk provision relating to certain classes of private medical insurance written by Engage Mutual Health (EMHL). On 30 October 2015, EMHL was sold (see note 4) and hence no credit balances in relation to that business were held at 31 December 2015 or 31 December 2016. All creditors are payable within 5 years.

26. Other Creditors, Including Social Security and Taxation

Other creditors	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
Amounts owed to group undertakings	**-**	-	**4,766**	847
Other taxes and social security costs	**1,583**	855	**1,047**	539
Other creditors	**3,009**	5,038	**2,966**	4,960
Total	**4,592**	5,893	**8,779**	6,346

All other creditors are payable within one year.

Notes to the financial statements

for the year ended 31 December 2016

27. Fund for Future Appropriations

Fund for future appropriations	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
At 1 January	**42,561**	-	**42,561**	-
FFA acquired under business combination (note 3)	**-**	45,920	**-**	45,920
Transfer of FFA to Long Term Business Technical Account	**(2,401)**	(3,359)	**(2,401)**	(3,359)
At 31 December	**40,160**	42,561	**40,160**	42,561

28. Retained Earnings

Retained earnings	**Group 2016 £'000**	Group 2015 £'000	**Society 2016 £'000**	Society 2015 £'000
At 1 January	**150,905**	46,475	**151,048**	46,475
Increase due to business combination (note 3)	**-**	104,364	**-**	101,586
Recognised gains in the year	**7,222**	66	**7,643**	2,987
At 31 December	**158,127**	150,905	**158,691**	151,048

29. Pension Commitments

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

The Family Assurance Friendly Society (Family) defined benefit scheme was closed to future 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 provided by Legal and General Assurance Society Limited.

The Homeowners Friendly Society (Engage) defined benefit scheme was closed to new members with effect from 29 March 2001 and closed to future benefit accrual on 31 December 2012. 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 provided by Legal & General Assurance Society Limited.

Notes to the financial statements

for the year ended 31 December 2016

29. Pension Commitments (continued)

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

The most recent valuation of the Family Scheme was carried out as at 31 December 2013 by an independent qualified actuary in accordance with FRS 17. Following the adoption of FRS 102 the following valuation of scheme liabilities have been measured in accordance with that standard as set out in Section 28 Employee Benefits. The latest funding review of the Family Scheme was at 31 December 2013 and took into account the closure of the scheme for future accrual. The review showed there to be a shortfall in funding to meet future benefits. As part of the actuarial valuation, it was agreed that the Society would pay contributions of £166,667 per month until at least May 2015, and beyond if necessary, until the scheme actuary certifies that the deficit has been cleared.

The funding assumptions differ from the assumptions used to calculate the figures for these accounts, which have been prepared in line with FRS 102, section 28, employee benefits.

For the purpose of these accounts, the projected unit credit method has been used to measure the Scheme's defined benefit obligation and related expense for the year ended 31 December 2016.

The results of the formal actuarial valuation as at 31 December 2013 and updated to the accounting date 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 credit method.

The following table sets out the key FRS102 assumptions used for the Scheme. The table also sets out, as at 31 December 2016, the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS102 liabilities and the surplus or deficit of the assets over the FRS102 liabilities (the gross pension asset or liability).

Under FRS102, a pension asset can only be recognised on the statement of financial position 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 statement of financial position, profit and loss, and the actuarial gains and losses entries are shown in the following figures:

Notes to the financial statements

for the year ended 31 December 2016

29. Pension Commitments (continued)

Family scheme assumptions	2016	2015
Retail Prices Index Inflation	**3.46%**	3.30%
Consumer Prices Index Inflation	**2.35%**	2.30%
Revaluation in deferment	**2.35%**	2.30%
Pension increases:		
- pre April 1997 pension	**0.00%**	0.00%
- post April 1997 pension	**3.20%/2.40%***	3.20%/2.30%*
- post April 2005 pension	**1.85%***	1.90%*
Salary growth	**N/A**	N/A
Discount rate	**2.65%**	3.80%
Life expectancy:		
– male aged 65 at the statement of financial position date	**23.4 years**	23.3 years
– male aged 65 in 2041 (25 years from statement of financial position date)	**26.3 years**	26.1 years

* assumptions for members who transferred into the scheme from the Family Assurance Friendly Society Limited staff pension scheme.

Family scheme fair value of assets	2016 £'000	2015 £'000
Equities	**19,881**	16,249
Gilts	**-**	-
Corporate bonds	**-**	117
Diversified growth/absolute return on funds	**16,889**	13,852
LDI Portfolio (including liquidity fund)	**14,768**	10,618
Cash	**340**	8
Other net assets	**308**	311
Total fair value of assets	**52,186**	41,155
Present value of defined benefit obligations	**(48,240)**	(37,443)
Pension surplus	**3,946**	3,712
Adjustment for asset limit	**(3,946)**	(3,712)
Gross pension asset	**-**	-

Notes to the financial statements

for the year ended 31 December 2016

29. Pension Commitments (continued)

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

Changes in present values of the defined benefit obligations are as follows:

Family scheme change in present value	2016 £'000	2015 £'000
Opening defined benefit obligation	37,443	37,929
Employers' part of the current service cost	-	-
Past service costs	-	-
Interest on obligation on funds	1,403	1,390
Contributions by Scheme members	-	-
Actuarial gain/(loss)	10,387	(1,172)
Benefits paid	(993)	(704)
Closing defined benefit obligation	**48,240**	37,443

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

Family scheme change in fair value	2016 £'000	2015 £'000
Opening value of scheme assets	41,155	39,791
Interest on scheme assets	1,582	1,496
Actuarial gain/(loss)	8,442	(1,428)
Contributions by the employer	2,000	2,000
Contributions by Scheme members	-	-
Benefits paid	(993)	(704)
Closing value of scheme assets	**52,186**	41,155

The actual return on the Scheme's assets over the year was a gain of £10,024k (2015: £68k gain).

Notes to the financial statements

for the year ended 31 December 2016

29. Pension Commitments (continued)

The value of the Scheme assets was restricted to £nil in both years and therefore there is no impact on the profit and loss under FRS102. The following amounts are recognised in the statement of other comprehensive income:

Family scheme change in comprehensive income	2016 £'000	2015 £'000
Experience gain/(loss) on scheme assets	8,442	(1,428)
Experience gain on scheme liabilities	396	628
Actuarial (loss)/gain due to the changes in assumptions used of the DBO	(10,783)	544
Actuarial losses	(1,945)	(256)
Loss due to movement in the statement of financial position limitation	(55)	(1,744)
Loss recognised outside profit and loss	**(2,000)**	(2,000)

Homeowners Friendly Society Defined Benefit Scheme (the "Engage Scheme")

The merger of Homeowners Friendly Society with Family Assurance Friendly Society completed on 1 April 2015.

The latest independent actuarial funding review of the Engage Scheme was at 31 December 2013 and took into account the closure of the Scheme for future accrual.

The review showed there to be a funding shortfall to meet future benefits. It was agreed that additional contributions of £673k (including an expense allowance of £75k) will be payable in the year ending 31 December 2017.

As with the Family Scheme the funding assumptions used by the actuary for the Engage Scheme differs from the assumptions used to calculate the figures for these accounts. For the purpose of these accounts the FRS102, Section 28 assessment has been updated for the year ended 31 December 2016.

The results of the formal actuarial valuation as at 31 December 2013 and updated to the accounting date 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 credit method.

Notes to the financial statements

for the year ended 31 December 2016

29. Pension Commitments (continued)

The following table sets out the key FRS102 assumptions used for the Scheme. The table also sets out, as at 31 December 2016 and 2015, 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).

Engage scheme assumptions	**2016**	2015
Retail Prices Index Inflation	**3.45%**	3.15%
Consumer Prices Index Inflation	**2.35%**	2.05%
Pension increases:		
– pre April 1997 pension (HFSL)	**0.00%**	0.00%
– post April 1997 pension (HFSL)	**3.25%**	3.00%
– pre April 2005 pension (UKCS)	**3.00%**	3.00%
– post April 2005 pension (UKCS)	**3.75%**	3.60%
Salary growth	**N/A**	N/A
Discount rate	**2.65%**	3.85%
Life expectancy:		
– male aged 60 at the statement of financial position date	**27.2 years**	27.1 years
– female aged 60 at the statement of financial position date	**30 years**	29.9 years
– male at 60 for male currently aged 40	**29.5 years**	29.4 years
– female at 60 for female currently aged 40	**31.9 years**	31.8 years

It is assumed that members commute 25% of their benefits on retirement as a cash lump sum.

Engage scheme fair value of assets	**2016 £'000**	9 months to 31.12.2015 £'000
Equities	**3,613**	4,689
Gilts	**30,558**	12,197
Corporate bonds	**-**	10,325
Other net assets	**(138)**	287
Total fair value of assets	**34,033**	27,498
Present value of defined benefit obligations	**(27,297)**	(21,020)
Pension surplus	**6,736**	6,478
Adjustment for asset limit	**(6,736)**	(6,478)
Recognised pension asset	**-**	-

Notes to the financial statements

for the year ended 31 December 2016

29. Pension Commitments (continued)

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

Engage scheme change in present value	**2016 £'000**	9 months to 31.12.2015 £'000
Opening defined benefit obligation	**21,020**	23,809
Employers' part of the current service cost	**-**	-
Past service costs	**-**	-
Interest on obligation on funds	**793**	540
Contributions by Scheme members	**-**	-
Actuarial gain/(loss)	**6,334**	(2,948)
Benefits paid	**(850)**	(381)
Closing defined benefit obligation	**27,297**	21,020

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

Engage scheme change in fair value	**2016 £'000**	9 months to 31.12.2015 £'000
Opening value of scheme assets	**27,498**	29,028
Interest on scheme assets	**1,055**	665
Actuarial gain/(loss)	**5,829**	(2,243)
Contributions by the employer	**673**	521
Contributions by the scheme members	**-**	-
Benefits paid	**(850)**	(381)
Administration costs incurred	**(172)**	(92)
Closing value of scheme assets	**34,033**	27,498

The actual return on the Scheme's assets over the year was a gain of £6,884k (9 month period ended 31 December 2015: £1,578k).

The value of the Scheme assets was restricted to £nil in both periods. During the period administration expenses of £172k (2015: £92k) were incurred.

Notes to the financial statements

for the year ended 31 December 2016

29. Pension Commitments (continued)

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

Engage scheme change in comprehensive income	2016 £'000	9 months to 31.12.2015 £'000
Experience gain/(loss) on scheme assets	**5,829**	(2,243)
Experience (loss)/gain on scheme liabilities	**(6,334)**	2,948
Actuarial (losses)/gains	**(505)**	705
Gain/(loss) due to movement in the statement of financial position limitation	**4**	(1,134)
Loss recognised outside profit and loss	**(501)**	(429)

The total amount included in the Statement of Other Comprehensive income for the year is:

Group schemes change in comprehensive income	2016 £'000	2015 £'000
Loss outside the profit and loss account for the Family Scheme	**(2,000)**	(2,000)
Loss outside the profit and loss account for the Engage Scheme	**(501)**	(429)
Engage Scheme administrative expenses	**-**	(92)
Other	**-**	(13)
Total scheme change in comprehensive income	**(2,501)**	(2,534)

30. Statement of Information Relating to the Chief Actuary

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

- Mr D Addison was not a member of the Group at any time during 2016;
- No other member of his family was a member of the Group during 2016;
- Willis Towers Watson was paid fees for the year of £2,355k.

Notes to the financial statements

for the year ended 31 December 2016

31. 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 FRS102.

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 company, directly or indirectly, including any Director (whether executive or otherwise) of the company, 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 Group and Society	**2016 £'000**	2015 £'000
Family Asset Trust	**38,524**	35,439
Family Charities Ethical Trust – Accumulation Units	**9,707**	9,196
Family Balanced International Fund – Share Class A	**829,519**	782,919
Family Balanced International Fund – Share Class C	**1,940**	858
Total	**879,690**	828,412

During 2016, the Society and the Group made the following investments of policyholders' funds. All purchases of units were made at arm's length based on the buying price:

Purchase of investments Group and Society	**2016 £'000**	**2016 Units**
Family Balanced International Fund – Share Class A	14,651	4,368,618
Family Balanced International Fund – Share Class C	899	688,660
Total	**15,550**	

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