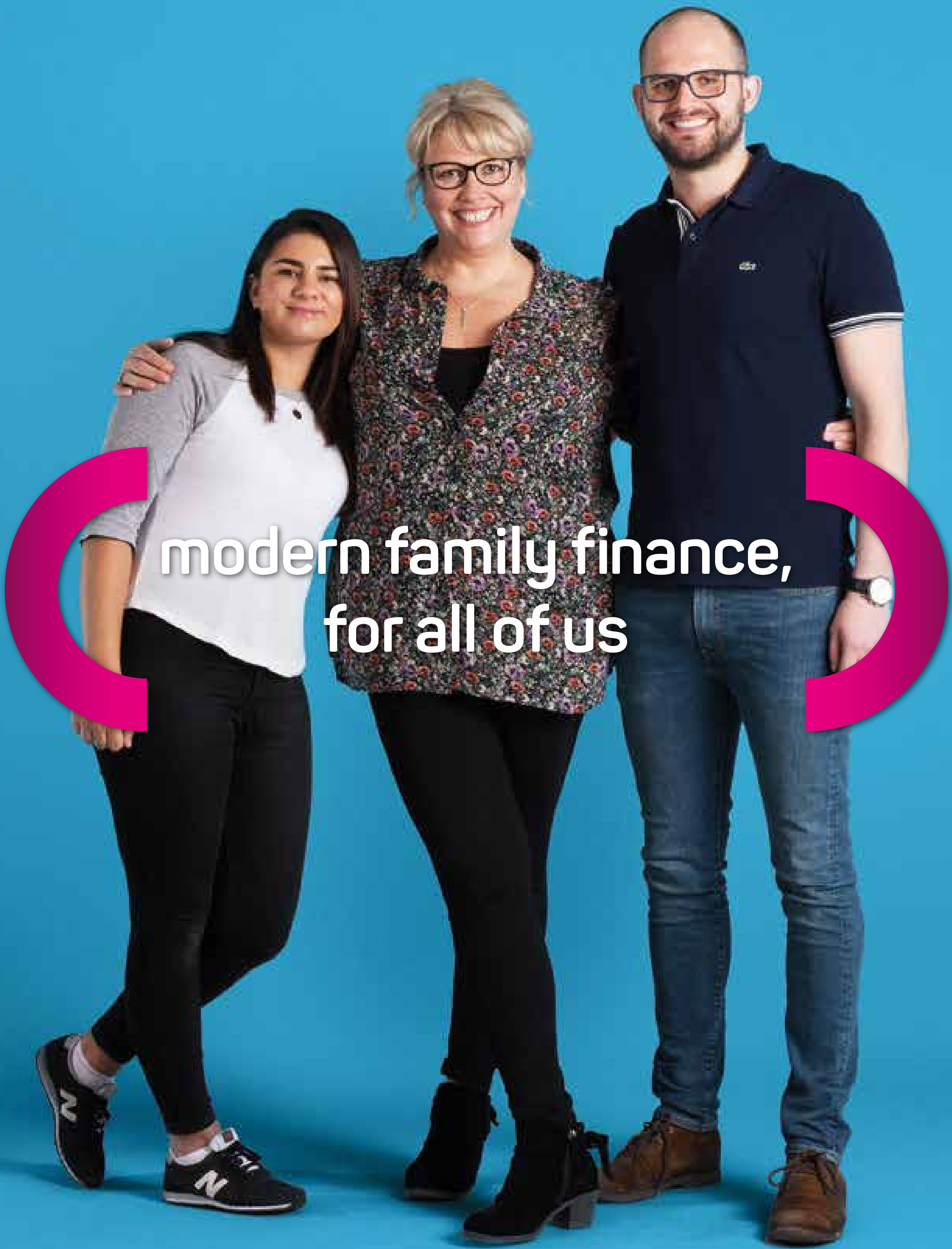
onefamily
modern family finance



Annual Report and Consolidated Financial Statements 2017

Contents

General information

Family Assurance Friendly Society Limited (FAFSL or the Society) is incorporated under the Friendly Societies Act 1992. FAFSL together with its Subsidiaries forms the consolidated Group known as OneFamily.

Registered office
16-17 West Street
Brighton BN1 2RL
www.onefamily.com

Corporate advisors

Actuaries
Willis Towers Watson plc
The Willis Building
51 Lime Street
London EC3M 7DQ

Auditor
KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Bankers
Royal Bank of Scotland Group plc
175 Glasgow Road
Edinburgh EH12 1HQ

Barclays plc
2nd Floor
1 Park Row
Leeds, LS1 5AB

Custodians
State Street Bank and Trust company
20 Churchill Place
Canary Wharf
London E14 5HJ

BNY Mellon
160 Queen Victoria Street
London EC4V 4LA

2017 highlights

Retained earnings increased to
£161 million

2.1 million
members

£81 million
lent through lifetime mortgages

Solvency II capital coverage ratio of
218%

Market leading customer satisfaction at
92%

OneFamily has
521 employees

Our main Child Trust Fund has beaten
10 of the 11
rival funds

OneFamily Foundation has helped
250,000
people since it started

Year of significant investment in the business

New Lifetime Mortgages and a Lifetime ISA developed

Operating efficiency improved for fifth year in a row

Chairman's review Christina McComb

Welcome to our 2017 Report and Accounts. I am pleased to report once again a year of strong financial performance and progress. I believe we are delivering well against our purpose of creating value for you, our members. Our mutuality informs how we behave, we have a clear social purpose and a long-term commitment to act in the interests of our members.

In 2017 we have moved forward with our strategy, both in terms of providing an excellent level of care for our existing customers and creating a business well positioned for further growth. It has been a year of investing in your business, building future capability and developing new products that are designed to support families and their financial decisions at all stages.

Our Chief Executive, Simon Markey, will explain the business developments in detail on pages 6 to 9. I would like to take the opportunity to look at the broader factors in the economy and what this means for you as members.

Our customers and the economy

Given that our business purpose is centred on modern family finance and helping more people thrive by making better decisions about their financial future, we are very conscious that disposable incomes for our customers and, indeed, many working families continue to be squeezed. We also know that it feels tougher then ever for the younger generation to fund their education, save for a first home and be able to put money aside for other financial needs.

From an economic viewpoint, there are some positive signs that the slowdown that many commentators have predicted is not hitting as hard as expected. House prices have continued to grow, albeit at a slower rate than previous years. GDP growth during 2017 was 1.8%, the same level as 2016. Unemployment also remains at a 42-year record low and, in the latter months of 2017, business growth was increasing at its fastest rate since 2015.

The economy and politics are however inextricably linked, and Brexit continues to cast a shadow and remains a topic of much debate. Whatever your view on Brexit, it's hard to deny that 2017 has been characterised by a continuing sense of uncertainty, not aided by the Government's loss of majority following the General Election.

Against this backdrop, we believe our strategy of pursuing a long-term investment approach and avoiding high risk areas is most appropriate for our members.

Board and governance

I reported to you last year on our Board succession. I am delighted to confirm that our new Board members, Graham Lindsay, Steve Colsell and our Chief Finance Officer, Teddy Nyahasha, have settled in well and have made a strong contribution in 2017.

In 2017, the Board invited PricewaterhouseCoopers to review the effectiveness of the changes we had made in 2016, and I am pleased to note that they have confirmed that OneFamily is a well-run business with a more effective Board and enhanced governance. You can read further details on page 40.

I would like to draw your attention to one particular innovation during the year in our Board governance which was the widening of the remit of the Foundation Sub-Committee to become the Member and Customer Sub-Committee. Chaired by non-executive director, Graham Lindsay, the aim of this committee is to ensure that you, our members and customers are at the heart of our business, and we operate as a responsible member-owned organisation. As such, included in its remit is overseeing the good work of the OneFamily Foundation.

The OneFamily Foundation

Many of you are already familiar with the work of the OneFamily Foundation (the Foundation) which aims to give back to our customers, their loved ones, local communities and the causes they care about.

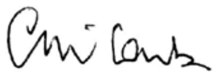
I'm delighted to say that through our members' ongoing support, the Foundation continues its excellent work and is now estimated to have improved the lives of over 250,000 people across the UK.

"The economy and politics are however inextricably linked, and Brexit continues to cast a shadow and remains a topic of much debate. Whatever your view on Brexit, it's hard to deny that 2017 has been characterised by a continuing sense of uncertainty, not aided by the Government's loss of majority following the General Election."

Christina McComb, Chairman

Overall, since the inception of the Foundation in 2015, £2.2 million has been awarded to good causes nominated and chosen by our customers and we remain on track to distribute £5 million over a five-year period, something we are all extremely proud of. During 2017 we took the opportunity to enhance the work of the Foundation and introduced a new Charity Fund initiative alongside Personal Grants and Community Awards. You can read more about the good work of the Foundation on pages 26 to 31.

In conclusion, I would like to take this opportunity to thank my Board colleagues, our executive team and all employees for their hard work and continued commitment to OneFamily's success. I would also like to express a personal word of thanks to Nigel Masters, who is retiring from the Board after the AGM, having served with me as a director at Engage Mutual and latterly, as my colleague and chair of the Risk and With-Profits Sub-Committees at OneFamily. Nigel's strong contribution has been much appreciated.



Christina McComb
Chairman

Chief Executive's report
Simon Markey

I'm pleased to report that 2017 was another successful year for OneFamily as our strategy continues to serve us well. Through a twin approach of growth and diversification, we have further improved our retained earnings as well as our capital position, whilst providing an excellent level of service to our customers.

We end the year with retained earnings at £161 million, compared to £158 million in 2016. This is a very strong result when considering the significant investment we have made during the year, ensuring we have the tools and capability to achieve our ambitious and profitable growth plans for 2018 and beyond. Our financial review gives further information on pages 12 to 13.

Before I move on to address our strategy and key business achievements in 2017, you will notice we have refreshed the OneFamily brand to create a more vibrant look and feel, which is featured throughout this document. We undertook a review during 2017 to see how our brand portrayed OneFamily. Through analysis and insight from our customers, intermediaries and employees, we found that there was more our brand could do to help meet their needs. This new look and feel is one of the key results of this work and I hope it is well received.

Strategic context

Our business continues its evolution since 2015, following the merger of Family Investments with Engage Mutual to form OneFamily, and this year has been highly significant in terms of developing new products and services as we build a diversified, highly capable business on a greater scale.

Much of 2017 has been centred on putting in place the required building blocks from which to grow the business organically and I continue to be very pleased with the large amount of change the business has succeeded in delivering over a relatively short period (at the same time as increasing retained earnings year-on-year). Key strategic investments during 2017 include:

- Launch of new innovative lifetime mortgage products
- The creation of OneFamily Advice
- Development of a Lifetime ISA
- An improved online capability

Lifetime mortgages

We entered the lifetime mortgage market in 2016 as we viewed the market as poorly served but one where customer demand would continue to grow, and an area which was aligned with our strategic vision to help families reach their financial goals across different generations. This has been a good strategic decision, given that 2017 was a record year for the industry with customer numbers reaching 67,000 and annual lending surpassing £3 billion for the first time.

Our own lifetime mortgage business is now well established and to date we have received applications for over £130 million of lending. This is a highly credible achievement in a competitive market. We now offer a range of mortgages to suit many homeowners needs.

Although the lifetime mortgage market is growing in terms of customer demand, competition has also increased, with high street names launching products. Whilst we welcome the credibility these brands bring, it reminds us that OneFamily must remain fleet of foot in order to continue to secure our own particular niche.

Our approach and response since launch has been to innovate in the lifetime mortgage space, by launching new, unique products, and by developing our own distribution service whilst maintaining our close relationships with intermediaries.

OneFamily Advice

As a complex financial product, lifetime mortgages can only be sold with advice. We have developed OneFamily Advice during the year, ready for launch in 2018. This new service will provide customers with a highly cost-effective way to get 'whole of market' advice on lifetime mortgages via telephone or video with website interface and support. This contrasts with the traditional method through which these mortgages are arranged, where advisers conduct interviews in the customer's own home, which comes at a higher cost to the customer. With the use of video conferencing technology, our new fixed fee service is cutting edge and brings further consumer choice to the buying process of such loans. At least initially, we will focus purely on lifetime mortgages, but over time and subject to success, we may extend OneFamily Advice to other product areas that would also benefit from a simplified advice approach.

Lifetime ISA

As part of our diversification strategy, we ended the year ready to launch our new Lifetime ISA product, another key 2017 development. Lifetime ISAs are a new long-term savings product for 18–39 year olds saving towards a first home or retirement, that benefits from a 25% annual Government bonus, up to £1,000. Just like Child Trust Funds, our aim is to help family members build a vital nest egg for the future. For the Lifetime ISA, that is either to help them onto the housing ladder or to support their retirement planning.

Customer satisfaction measures and fund performance

Whilst my report has focused on some of the more strategic aspects of the business, I am very clear that, as a mutual, service delivery to our existing customers is a top priority. I am pleased to be able to report that we have continued to provide a very high level of customer service throughout the year. Indeed, according to research amongst our customers, 88% say they would recommend us and overall satisfaction is 92%.

Of course, we can never be complacent and there are always improvements we can make. We are constantly seeking ways to service our customers even better and this means listening to valuable feedback. This will be further enhanced by OneFamily Voice, a significant research panel of our customers launching in 2018, which we will use to help us get a deeper understanding of customers views.

As well as providing an excellent level of service, our investment performance has been very good. Our largest product group is our Child Trust Fund and when we first entered that market, we did so knowing that we were looking at an 18-year time horizon. Here we are today, just three years from the point when the first of those accounts mature. Investors in our core fund have seen the value of their investments rise by 12% in 2017 with the equivalent five year returns being 60%, because our investment-linked funds have benefited from global world stock market performance in a period when a number of indices have hit record highs. Not only has our main fund handsomely beaten cash and inflation over the same period, it has also beaten 10 of the 11 rival funds that we use as comparisons. Our focus, along with continuing to look after our customers' investments, is now turning to how we maintain our relationships with our Child Trust Fund customers – the young people themselves – over the longer term. Indeed, we hope that in three years' time some of the money currently invested in our Child Trust Funds will flow into a Lifetime ISA and other products we are considering developing, enabling our customers to continue a seamless journey of tax-free investing.

Regulatory projects

As well as the major development projects we have underway, the Group has also dealt resolutely with the increased regulatory agenda, including the embedding of Solvency II, a harmonised EU-wide insurance regulatory regime. In 2017, we increased our focus on the important subject of cyber-crime and have been upgrading our IT to enhance protection of customer data against these emerging risks. We are working to implement the General Data Protection Regulation (GDPR), which is effectively an updated version of the UK Data Protection Act that has increasingly become outdated due to the fast-developing world of e-commerce. The project is expected to absorb a lot of resource in the short-term, in order to meet the deadlines set in the regulations. Whilst this is for our customers' benefit and protection, this is another example of the ever-increasing regulation in our sector, which is both time and cost intensive for businesses like OneFamily.

Direction of travel

Looking forward, there are a number of new building blocks to the next phase of our strategic development. As we diversify our business from investment products to services such as OneFamily Advice and lifetime mortgages, we might expect to start to see a decrease in funds under management. Our focus will be on growing the underlying retained earnings of the business and less so on merely adding to funds under management which is a cruder metric.

I believe the innovative product development we have underway and the increased brand visibility we have planned can make OneFamily a financial services consumer brand of choice. Helping families to secure their futures and live their lives through investing, protecting and releasing equity from their homes is the heart of our business. Finally, we will have to remain focused on continuing our modernisation programme which in turn drives our cost efficiency in order to ensure we can deliver our ambitious growth plans as well as for our purpose of creating and protecting value for members. More information can be found in our strategic report on pages 10 to 18.

Thanks

As ever, I am grateful to all of my OneFamily colleagues this year because our progress could not have been achieved without their dedication and hard work.

Simon Markey
Chief Executive

"2017 was a year centred on building capability and developing new products to grow the business organically in 2018 and beyond"

Simon Markey
Chief Executive

Strategic **report**

The strategic report on pages 10 to 18 incorporates the financial review, performance highlights and the investment report. Our purpose is to create and protect value for members and our vision is to see more people making better decisions about their financial future, together.

To deliver our purpose and vision we have developed a strategy that will see us extend our market share in existing product lines and expand into new product areas where we can compete effectively and create long-term value for members.

This will be achieved against a backdrop of focusing on profitability and efficiency, to maintain our strong capital base.

In 2017, we set out a range of corporate objectives to deliver our strategy and our key themes included growth, retention, and modernising the business. We have made good progress across them all.

Grow by serving more customers and their needs

By providing financial products and services that recognise the diversity and complexity of modern family life, our strategy is to provide products or services where we can offer better value or more innovation than mainstream providers. In 2017, we identified several areas of opportunity including innovation in lifetime mortgages by launching products where the interest can be paid monthly, or as and when the homeowners wish; the development of a new Lifetime ISA for 18-39 year olds which attracts a 25% Government bonus; and the creation of OneFamily Advice, a highly cost effective online, video and telephone based service offering 'whole of market' advice on lifetime mortgages.

We also continued to broaden our distribution channels, both through our own direct channels, such as OneFamily Advice, and through intermediaries, to increase the accessibility of our products. We expanded our digital capability, as customers increasingly prefer to access our products and services this way. For example, OneFamily Lifetime ISAs can be applied for and managed entirely digitally. As well as our direct channels, we also distribute OneFamily Over 50s Life Insurance and OneFamily Lifetime Mortgages through advisers and we have continued to expand our relationships with these key intermediaries.

We have also taken the opportunity to refresh our brand to create a more vibrant look and feel, reflecting our focus on modern family finances.

Retain customers through superior service and relevant propositions

As a mutual, retaining our existing customers and delivering a high level of service is very important to us. 2017 continued to see high levels of customer satisfaction, with OneFamily outperforming industry benchmarks by some distance. As mentioned in the Chief Executive's review, we will start to see our large Child Trust Fund customer book maturing from 2020, as these members reach age 18, and we have started to prepare for this. Our strategy is to develop products that will see us retain these customers in the longer-term. In 2018, we will be further developing our proposition and engagement approach to retain those new adult members who wish to reinvest. Our Lifetime ISA will be one option available for 18 year olds who wish to save towards buying their first home when their Child Trust Fund matures.

Increasing our cost efficiency and protecting our business for the future

We continue to look for ways to improve our cost efficiency and pass that value on to members and, in 2017, we had several successes in streamlining processes. For example, for some of our ISAs, we replaced a time-consuming and costly postal process with a secure, telephone-based process, and in Finance we have successfully applied lean techniques to reduce our monthly reporting processes, meaning we can now deliver performance insight earlier. In 2018, we are seeking to go further by applying robotic automation

techniques to existing manual processes to reduce costs and improve consistency. Improving efficiency should be an important goal for any successful business, and as such remains an ongoing item on the executive agenda.

To keep the business protected from cyber-crime and to ensure we are well positioned for future growth we continued to modernise and simplify our IT systems to make them more secure and resilient as part of a multi-year programme of investment. Meeting our regulatory requirements is an ongoing focus with a busy agenda. This includes the embedding of Solvency II and compliance with new legislation including The Markets in Financial Instruments Directive, Retail and Insurance Based Investment Products and the Insurance Distribution Directive. We have also been preparing for the General Data Protection Regulation, new data protection rules, which come into force in 2018.

In 2018, we will continue to deliver our strategic themes of growth, retention and modernisation to create value for our members.

Financial review

During 2017 we have invested in the capability of OneFamily, launching a number of new lifetime mortgage products, developing OneFamily Advice and a Lifetime ISA, whilst enhancing our digital ability. This build phase of our strategy as we invest for the future, plus the increasing requirements of General Data Protection Regulation, cyber-risk and Solvency II, has seen the retained earnings of the Group rise at a slower rate than prior years, from £158.1 million in 2016 to £160.6 million in 2017. This is in line with our expectations as we develop our product portfolio for future growth. Despite the modest increase in retained earnings the Group has made positive financial progress in other areas.

Our capital position (measured under the principles of Solvency II) has improved in the year and we hold regulatory capital in excess of our capital requirements of £87.9 million within the non-profit fund. This represents an estimated coverage ratio of 218%. This compares positively to the excess capital and capital coverage ratios for the non-profit fund at the end of 2016 of £73.5 million and 184% respectively.

The net total amount of money that we manage for our customers (funds under management) has grown by 1% to £8.1 billion (2016: £7.9 billion). This low level of growth in funds under management, despite good stock market performance and the performance of OneFamily's investment funds, is heavily influenced by continued benign low interest rates. The low interest rates impact both new sales and exits of both our own ISA products and those that we manage on behalf of our partners. For further details of the performance of our key funds please see the Investment report on pages 16 to 18.

As our business strategy leads us into different product types we will be reviewing the metrics we measure and present to our members as key performance indicators. For example, our continued expansion into lifetime mortgages sees us moving into lower volume but higher value products, and OneFamily Advice, whilst generating income for the Group, will not add to our funds under management.

As a mutual, 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 aim of helping our members and customers achieve their financial goals whilst maintaining OneFamily's long-term financial and capital strength. This continued to be important this year, given the uncertainty over the Brexit negotiations and political uncertainty both at home and overseas. As a mutual, Brexit is considered to have a limited impact on our operations given the Group is domiciled and operates in the UK.

2017 highlights at a glance:

- We generated 17,000 total new sales of our Over 50's Life Insurance product, an 11% year-on-year increase
- During 2017, OneFamily Lifetime Mortgages continued to build on its initial success by generating income for the business based on £81 million of mortgages completions, compared to £48 million of completions in 2016
- Operating efficiency continued to improve from 0.34% to 0.32% during the year

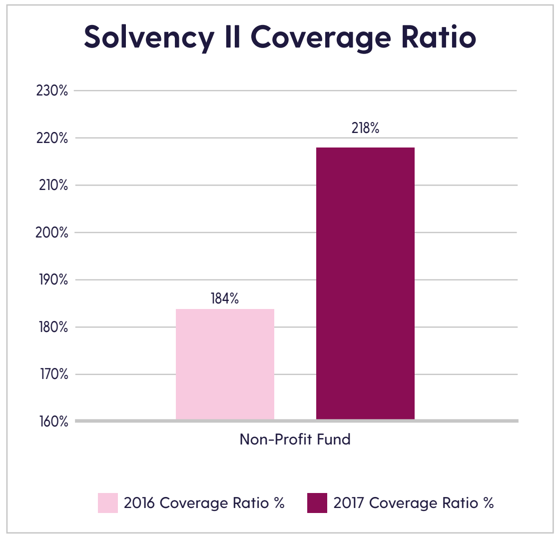
Capital position under Solvency II

2017 is the second year that we have reported the year-end capital position of the Society under the Solvency II framework. Under the regime there are two capital requirements to meet; 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 one in 200 year event. The MCR denotes the level below which policyholders would be exposed to an unacceptable level of risk.

The Solvency II surplus represents the excess of the Society's total eligible own funds over the SCR. The Solvency II coverage ratio is a measure of the Society's ability to cover its losses in a one in 200 year event and is calculated as the ratio of the Society's total eligible own funds to the SCR. A ratio of 100% means the Society would be able to cover its obligations in a one in 200 year event. A ratio in excess of 100% means the Society is able to meet these obligations.

The position of the Society's non-profit fund as at 31 December 2017 and 31 December 2016 was as follows:



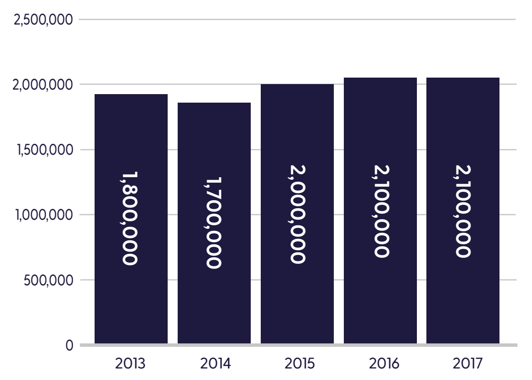
More information is available online at www.onefamily.com

Outlook

As a member-owned business we are focused on both the long-term and current needs of our customers and members and are not driven by short-term dividend decisions. The investment in building OneFamily's capability during 2017 underpins our vision to achieve continued growth and long-term value for members and customers through diversification and new product development in 2018 and beyond.

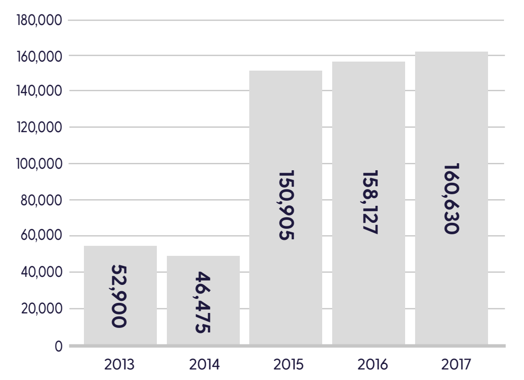
Group performance highlights

Membership



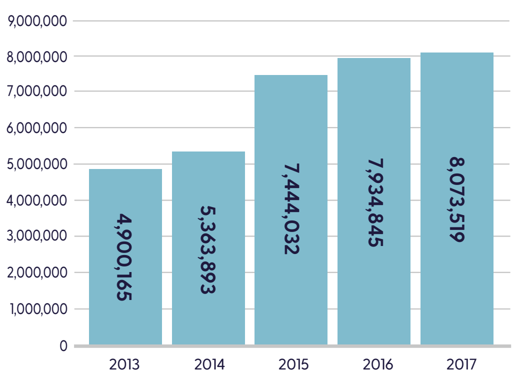
Membership remains steady during the year, as new policy sales cancelled out policy exits.

Retained Earnings (£'000)



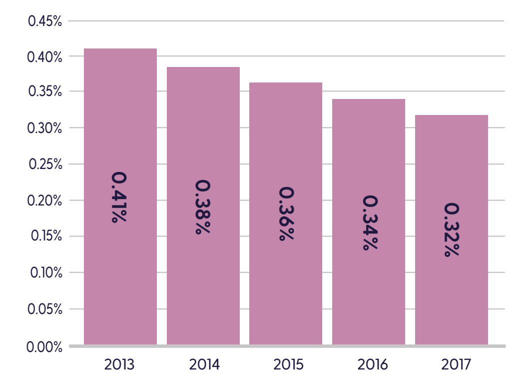
Retained Earnings have increased by £2.5 million from 2016 to 2017, following the investment in the business in 2017. The increase from 2014 to 2015 is a result of the merger with Engage Mutual.

Customers' Funds Under Management (£'000)



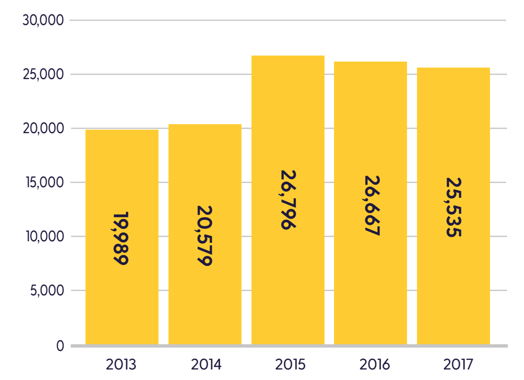
There was an increase in funds under management of £139 million in 2017. This represents the impact of the growth on equity funds, less the value of policy exits.

Operating Efficiency



Operating Efficiency measures the underlying expenses of running the business, as a percentage of funds under management. This shows an improvement in the year from 0.34% to 0.32%. This improvement has been driven by the continued efficiencies following the merger with Engage Mutual in 2015. It includes the additional running costs of OneFamily Lifetime Mortgages and OneFamily Advice.

Underlying Group Operating Expenses (£'000)



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 2017 includes costs relating to our new companies, OneFamily Lifetime Mortgages and the development of OneFamily Advice.

Through a twin approach of growth and diversification, we have further improved our retained earnings as well as our capital position

Net Operating Expenses Summary

	Group 2017 £000's	Group 2016 £000's
Net operating expenses	**68,034**	69,043
Acquisition costs and cost of sales	**(17,713)**	(15,896)
Strategic development costs	**(26,081)**	(27,883)
Investment expenses	**3,280**	3,547
Less: Linked fund investment expenses	**(1,985)**	(2,143)
Underlying group operating expenses	**25,535**	26,667
Customers' funds under management	**8,073,519**	7,934,845
Operating efficiency	**0.32%**	0.34%

Investment report

OneFamily investment fund performance

In 2017 we have helped our customers to deal with the ongoing benign interest rate environment by offering diverse investment opportunities in a range of assets, including shares, bonds, property and cash. Overall, our funds achieved positive growth during 2017, as shown below:

Unit price growth*

Funds**	One Year	Three Years	Five Years
Family Balanced International Fund (FIBI)	10.4%	27.1%	48.7%
Family Investments Child Trust Fund (CTF)	12.1%	33.2%	60.0%
Family Sovereign Fund	9.9%	27.7%	42.6%
Santander Stock Market 100 Tracker Growth Unit Trust	10.5%	25.1%	41.5%
Family Charities Ethical Trust	9.2%	21.6%	42.7%
Family Asset Trust	11.4%	27.7%	51.6%

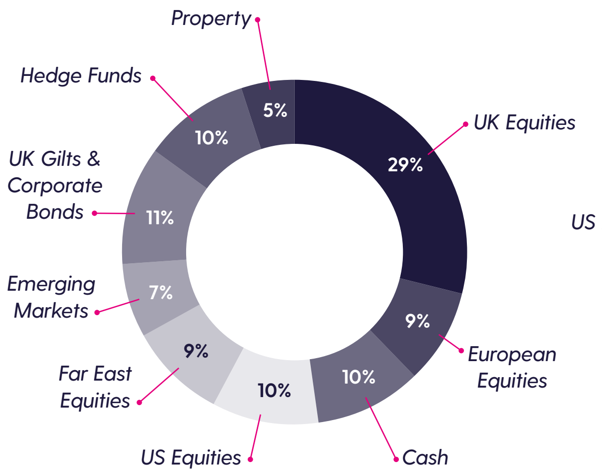
* Past performance should not be seen as an indication of future performance. Investors are reminded that the price of units and the income from them is not guaranteed and may go down as well as up.

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

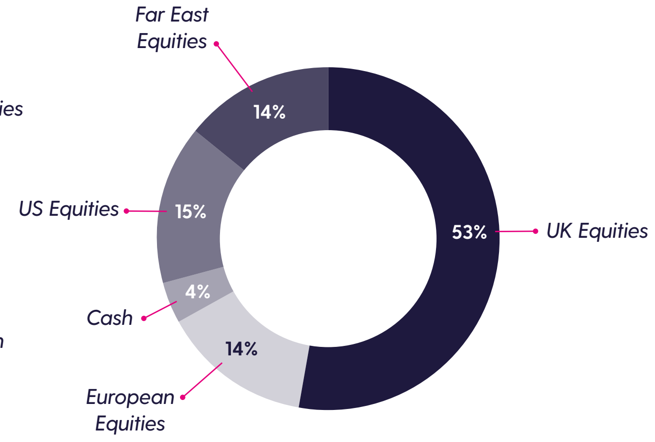
Our two largest funds, in which most of our customers are invested, showed positive returns. The Family Investments Child Trust Fund (CTF), which invests in UK, US, European and Far East equities, grew by 12.1% in the year, whilst the Family Balanced International Fund (FIBI), which also invests in emerging market equities, property and fixed interest, in addition to the global equities referred to above, grew by 10.4%. The Family Sovereign Fund is the Group's largest customer investment fund where the majority of our Family and Junior Bond policies are invested. Sovereign owns 76% of FIBI and grew by 9.9% in the year.

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

Family 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

Market review

General

2017 opened with a degree of market uncertainty. There was concern in Europe over Brexit, while in the US there was uncertainty over what a Trump presidency might bring. However, as the year progressed and investors focused on the improvement in the economic and corporate outlook, global stock markets developed an upwards trajectory.

Markets were unsettled by spikes in political concerns in Europe, the Middle East and Asia, with heightened tensions around North Korea a notable feature during the year. Nevertheless, most equity markets posted positive returns for the year while other asset classes such as Government and corporate bonds were more muted but still positive.

UK equities

Events in the UK in 2017 continued to be dominated by Brexit. This was behind the Government's decision to call a general election for June, a move that saw it lose its majority. Generally business confidence was down and the economy lagged the accelerating pace of growth seen through much of Europe. Inflation stood at a five-year high of 3.1% in November, which contributed to the Bank of England's decision to increase official interest rates from 0.25% to 0.5%.

Nevertheless, against this background the economy slowly accelerated with growth of 1.8% during the year. This helped boost markets and the FTSE All Share Index posted a return of 9.0%. This helped the Family Asset Trust (which invests in the FTSE 350) produce a return of 11.4%, while the Santander Stock Market 100 Tracker Growth Unit Trust (which tracks the FTSE 100) returned 10.5%. The Family Charities Ethical Trust, which invests in a subset of the FTSE called FTSE4Good, generated a return of 9.2%.

Bonds

Government bonds have traditionally provided a safe haven for investors, particularly in times of falling interest rates where a guaranteed rate of return on a bond can be attractive. Despite this situation beginning to reverse, with the first UK interest rate rise for a decade and rising interest rates in the US, Government bonds proved remarkably resilient, particularly in overseas markets.

UK gilts had a fairly flat year overall. Shorter dated gilts fared relatively poorly as the Bank of England implemented a quarter percentage point rate increase in November. At the longer end of the curve, 10-year returns initially trended lower to hit 0.93% in June amid relatively unimpressive growth and political uncertainty, before rising after the news of a December breakthrough in Brexit negotiations.

In other fixed income markets, high-return bonds being issued by companies were strong performers as the improving economic backdrop and rising corporate profits lowered the perceived risk of default. Investment grade corporate bonds largely outperformed Government issued bonds, although returns tended to lag behind those of lower quality debt. Emerging market bonds outperformed developed market bonds as investors were attracted to the potential for additional returns.

Overseas equities

Our balanced investment funds typically have exposure to not only UK equities and Government and corporate bonds, but also overseas equity markets.

The impact of global equity markets on our funds stems not just from the performance of the overseas markets, but also from the performance of the pound (sterling), since the value of foreign holdings are converted to sterling. This means that if sterling falls against foreign currencies, the investments held in overseas markets are worth more when translated back into sterling. On the other hand, if sterling increases in value, foreign investments have a lower value when converted to sterling.

Generally, in 2017 global equity markets performed well, with many markets performing even better than the FTSE All Share Index. However, 2017 also saw sterling strengthen against most overseas currencies, other than the euro. This increase in sterling's value offset some of the growth enjoyed in overseas markets. Overall, the FTSE World Index achieved a total return of 19.7% in local currency terms. This translates into a 13.3% return in sterling, reflecting the increase in the value of sterling against the US dollar through 2017.

Overall our balanced funds generated positive performance with the Family Sovereign Fund showing a 9.9% return, Family International Balanced Fund (FIBI) 10.4% and the Family Investments Child Trust Fund (CTF) 12.1%. This level of return reflects the overall asset mix contained within these funds.

USA

In terms of specific overseas markets, the US market was impacted by the Federal Reserve raising interest rates in March, June and December. Alongside tax reform legislation in December, hopes that President Trump would follow through with plans to ease regulations on the financial industry helped boost banks, which were already seeing some improvement in margins as a result of the higher interest rates. US equity markets advanced steadily through the year, moving through a series of record highs. The S&P 500 climbed 19.4% in the year in local currency terms, which translated to 9.1% in sterling.

Europe

Europe's stock markets gained positive momentum through 2017. Fears about an anti-EU shift among Europe's electorate diminished with the election of Emmanuel Macron as French President. With economic data also showing notable improvements and European Central Bank (ECB) interest rates pegged at record low levels, the overall backdrop underpinned equity investor confidence. Germany's stock market returned 12.5%, with business confidence levels rising to record highs amid robust growth. Meanwhile, Italy's gain of 13.6% was assisted by progress towards resolving the non-performing loans issue at a number of banks. In Spain, the IBEX Index returned 7.4% amid uncertainty following Catalonia's independence referendum. For the 12 months, the FTSE World Eurobloc Index generated a positive total return of 13.9%, which translates into 18.4% growth in sterling.

Far East

The FTSE World Japan Index returned 21.0% (14.4% in sterling), with export-oriented companies boosted by the weak yen. Elsewhere in the region, equities as measured by the FTSE World Asia Pacific ex Japan Index, recorded a positive total return of 22.2% (20.3% in sterling) in the 12 months. The region's markets held up well through the period. President Trump's threats of a more protectionist stance on trade initially unsettled investors, but that fear has subsided as little has materialised, aside from the US withdrawal from the proposed Trans Pacific Partnership.

Emerging markets

Among emerging markets, Brazil's market gained around 24% in local currency terms as a recovering economy and rising oil prices offset ongoing political uncertainty. China's stock market rebounded from a slow start to post a relatively modest gain, while Indian equities rose around 25%. Russia lagged behind the BRIC countries as its market struggled to gain traction in 2017. The MSCI Emerging Markets Index recorded a total return of 25.4% in sterling terms for the review period.

Market outlook

The Society's main fund managers believe that the equity markets may still offer potential growth in 2018. When equities are compared to bonds, the fund managers think that equity valuations may be undervalued at current interest-rate levels.

In terms of geographical markets, the fund managers consider that the US and other developed markets still offer some opportunities. If the current low interest rates, weak yen and improved corporate governance continue, Japan may also be an attractive market. In the Eurozone, if concerns over the risks associated with Europe recede, there could also be positive returns in local currency terms over the next year.

However, it is worth noting that there has been some early market volatility in 2018, as investors sought to take profits in the first couple of months of the year. In March, markets have further dipped significantly below the year-end position, due to the threat of a US-Chinese trade war. Future market performance will undoubtedly be significantly influenced by the outcome of this threat to global trade.

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 Sub-Committee and a member of the Investment and Product and Member and Customer Sub-Committees.

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

Christina is currently Senior Independent Director at British Business Bank plc, Standard Life Private Equity Trust plc and Nexeon Limited, and a non-executive director at Big Society Capital 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 Investment and Product Sub-Committee, and a member of the Risk, With-Profits, Nominations and Remuneration Sub-Committees (and was Chairman of the latter throughout 2017).

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 special advisor at Rathbone Brothers plc.

Ian is currently Chairman of Vision Independent Financial Planning Limited, a non-executive director at Miller Insurance Services LLP and a consultant at Rathbone Brothers plc.

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 a member of the Risk, With-Profits, Audit and Nominations Sub-Committees. Nigel was Chairman of the Risk and With-Profits Sub-Committees throughout 2017.

Nigel has over 36 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.

Nigel will be retiring from the Board of Directors after the 2018 AGM after six years of service on the Board of Engage Mutual and subsequently OneFamily.

Peter Box Non-Executive Director

Peter was appointed to the Board in December 2009. He is Chairman of the Audit Sub-Committee and a member of the Risk, With-Profits, Remuneration and Nominations Sub-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 businesses to specialist national firms.

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

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 Sub-Committees. He became Chairman of the Risk and With-Profits Sub-Committees with effect from 1 January 2018.

A Fellow of the Institute and Faculty of Actuaries, 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's 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 and Customer Sub-Committee and became Chairman of the Remuneration Sub-Committee from 1 January 2018. He is also a member of the Audit and Nominations Sub-Committees.

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

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 as Chief Executive in November 2012. He is a member of the Investment and Product, Nominations and Member and Customer Sub-Committees.

Simon started his career in 1984 with Lloyds Bank, and is an Associate of the Chartered Banker Institute. During a 20-year period he held numerous positions with Lloyds 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 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.

Corporate responsibility report

Our belief is that by creating a business with a positive culture we will be able to put customers first, have a positive impact on society, treat our employees well, invest in communities and limit our impact on the environment.

Our people

We believe happy employees provide our customers with a better experience so we invest in a comprehensive internal communications and engagement programme. The activity aims to ensure employees feel informed about OneFamily, its goals and the important role they play in achieving business success.

We run a twice-yearly survey to find out what our employees think about working at OneFamily. In the most recent survey in November 2017 over 85% of colleagues took the opportunity to have their say, with factors including external customer service, management and working environment scoring particularly highly. We will continue to engage with our employees to understand their views on what works at OneFamily and identify areas for future focus.

Our culture and values

Having a positive culture is fundamental to our success and we invest a great deal of time and effort to ensure that OneFamily is a positive place to work and employees are engaged with the goals of the business.

During 2017 we ran a project to further improve the working culture within OneFamily and launched a number of initiatives to achieve this. As part of the programme, we refreshed our values and made them part of our performance management framework, to ensure employee success is measured through what they have done, and how they have achieved it.

Values

- **Better Together.** We work collaboratively in pursuit of our goals, sharing our knowledge, giving feedback, supporting our colleagues and creating a great place to work.
- **Being Your Best.** We set our standards high, and are committed to helping ourselves and each other to achieve our full potential.
- **Being Innovative.** We seek creative solutions to problems and opportunities for smarter ways of working.
- **Champion the Customer's Needs.** We always put our customers at the heart of what we do.
- **Doing What's Right.** We act with integrity and take personal responsibility for delivering on our promises.

To further embed the values we have invested in a new peer-to-peer recognition scheme whereby employees receive immediate recognition for living the values along with the opportunity to win awards for going above and beyond. Every quarter we will reward 15 colleagues in OneFamily who have demonstrated exceptional commitment to our values.

Community investment

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

We actively encourage our employees to get involved in the local community and during 2017 we ran a programme of volunteering in Brighton and Sussex, where our head office is based.

We asked our employees what type of good causes they wanted to get involved in and proactively contacted relevant organisations operating locally, to see where we could be of assistance. Through the programme we worked with charities including Raysteade Animal Welfare Centre, Chestnut Tree House and the Martlets Hospice through activities such as gardening and painting. We plan to roll out this programme further in 2018.

We are very proud to support the LGBTQ community both locally and within OneFamily. During the year we partnered with Brighton and Hove Pride in August which saw us sponsor the family diversity area at the Pride festival and a number of our employees took part in the parade itself on a OneFamily sponsored float. We also opened our office on the day of the parade and invited OneFamily employees and family members to come along and enjoy themselves, and watch the parade go past our offices.

Finally, we know that our employees are passionate about good causes personally so we match individual employee fundraising.

Diversity

Embracing diversity is at the core of our employee proposition. We know that to be our best we need colleagues with different views and we actively encourage everyone to be themselves at OneFamily and respect and value other colleagues' opinions.

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

Our ambition is to be an employer of choice and to achieve this we know that it is vital to embrace diversity and make OneFamily a great place to work for all colleagues.

Colleague wellbeing

Being happy at work is key to all our employees' good health and our approach focuses on promoting a work-life balance, and providing resources and support mechanisms directly to employees and via line managers.

Through our benefits programme we give employees the opportunity to purchase bicycles on a monthly salary sacrifice scheme to encourage cycling to work and we have negotiated discounted memberships at local gyms.

From time-to-time everyone can experience difficult times, whether it's at work or at home. Our Employee Assistance Programme is there to provide support or counselling for our employees on any personal, health or work issues, debt or general help and advice. The service is available 24/7 for all employees and is free and confidential. We know we don't need our people sitting at their desks Monday to Friday, nine to five, to do a good job of looking after our customers. During the year we undertook a review of our approach to flexible working to ensure we are consistent, whether that be offering part-time hours, working from home or any other needs to suit our employees' lifestyles.

Talent management

At OneFamily we believe investing in our people and their future is not just a tick box exercise. We want to help our employees progress in their careers by learning new skills and we have a comprehensive learning and development programme supported by a dedicated team.

In 2017 we launched The Campus, an online learning platform. Employees are encouraged to use The Campus for their learning needs and they can access a wide range of tools and materials to help them progress. During 2017 we developed new leadership and management programmes which will be rolled out in early 2018.

Gender pay

OneFamily welcomes the introduction of the requirement for UK companies, with 250 or more staff, to report their gender pay gap. We believe this is an important step towards securing greater gender equality in our industry.

Our aim as a customer-owned business, is to reflect the same diversity we see amongst our members, customers and employees. This means ensuring both men and women are equally represented across all departments and levels within our organisation. Our overall mean and median gender pay and bonus gap as at 5 April 2017 was:

Mean and median gender pay gap:	
Mean	**Median**
20.3%	13.4%

Mean and median gender bonus gap:	
Mean	**Median**
44.9%	23.5%

Our gender pay gap is primarily due to us having a larger proportion of women in non-senior managerial roles and more men than women in senior management roles which attract higher pay. Senior manager gender split can be found on page 37.

We know there is more we can do to close the gap. Current initiatives and enhancements we are working on include:

- Identifying our female talent at an earlier career stage
- Development of a more transparent approach to career progression to better articulate career pathways for colleagues at all levels
- A review of current return to work initiatives with the aim of improving retention rates of female colleagues
- Working with resourcing partners to provide a better balance of male and female candidates for advertised vacancies
- Creation of a working group with colleagues from different backgrounds to further develop our thinking on diversity related issues

For our full disclosure please visit www.onefamily.com/company-information

Explanation

Mean gender pay gap: The difference between the average pay (using hourly rates) for men compared to women, divided by the average pay for men.

Mean gender bonus gap: The difference between the average bonus of men compared to women divided by the average bonus of men.

Median gender pay and bonus gap: The difference between mid-points of pay and bonus for men compared to the mid-points of pay and bonus of women, divided by the mid-points for men.

Gender pay is not the same as equal pay. Equal Pay is concerned with the pay differences between men and women who carry out the same jobs, similar jobs, or work of an equivalent value.

Talking Family

Talking Family is our employee communications forum, whose role is to provide impartial representation, support and guidance to all employees at OneFamily and act as a voice of employees to management.

The forum is made up of a group of employees who have been voted by colleagues to represent the wider workforce. They are responsible for raising concerns, questions or feedback when a significant decision or proposal is made by the business that may affect employees.

Talking Family is run with the full support of the executive team and works with departments across OneFamily to resolve any issues and ensure the CEO and executive team understand employees' points of view.

Key duties include:

- Ensuring there is a structured forum for communication regarding corporate issues that are likely to affect employees
- Acting as a consultative body and employee representatives during any period of consultation
- Providing an impartial forum for support and guidance for colleagues in the eventuality of any period of consultation
- To receive updates on equal opportunity monitoring and supporting those affected

During 2017 Talking Family held six discussion forums and met with the CEO four times.

Environment

OneFamily aims to minimise the harmful impact it has on the environment. Our environmental policy can be found online on our website www.onefamily.com.

We have invested in energy saving measures throughout our Head Office in Brighton such as energy saving lights, recycling and waste management. We regularly review if we can do more to improve energy performance and efficiency, and embrace any commercially viable opportunities to do so.

As we now have two offices we encourage employees to use technology to reduce the requirement to travel and to use public transport.

OneFamily Foundation report

At OneFamily we're passionate about making a difference to our customers' lives. Through the OneFamily Foundation we give back to our customers, their loved ones, local communities and the causes they care about.

We do this in a number of ways:

Personal Grants

Up to £1,000 is available to offer a financial helping hand to customers, a family member or friend.

Community Awards

A chance for community projects to **win up to £25,000.**

Charity Fund

£120,000 to support charity campaigns that help ease financial pressures faced by many families across the UK.

We launched the OneFamily Foundation in 2015, following the merger between Family Investments and Engage Mutual, and we have an aim to give £5 million to good causes close to our customers' hearts over the five years to 2020.

As well as continuing to run Personal Grants and Community Awards, in 2017 we decided to build on the success of our existing Foundation initiatives and introduce the OneFamily Charity Fund. The objective is to provide funding for three charities to support campaigns that are aimed at making a long-term difference to families across the UK, and alleviate some of the financial pressures they may face.

The Foundation has been able to make a genuine difference to so many of our customers.

14-year old Abby is passionate about trampolining and has been competing for more than 10 years. Abby's mum Jackie applied to the Foundation to help cover the costs of competition entries and new kit. In 2017 Jackie won a Personal Grant of £1,000, giving her the chance to fulfill Abby's dream of competing in the Trampoline League Finals.

"Abby adores trampolining and I love to watch her do something she's so passionate about. To see her entering competitions and growing in confidence makes me so excited for the future."

Jackie Shearer, Personal Grant winner

Bristol charity, Discover Wellbeing, was awarded £5,000 through the Community Awards. The charity used the funding to launch a new scheme to support young people living with mental health issues by teaching them how to care for rescued horses, and learning skills they can use forever.

Personal Grants

Personal Grants offer our customers or those closest to them a financial helping hand when times get tough. We realised that many applicants' needs were greater than the £500 grant initially available, so in 2017 we launched a second level of funding whereby customers could apply to receive up to £1,000.

During 2017, 269 of our customers were awarded a Personal Grant for items such as home modifications and disability aids, courses that would help them get back into employment, and respite breaks for carers.

Community Awards

Our Community Awards give a chance for customers to nominate community projects to win funding. This year we introduced four categories to appeal to more of our customers' interests and passions, and added a third level of funding at £10,000 to bridge the gap between the £5,000 and £25,000 awards that we had offered previously.

The categories were:

- Health, disability & social care
- Active living
- Lifelong learning
- Community groups

210 projects were selected to go through to the public vote and over 64,000 votes were cast in support of the nominated projects, the highest number of votes we've ever seen. This was largely due to the fantastic awareness campaigns the projects ran themselves and the overall support from many of our customers and their local communities. The 32 winners of the 2017 Community Awards were announced in September and we will continue to work with all of these projects in 2018.

Charity Fund

Through a new initiative in 2017 we allocated £120,000 to share between three national charities to fund campaigns or projects that would help ease financial pressures faced by many families across the UK.

Following an application process, five charities were shortlisted, and voted for by our customers. The three charities that received the highest number of votes, were The Children's Society, Muscular Dystrophy UK and Motor Neurone Disease Association.

Hove Park School based in East Sussex won £25,000. The Community Award enabled the school to install a state of the art outdoor workout rig which can be used during lesson times by students and the wider community outside of school hours, encouraging a more active lifestyle.

"The whole school community responded and got behind our bid. It really galvanised parents, staff and the wider community and we're very proud of what we have achieved."

Jim Roberts, Hove Park School.
Winner of a £25,000 Community Award to install an outdoor workout rig.

In Wales, the Old Mill Cancer Foundation was successful in its bid to provide a range of holistic therapies for people living with cancer. The £5,000 Community Award allowed the charity to enlist ten new therapists, making its services more accessible.

"The funding from the OneFamily Foundation will enable us to reach more people and help guide them through what can be a long and complex application process."

Ben Sharpe,
Motor Neurone Disease Association.
Charity Fund winner 2017

Motor Neurone Disease Association will use their share of the Charity Fund to develop and expand on a pilot service which provides funding guidance to those recently diagnosed and affected by motor neurone disease.

mnda motor neurone disease association

The villagers of St Tudy in Cornwall will be using the £25,000 Community Award to renovate their local playing field. The new playground will also serve as a tribute to Claire, a much-loved and missed member of the community who sadly passed away in 2016.

"One of our teams are currently the UK Champion and the new equipment will enable us to build on this success and welcome even more members to the club."

Sharon Smith, Mayflower Performing Arts
Community Award winner 2017

"Hundreds of people supported us and we can't thank everyone enough for helping us to win this fantastic award."

Mark Cobham, Red Admiral Music Academy
Community Award winner 2017

Risk management report

Our focus on risk management helps us to understand the risks facing our business so that we can deliver value for our members, while retaining sufficient capital and grow our business.

Risk governance

The Board has responsibility for setting OneFamily's risk appetite, which outlines the degree of risk we are prepared to accept. 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 includes a report from the Chief Risk Officer on changes to the risk profile and risk mitigations, as well as emerging risks. These reports cover strategic, financial, operational, and conduct risks. The Sub-Committee also monitors the impact of regulatory change. In addition, the control framework is overseen by the Audit Sub-Committee and investment and product related risks are also overseen by the Investment and Product Sub-Committee.

This is underpinned by committees and forums run by the executive team which focus on specific areas of risk such as capital management, conduct risks, business continuity, and data governance. These report to the Executive Risk and Control Committee, chaired by the Chief Risk Officer, which meets regularly to ensure that actions taken to manage the risk profile and implement the risk management framework are effective.

We have a three lines of defence model for risk management. The first line of defence entails employees taking responsibility for identifying and managing risks in their area. The second line of defence is the Risk and Compliance teams who advise the first line on dealing with their risk exposures and the risk implications of projects. The second line produces independent reports on its views for the executive team and Board. 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 dealt with in a timely fashion.

Individual teams are required to hold a risk register, which identifies risks relevant to that area and the associated controls and management actions. These are then overseen centrally by the risk team and are used to inform reporting to the executive team and Board.

OneFamily complies with Solvency II requirements under the standard formula. As well as meeting regulatory capital requirements, and providing the related reporting required by our regulators, 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 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 continue to build on these as we deliver enhancements to our risk management framework.

A key element of the ORSA is the projection of regulatory and economic capital under base and stressed conditions. This allows OneFamily to judge the robustness of strategy and plans for adverse conditions, the evolution of risk profile as measured by economic capital, and the need for capital management actions if required.

A key part of capital management is the regular monitoring of economic and regulatory capital against buffers based on the impact of a one-in-20 year stress. In the event of a breach of the buffers, a review which may lead to management action to improve the capital position and reduce risks, would be carried out. In this way risk and capital management processes contribute to each other in terms of highlighting exposures and triggering management actions.

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, to solvency and liquidity, and 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. It includes the failure to devise and deliver initiatives 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 are closely monitored against delivery plans. Stress testing reflects the impact of strategy risks such as political events, regulation and competition on sales.
Interest rate risk	In general, there is exposure to falling bond yields which amongst other things, increases the present value of expenses, future claims less premiums on protection business, and pension liabilities.	Falls in bond yields would boost bond values and unit-linked charge income, offsetting these impacts. Staff pension schemes use swaps to hedge interest rate risk.
Equity risk	This principally relates to falls in fund values reducing the value of income from annual management and other fund related charges. With-Profits funds also invest in equities and are thus exposed to market falls.	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 hedging is in place to reduce the volatility of returns for policy holders.
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. We accept currency risk as a necessary adjunct of investment upside overseas. With-Profits funds will also be exposed to falls in overseas assets held.	

Risk	Description	Management and Mitigation
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. 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.
Lapse risk	The risk of higher than expected lapses will reduce the value of in-force business. 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 analysis 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 insurance.	Mortality and morbidity risks are 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 are partially offset by mortality risk exposure on Over 50s insurance with longer life expectancy associated with lower death claims.
Staff pension scheme risk	The risk of statement of financial position strains; and/or higher contributions from adverse movements in the assets and liabilities of defined benefit staff pension schemes. This encompasses 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, takes advice on the investment policy of schemes, and makes its views on investment policy and risk known to the trustees.

Risk	Description	Management and Mitigation
Liquidity risk	This relates to the risk of being unable to meet our financial obligations as they fall due or only at an excessive cost.	Liquidity is monitored daily and OneFamily holds liquid assets to meet outgoings in stress conditions. The I&PC receives quarterly liquidity reports including assets by fund.
Operational risk	This includes project risk, IT security risk, outsourcing risk and more generally other risks from failed internal processes, employees 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 reports produced for the Risk Sub-Committee. The risk assessment of new products and initiatives takes into account conduct risks.

Changes in risk profile over 2017

Key business developments during 2017 included the development of OneFamily Advice. The key risks of OneFamily Advice were assessed by the risk team and presented to the Risk Sub-Committee prior to the submission of our application for regulatory approval, with particular focus on the management of advice and conduct risk. OneFamily Advice was formally authorised by the FCA on 3 November 2017 and its own Board has been established with its own Risk Sub-Committee to oversee risk exposures. These will also be considered by the Group's Risk Sub-Committee.

Data protection

With effect from 25 May 2018 OneFamily will fall under the General Data Protection Regulations, which enhance the protection and privacy of personal data. OneFamily has established a comprehensive change programme to ensure compliance.

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 2017 a Board of Directors comprising the Chairman, five other independent non-executive directors and two executive directors govern 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 executive and senior management led by the Chief Executive.

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 20 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).

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
- 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 members to assess the Society and Group's performance, business model and strategy.

As at 31 December 2017 the Group's margins of solvency comfortably exceeded the minimum requirements, as prescribed by the Prudential Regulation Authority.

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

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

The Board conducts, through the Risk and Audit Sub-Committees, an ongoing review of the effectiveness of OneFamily's systems of internal controls and risk management and is satisfied that there are no material shortcomings (see the Risk Sub-Committee and Audit Sub-Committee reports on pages 42 to 45).

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 consolidated financial statements have been prepared on a going concern basis.

The Group's business activities, financial performance and solvency, as well as future outlook, are summarised in the strategic report on pages 10 to 18. Principal risks faced by the Group, including liquidity risk, are summarised in the risk management report on pages 32 to 35. This information helps to explain how we manage going concern and liquidity risks to secure OneFamily's long term success.

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

As a result of the Board's consideration of its longer term viability as set out on page 47, the directors are confident that the Group has adequate financial resources to continue in operation as a going concern for the foreseeable future and continue to prepare the financial statements on that basis.

Principal risks and uncertainties

As a result of its normal business activities, OneFamily is exposed to a variety of risks. The Group has established a number of sub-committees and policies to successfully manage these risks. These principal risks and uncertainties are set out in the risk report on pages 32 to 35 and in note 1 to the Accounts.

Internal control

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

For 2017 the Board was able to conclude, with reasonable assurance, that appropriate internal control and risk management systems were maintained throughout the year.

Employees

OneFamily employed an average of 521 employees during 2017 (2016: 518) at a total cost of £28.3 million (2016: £25.6 million). The Board recognises that OneFamily's most valuable resource is its employees and that they are key to its success in implementing its strategy. The Board believes that the continued learning and development of employees is essential, in order to ensure effective management of OneFamily and provision of appropriate service to members.

As at 31 December 2017 the gender mix at management levels is:

	Male		Female	
	2017	2016	**2017**	2016
Board of Directors	**87.5%**	87.5%	**12.5%**	12.5%
Senior Managers	**79.0%**	70.0%	**21.0%**	30.0%

There is a report on Gender pay on pages 24.

Complaints

It is OneFamily's policy to investigate and resolve all complaints promptly and fairly, but in the event that customers are not satisfied with the response the Financial Ombudsman Service provides a complaints resolution service. Full details can be obtained from the Company Secretary or at www.onefamily.com. In 2017 we resolved 99% of complaints within four weeks (2016: 99%).

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. Its overall objectives are to protect customer assets and work with the industry in reducing financial crime.

Appointment of auditor

A resolution to re-appoint the external auditor to the Group will be proposed at the 2018 AGM. KPMG was appointed as external auditor to Engage Mutual Assurance in August 2012, then following the merger between Engage Mutual Assurance and Family Investments, was appointed as external auditor to the Group in May 2015. The appointment was made after a tender process had taken place. KPMG is required to rotate the audit partner for the Group, or a key partner involved in the audit, every five years. As a result, the previous senior audit partner, Jon Holt, who was appointed as the audit partner for Homeowners Friendly Society in August 2012 and then as audit partner for the Group in May 2015, stepped down during 2017 and was replaced by Ben Priestley.

Disclosure of information to auditor

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

Actuarial function

OneFamily outsources its actuarial function to Willis Towers Watson. David Addison, Willis Towers Watson, resigned as the Group's Chief Actuary on 31 December 2017. Paul Whitlock of Willis Towers Watson was appointed as Chief Actuary to the Group on 1 January 2018, with David Addison continuing to be the With-Profits Actuary.

Charitable and political donations

Outside of the OneFamily Foundation, during the year the Group made charitable donations of £4,169 (2016: £4,800), primarily through matching donations raised by staff for charities of their choice. No political donations were made (2016: 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 30 to the accounts.

S. J. Allford

Simon Allford
Secretary
25 April 2018

Corporate governance report

OneFamily is committed to high standards of corporate governance and has adopted the Annotated Corporate Governance Code for mutual insurers (dated September 2016) (the code). The code applies to these Report and Accounts.

Compliance with the annotated corporate governance code

The Board has set the values and standards for OneFamily and its employees, taking account of the code, and requires senior management to report to the Board on adherence. The Board considers that throughout the period under review it has complied with the spirit of the code. With regards to the principle D on remuneration the directors have considered the specific requirements arising from schedule 8 for quoted companies and have only presented that information that they believe is relevant considering the size and nature of the entity's business.

Annual re-election of all directors was introduced at the 2017 AGM. The code now requires additional disclosures in the AGM notice and at the meeting itself in support of the proposed election of new non-executive directors and re-election of existing directors, which will be included from 2018.

The role of the Board

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

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

The division of responsibilities between the Chairman and the Chief Executive 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 and our policy is to ensure that the Board has an appropriate breadth of experience and diversity. Diversity embraces knowledge and understanding of relevant diverse geographies, peoples and their backgrounds including race, disability, gender, sexual orientation, religion, belief and age, as well as culture, personality and workstyle.

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

The Nominations Sub-Committee reviews and assesses Board composition and recommends the appointment of new directors. The Sub-Committee also reviews whether directors' skills and experience continue to meet the needs of the Board. It considers whether non-executive directors continue to be independent. The Sub-Committee also reviews Board succession planning including the need to refresh membership of its sub-committees. In reviewing Board composition, the Nominations Sub-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 Sub-Committee will consider candidates against objective criteria with due regard for the benefits of diversity on the Board.

As part of the annual performance evaluation of the effectiveness of the Board, Sub-Committees and individual directors, the Sub-Committee will consider the balance of skills, experience, independence and knowledge of OneFamily on the Board, and the diversity of representation on the Board.

Board performance monitoring and evaluation

Each year the Board sets business objectives for the Group as part of its rolling five-year plan, which are based on the objectives outlined in the strategic report on pages 10 to 18. The Board uses a balanced scorecard to monitor performance against these objectives at regular intervals.

In compliance with the code, 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 non-executive director to evaluate the performance and development needs of the individual directors.

In line with the code, the review of the Board's effectiveness is conducted by an external party at least every three years. In 2016, a review of Board effectiveness was performed by PricewaterhouseCoopers (PwC). This concluded that for a firm of its size and complexity, the Board's overall governance is effective, and identified areas for improvement. In response, the Board agreed an action plan and in 2017 asked PwC to carry out a follow-up review to assess the effectiveness of the actions taken in response to its recommendations. PwC's follow-up report concluded that significant progress had been made in addressing their recommendations with appropriate and effective enhancements to governance arrangements.

The Board effectiveness review also included assessment of the Risk and Audit Sub-Committees. Following recommendations actions taken during the year included enhancing the resourcing and frameworks of the risk and finance areas.

Compliance with regulatory and legal requirements

The Board sets the governance, culture and values and is responsible for the long-term success of the Group. The Board requires that we comply with all relevant laws and regulations, and ensure that we have high standards of internal controls and risk management in place.

Board of Directors

During 2017 the Board of Directors was:

Non-Executives
Christina McComb (Chairman)
Ian Buckley (Vice Chairman and Senior Independent Director)
Peter Box
Steve Colsell
Graham Lindsay
Nigel Masters

Executives
Simon Markey (Chief Executive)
Shingirai (Teddy) Nyahasha (Chief Finance Officer)

Secretary
Simon Allford (appointed 10 April 2017)
David Heard (resigned 10 April 2017)

Sub-Committees

The Board of Directors operates the following Sub-Committees (membership shown as at 31 December 2017):

Nominations Sub-Committee

Christina McComb (Chairman)
Peter Box
Ian Buckley
Nigel Masters
Steve Colsell
Graham Lindsay
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.

The purpose of the sub-committee is to evaluate the membership of the Board and to examine the skills and characteristics that are needed in Board candidates.

When assessing the current and future composition of the Board, the sub-committee considers the balance of skills, experience, independence, knowledge, diversity and effectiveness of the directors.

In line with the diversity policy, the sub-committee recognises the benefits of having a diverse senior management team and views this as an essential element in maintaining an effective Board.

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

The sub-committee meets at least once each year or otherwise as required.

Investment and Product Sub-Committee

Ian Buckley (Chairman)
Christina McComb
Steve Colsell
Simon Markey

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
Graham Lindsay

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

The sub-committee normally meets at least three times each year. Its remit includes review of remuneration policy and the structure of executive remuneration packages, including incentive scheme arrangements. It considers fees for the Chairman, and proposed awards for the executive directors (excluding the Chief Executive) and senior management. In doing so, the sub-committee takes into consideration all factors which it deems necessary including relevant legal and regulatory requirements, the Financial Conduct Authority's Remuneration Code, OneFamily's culture, the UK Corporate Governance Code (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.

During 2017 the sub-committee used the services of EY, who is considered to be independent of OneFamily, to benchmark its remuneration arrangements and practices against those of comparative organisations and best practice.

Details of the directors' remuneration can be found in the remuneration report on pages 48 to 57. The Chief Risk Officer has appropriate input into the setting of the remuneration policy and remuneration decisions other than her own.

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

Risk Sub-Committee

Nigel Masters (Chairman)
Peter Box
Ian Buckley
Steve Colsell

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 Chief Risk Officer and Company Secretary support the sub-committee by assisting the Chairman plan the sub-committee's work and ensuring that it receives accurate and timely information.

The key duties of the sub-committee are to:

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

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

The key activities of the sub-committee in 2017 have been focused on:

- The ongoing performance and further development of the ORSA process, including:
  - > Review of the specification and outcomes of stress and scenario testing
  - > The current and projected profile of risks over the planning period
  - > Review of the methodologies and assumptions for quantifications performed as part of the ORSA process
- The continuing development of the Group's response to IT security threats
- The assessment of the impact of legislative and regulatory changes on conduct risk and policyholder outcomes
- Review of the capital management framework and associated risk appetite statement

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

Audit Sub-Committee

Peter Box (Chairman)
Nigel Masters
Graham Lindsay

The primary purpose of the Audit Sub-Committee is to provide oversight of the financial reporting process, the audit process, the systems of internal controls and compliance with laws and regulation.

The members of the 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 at www.onefamily.com.

The sub-committee meets at least four times a year. It comprises three independent non-executive directors and meetings are attended, 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 a company-wide risk management framework. To support the Board in 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 are focused on the assessment of the outputs from the work of the compliance and internal audit teams, external assurance providers and external auditor in relation to the internal control environment.

The work of the sub-committee in 2017 required particular focus on the first regulatory submission of the Solvency Financial Condition Report (SFCR) and the Report to Supervisors (RSR) under the Solvency II regulations in relation to the 2016 year end; OneFamily Lifetime Mortgage activities; cyber/information security; and also in reviewing the Groups' adherence to the client assets and client money (CASS) regulations.

Compliance

The sub-committee assessed effectiveness of the compliance monitoring activity throughout the year. It reviewed the outcomes of the compliance monitoring plan in regard to the Compliance department's role in monitoring adherence to financial services regulation.

The sub-committee also approved the compliance plan for the coming year.

Internal audit

The sub-committee assessed the effectiveness of the Internal Audit department 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 the external auditor, the appropriateness of the Annual Report and 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
- Any significant adjustments resulting from the audit
- Actuarial methodology and assumptions

The primary areas of judgement and risk considered by the Audit Sub-Committee in the year 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 reported to the sub-committee on the key assumptions and methodologies associated with the computation of the long-term insurance technical provisions. The sub-committee challenged any proposed change to assumptions and methodologies. In addition, observations from the external auditors are considered in finalising the sub-committee's position. Following this review and challenge the sub-committee recommended to the Board that they approve the assumptions and methodologies for both demographic and economic assumptions.
Risk associated with changing legislation and the presentation of key accounting judgements.	Changes to accounting policies require approval by the sub-committee however there were no such changes in the year. The sub-committee discusses and challenges key accounting areas including the ongoing valuation of in-force policies recognised in relation to the Engage Mutual business to ensure that the carrying value of this intangible asset was not impaired.

Other areas of focus considered by the Audit Sub-Committee in the year were as follows:

Area of focus	How the sub-committee dealt with the risk
Valuation of investments and other assets or liabilities, where there is a risk of misstatement of values or inappropriate values.	Consideration was given to the processes and controls associated with the valuation of investments and other assets or liabilities both from a statutory and Solvency II perspective. In addition, for Solvency II the sub-committee reviewed, challenged and approved valuation asset and other liability methodology papers. The vast majority of investments are valued with reference to externally available market information and where this was not available the sub-committee ensured that the valuation basis was valid.
Internal control	Consideration was given to the effectiveness of the various processes and controls associated with the reporting process, to ensure in particular that any override of controls did 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 and the sub-committee was able to consider these in making its assessment of going concern. As part of the ORSA process financial projections are prepared for a five-year period which, align with the strategy approved by the Board in conjunction with the approval of business plans. Stress testing is performed as part of the ORSA to assess resilience to adverse economic, business and liquidity conditions. The ORSA process, stress testing and the resulting reports were considered by the sub-committee in their assessment of going concern.

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. 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 was appointed in 2015 to the Group, 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 auditor 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

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

The key activities of the With-Profits 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.

Detailed duties and responsibilities of the sub-committee are contained in the terms of reference at www.onefamily.com.

Member and Customer Sub-Committee

Graham Lindsay (Chairman)
Christina McComb
Simon Markey
Karl Elliott – Customer Strategy Director (resigned 20 June 2017)
Philippa Herz – Chief Risk Officer (joined 21 June 2017)
Guy French – Corporate and Customer Strategy Director (joined 21 June 2017)

The objectives of the Member and Customer Sub-Committee are to:

- Receive and review recommendations from the executive team in relation to the Society's membership, customer, Foundation and broader corporate responsibility plans
- Recommend to the Board, changes to the Society's membership rules
- Receive and approve recommendations from the executive team regarding associated operational plans
- Receive and review updates against key indicators for membership, customer and Foundation objectives including treating customers fairly and customer satisfaction reporting
- Ensure that appropriate governance, risk mitigation and controls are in place in relation to Foundation, customer and member experience.

The sub-committee meets at least four times each year.

Further details of these duties are contained in the terms of reference at www.onefamily.com.

Governance of subsidiary companies

The Group subsidiary companies each have a Board of directors comprising executive directors. Board meetings are held quarterly, with ad-hoc meetings called if necessary.

Start-up companies

Where the Group introduces a new strategic initiative, business line or significant project within an existing or new subsidiary company, the subsidiary may require an enhanced governance arrangement to ensure adequate oversight. This may include more regular Board meetings and Board sub-committees specifically for that entity as required. The Board of Directors of start-up companies will generally include at least two non-executive directors to provide independent challenge, and a Risk Sub-Committee of the Board may be established to monitor the risks of the start-up business.

Attendance at meetings in 2017

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 can be found at www.onefamily.com.

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

Member relations

The Board is committed to maintaining good communications with members and 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 measure, and where necessary improve, products and services. We hope that members will continue to participate in our surveys.

The Society's AGM provides a forum for members to meet directors and learn more about OneFamily and how it is governed. We encourage as many members as possible to attend by holding the event in an accessible location in central London, and provide proxy postal and online voting arrangements for members unable to attend the meeting in person. The establishment of the Board's Member and Customer Sub-Committee ensures appropriate focus on membership issues, and its remit includes considering arrangements for canvassing members' views. Details of the Group's member relations strategy are available at www.onefamily.com or from the Company Secretary.

Our role as an institutional investor

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

	Board of Directors	Nominations Sub-Committee	Investment and Product Sub-Committee	Remuneration Sub-Committee	Risk Sub-Committee	Audit Sub-Committee	With-Profits Sub-Committee	Member & Customer Sub-Committee
Christina McComb	11 (11)	2 (2)	6 (6)					5 (5)
Ian Buckley	11 (11)	2 (2)	6 (6)	6 (6)	6 (6)		3 (3)	
Nigel Masters	11 (11)	2 (2)			6 (6)	7 (7)	3 (3)	
Peter Box	11 (11)	2 (2)		6 (6)	6 (6)	7 (7)	3 (3)	
Steve Colsell	11 (11)	2 (2)	5 (6)		6 (6)		3 (3)	
Graham Lindsay	10 (11)	2 (2)		6 (6)		7 (7)		5 (5)
Simon Markey	11 (11)	2 (2)	6 (6)					5 (5)
Teddy Nyahasha	11 (11)							

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

As a responsible investor, we take our role seriously as an owner of the companies we are invested in, and endorse the UK Stewardship Code. We expect all our third-party investment managers to support and endorse the code and its underlying principles.

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 2022. A five-year period is appropriate for this viability assessment because the Group's internal strategic planning process also covers this time frame. Our business model and strategy are integral to understanding the Group's future prospects.

OneFamily adopts a prudent approach to Group strategy, with a focus on delivering value to our members and improving brand awareness, whilst meeting the needs of regulators under Solvency II. 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 2018-22 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 five-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
- 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 for the future.

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 32 to 35 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 five-year period to 31 December 2022.

Christina McComb
Chairman
25 April 2018

Directors' remuneration report

Annual statement from the Remuneration Sub-Committee Chairman

On behalf of the Board, I am pleased to present the latest Directors' remuneration report for the year ended 31 December 2017. This is my first statement as Chair of the Remuneration Sub-Committee, having taken over the Chair of the sub-committee from Ian Buckley on 1 January 2018, and I would like to take this opportunity to thank Ian for his contribution to the role for the past three years.

We have responded to feedback from members and continue to make our Directors' remuneration report clearer and provide the information you need to see the link between OneFamily's strategy, performance and remuneration outcomes of the executive directors. We want remuneration arrangements that are straightforward to explain and understand. Ultimately, we want all our members to support what we do because they can see clear evidence of our objectives to drive the best outcomes for OneFamily and its members.

Structure of the remuneration report

In producing the report, we have applied the requirements of the UK Corporate Governance Code as annotated for Mutual Insurers (the Annotated Code). We also aim to align with best practice and have considered reporting requirements contained in the Large and Medium-Sized Companies and Groups (Accounts and Reports (Amendment)) Regulations 2013, which apply to listed companies.

As a mutual we are not governed by the regulations outlined above, however we have chosen to align with best practice as we believe greater levels of disclosure will help members to better understand how the reward strategy supports their interests and the Society's business objectives. The report for the year ended 31 December 2017 has been separated into two sections:

- The Directors' Remuneration Policy
- The Annual Report on Remuneration which reflects the amounts paid to directors under the remuneration policy approved by members at last year's AGM

Context of Remuneration Sub-Committee's decisions in 2017

The Board believes that achievement against OneFamily's strategic objectives will deliver valuable benefits and services to customers and members and the Remuneration Sub-Committee seeks to ensure performance is assessed against progress in these areas.

The Remuneration Sub-Committee seeks pay tied to performance and achievement of agreed outcomes, whilst at the same time ensuring that executive directors and non-executive directors receive fair reward for their achievements. In linking pay to performance, we need to ensure that performance measures do not encourage inappropriate risk taking and behaviours.

The Remuneration Sub-Committee is very aware of its responsibility to balance sometimes different perspectives in making judgements on executive pay. We all serve and are accountable to our members and we also respect the need to consider the economic environment in which they live. At the same time, we need to recruit a high calibre of talent in a very competitive financial services market that will ensure OneFamily is highly successful at delivering benefits and services to its members but without paying more than is appropriate.

The Remuneration Sub-Committee's major decisions in 2017

The Remuneration Sub-Committee has undertaken an extensive review of executive director fixed and variable remuneration, taking account of market practice and alignment with Regulatory expectations. This included a market review against a comparator group and helped to inform the design of the current Remuneration Policy which has been agreed by the Remuneration Sub-Committee and is summarised in the next section of this report.

In addition, the Remuneration Sub-Committee have considered performance against agreed metrics in line with Remuneration Policy and, after having considered reports from the Risk and Audit Sub-Committees, have agreed staff and executive bonus pools and recommendations for bonuses to be paid based on 2017 business performance.

Conclusion

The Remuneration Sub-Committee has operated within the Directors' Remuneration Policy agreed for 2017. A resolution on the annual remuneration report will be put to our members for an advisory vote at the AGM.

The sub-committee is satisfied the reward structure continues to attract and retain the talent that OneFamily needs to deliver its strategy and continue the long-term success of the Group.

Graham Lindsay
Chairman of the Remuneration Sub-Committee
25 April 2018

Directors' remuneration policy

Remuneration policy

OneFamily's remuneration policy is set by the Board 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). The policy is designed to attract, motivate and retain key executives and 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 customers. It is also designed to achieve an effective link between reward and performance whilst not encouraging undue risk taking or inappropriate behaviour.

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

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

Remuneration policy table

The main elements of remuneration currently in place for executive directors are set out below:

Element	Purpose	Operation	Potential value
Base salary	To provide a competitive level of base salary, reflecting the skills and experiences required and reward ongoing contribution to role.	Base salaries reflect individuals' skills and experience and are reviewed annually in the context of annual performance assessment. They are determined by the scope and responsibilities of each role, individual performance and by reference to appropriate market rates obtained from external sources. This is the only element of remuneration which is pensionable.	Base salary increases are assessed annually, along with other employees, with reference to market rates and consideration of affordability. Higher increases may be awarded, for example, for an increase in scope or responsibilities.
Benefits	To provide a range of market competitive benefits that are valued and assist individuals in carrying out their duties effectively.	Includes private medical insurance and life cover.	Benefits are provided in line with the market.
Pensions	To encourage planning for retirement and long-term savings.	Eligible to participate in the defined contribution pension plan. Where contributions exceed the annual or lifetime allowance, executive directors may be permitted to take a cash alternative in place of contributions.	Pension contributions in line with pension scheme rules or cash supplement for executive directors.
Short-term incentive scheme	To drive and reward performance against annual financial, non-financial and personal objectives which are consistent with the business strategy and align to members interests.	Short-term incentive awards are linked to annual individual performance against agreed objectives and business performance using balanced scorecards. Performance is assessed against key criteria including customer service, financial and operational performance, employee engagement and risk control. Awards are paid over three years, with 40% of any Short-term incentive earned being deferred and payable in two equal parts on the first and second anniversary of the initial payment. Short-term incentive is subject to malus and clawback provisions. Malus provisions will apply to an unvested award and clawback provisions will apply to the vested amount for three years following the vesting of such awards.	The potential maximum award for current executive directors is: Chief Executive – 100% of base salary. Chief Finance Officer - 75% of base salary. 50% of the maximum potential award is paid for achievement of budgeted targets and up to 100% of the maximum potential award is paid for achievement of stretch targets. Ultimately, any payment under the scheme is at the discretion of the Remuneration Sub-Committee.

Element	Purpose	Operation	Potential value
Long-term incentive scheme	To incentivise sustainable long-term alignment with member interests.	Performance will be assessed (over three years) taking into account factors including financial, cost efficiency, customer and risk. 50% of any Long-term incentive award shall be made only upon the third anniversary of the completion of the financial year on which the award is made. The remaining 50% of any Long-term incentive earned will be deferred and is payable in two equal parts on the first and second anniversary of the initial payment. Long-term incentive is subject to malus and clawback provisions. Malus provisions will apply to an unvested award and clawback provisions will apply to the vested amount for three years following the vesting of such awards.	The potential maximum award for current directors is: Chief Executive – 100% of base salary. Chief Financial Officer – 75% of base salary. 50% of the maximum potential award is paid for achievement of budgeted targets and up to 100% of the maximum potential award is paid for achievement of stretch targets. Ultimately, any payment under the scheme is at the discretion of the Remuneration Sub-Committee.

Other policy elements

Element	Potential value
Policy for new appointments	The policy adopted for the recruitment of new executive directors aims to be competitive and to structure remuneration in line with the framework applicable to current executive directors, based on the remuneration elements detailed in the policy table.
Notice periods	It is the Group's policy that the notice period of executive directors' service contracts should not exceed one year and any compensation for loss of office should not exceed 12 months' remuneration. None of the non-executive directors has a service contract, they have letters of appointment.

Element	Potential value
Leavers	The Remuneration Sub-Committee has the discretion to determine an appropriate Short or Long-term incentive award taking into consideration the circumstances in which an executive director leaves. No award will be made unless the executive director is determined to be a 'good leaver'. For a 'good leaver' the Remuneration Sub-Committee has the discretion to make awards on such bases as it deems appropriate (this could include pro-rating for time and performance). Awards will vest at the usual date subject to the usual deferral periods.
Good leaver	A good leaver for the purposes of the variable pay will be any executive director who leaves employment for reasons of: death, redundancy, disability or ill-health, retirement or any other reason the Remuneration Sub-Committee so decides.
Legacy arrangements	The Society may continue to honour any previous commitments or arrangements entered into with current or former executive directors that may have different terms, including terms agreed prior to appointment as an executive director.

Remuneration for the chairman and non-executive directors

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

Non-executive directors' fees

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

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

Illustration of remuneration policy for 2018

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

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

Pay policy for other employees

OneFamily is committed to attracting and retaining the right calibre of employees to support the delivery of its overall business strategy, as well as identifying and developing future talent. Relevant reward and recognition is an important factor in achieving the business objectives.

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

- Base salaries are determined by the scope and responsibilities of the role, individual performance, and by reference to external market data
- Performance and remuneration processes are designed to recognise both business performance and individual performance (considering a balance of financial and non-financial criteria)
- The remuneration processes are designed to recognise and differentiate high performance
- Decisions on remuneration are balanced, measuring capability, performance and behaviour against market rate value, and weighed against affordability
- Our remuneration structures and processes are fair and transparent, and meet the requirements of all relevant regulatory obligations
- No colleague will receive less favourable treatment on the grounds of gender, race, age, physical ability, sexual orientation, religion, religious belief or nationality

Simon Markey - Chief Executive

Teddy Nyahasha - Chief Finance Officer

Annual report on remuneration

Single figure of remuneration for each director

The remuneration of the directors of OneFamily for the year ended 31 December 2017 and the previous year is set out in the tables below. This is audited information.

Board of Directors remuneration

	Salary/Fees		Short-Term Incentive Scheme		Long-Term Incentive Scheme		Other Benefits		Total remuneration	
	2017 £'000	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000	**2017 £'000**	2016 £'000
Executives										
Simon Markey	460	420	323	378	422	386	63	56	1,268	1,240
Teddy Nyahasha Joined 25.07.16	240	105	106	148	–	–	23	10	369	263
Non-executives										
Christina McComb	105	105	–	–	–	–	–	–	105	105
Peter Box[1]	55	59	–	–	–	–	–	–	55	59
Ian Buckley	65	63	–	–	–	–	–	–	65	63
Nigel Masters[1]	55	59	–	–	–	–	–	–	55	59
Steve Colsell Joined 01.07.16	45	23	–	–	–	–	–	–	45	23
Graham Lindsay Joined 01.07.16	45	23	–	–	–	–	–	–	45	23
	1,070	857	**429**	526	**422**	386	**86**	66	**2,007**	1,835

Note 1 - The fees for Peter Box and Nigel Masters for 2016 included a one-off payment to recognise the significant extra workload and their exceptional contribution as Chairs of Risk and Audit Sub-Committees post-merger.

Individual elements of remuneration

Salary/fees – base salary for executive directors and annual fees for non-executive directors.

Short-term incentive scheme – includes the short-term incentive award based on performance in the reporting year. This bonus will be paid in the three years following the reporting period in accordance with the scheme rules. A detailed breakdown showing payments made and outstanding in relation to this scheme can be seen in the table on the following page.

Long-term incentive scheme – includes the award for the long-term incentive scheme which considers performance over a three-year period ending in the reporting year. This bonus will be paid in the three years following the reporting period in accordance with the scheme rules. A detailed breakdown by performance period can be seen in the table on the following page.

Other benefits – include pension contributions, private health insurance and cash payments in lieu of pension due to fixed protection into the Stakeholder Pension Scheme.

Incentive schemes

Short-term incentive scheme

	Value of deferred bonus as at 31 Dec 2016 £'000	Bonus paid during 2017 £'000	Bonus vested in 2017 to be paid 2018 £'000	Bonus vested in 2017 but payment deferred to 2019/2020 £'000	Value of deferred bonus at 31 Dec 2017 £'000
Simon Markey Performance period					
2014	68	(68)	–	–	–
2015	152	(76)	–	–	76
2016	379	(228)	–	–	151
2017	–	–	194	129	323
	599	(372)	194	129	550
Teddy Nyahasha Performance period					
2016	48	(29)	–	–	19
2017	–	–	63	43	106
	48	(29)	63	43	125
Total	**647**	**(401)**	**257**	**172**	**675**

Long-term incentive scheme

	Value of deferred bonus as at 31 Dec 2016 £'000	Bonus paid during 2017 £'000	Bonus vested in 2017 to be paid 2018 £'000	Bonus vested in 2017 but payment deferred to 2019/2020 £'000	Value of deferred bonus at 31 Dec 2017 £'000
Simon Markey Performance period					
2013-2015	175	(87)	–	–	88
2014-2016	386	(193)	–	–	193
2015-2017	–	–	211	211	422
Total	**561**	**(280)**	**211**	**211**	**703**

Substantial changes to directors' remuneration during 2017

In consideration of the continued growth of the organisation and the ongoing delivery of our transformation agenda, the Remuneration Sub-Committee increased the Chief Executive's base salary to £460,000 in January 2017, after taking in to account market practice and external comparators.

Payments to past directors

No payments have been made to past directors in 2017 other than:

- Retirement benefits payable to previous executive directors
- Retained STIP & LTIP payments paid to 'good' leavers

Relative importance staff expenditure

Staff costs form a significant element of Group expenditure, representing 38% of the net operating expenses.

Relative importance of spend on pay

	2017 (£m)	2016 (£m)	Change (%)
Net operating expenses	68.0	69.0	(1.5)
Overall staff costs	25.7	23.3	10.3

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

Non-executive directors' fees are reviewed annually in light of responsibilities and with reference to market competitive ranges. The table below sets out the fee levels for non-executive director roles which were in place during the year. These are unchanged from 2016.

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

Non-executive director fees

	2017 (£'000)	2016 (£'000)
Chairman	105	105
Base fee	45	45
Vice chair	60	60
Audit Sub-Committee chairman	10	10
Risk Sub-Committee chairman	10	10
Remuneration Sub-Committee chairman	5	5

Remuneration Sub-Committee members and advisers

The Remuneration Sub-Committee considers external data from independent national surveys of the financial services sector, FTSE 250 companies and a comparator group of financial institutions to ensure remuneration remains competitive. The sub-committee also considers regulatory compliance, best practice for remuneration (for example, deferral) and market practice. EY was appointed by the sub-committee and is retained to provide independent advice to the sub-committee as required. The sub-committee is satisfied that the advice received is objective and independent and services provided by EY are reviewed annually to ensure this continues to be the case. EY's fees for providing advice to the sub-committee amounted to £52,505, (including VAT) for the year ended 31 December 2017.

Ian Buckley
Chairman of Remuneration Sub-Committee (during 2017)
25 April 2018

KPMG

Independent auditor's report

to the members of Family Assurance Friendly Society Limited

1. Our opinion is unmodified

We have audited the Group and Society financial statements of Family Assurance Friendly Society Limited for the year ended 31 December 2017 which comprise the Statement of Income and Expenditure Accounts, Statement of Other Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, and related notes, including the Statement of accounting policies.

In our opinion the financial statements:

— give a true and fair view of the state of affairs of the Group and of the Society as at 31 December 2017 and of the income and expenditure of the Group and of the Society for the year then ended;

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

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

Basis for opinion

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

We were appointed as auditor by the directors on 26 May 2015. The period of total uninterrupted engagement is for the 3 financial years ended 31 December 2017.

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

Overview	
Materiality: Group financial statements as a whole	£8m (2016: £5.6m) 3.9% (2016: 2.8%) of retained earnings and funds for future appropriations
Coverage	100% (2016: 100%) of Group profit before tax

Risks of material misstatement		**vs 2016**
Recurring risks	Actuarial reserving	◄►
	Carrying value of the present value of in-force business (PVIF)	▼

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

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2016), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Actuarial reserving (Gross long term business provision) (£270 million; 2016: £264 million) *Refer to page 44 (Audit Committee Report), page 78 (accounting policy) and page 113 (financial disclosures)*	**Subjective valuation:** The Group has significant liabilities for long term insurance business representing 14.7 percent of the Group's total liabilities. The actuarial reserves are highly sensitive to the underlying assumptions set by the actuarial function. The assumption setting process is an inherently judgemental area due to uncertainty around the ultimate total settlement value of long term policyholder liabilities, and any incorrect or unsubstantiated application of judgement could potentially lead to a material misstatement. Key assumptions include: • demographic assumptions (mortality and lapse rates) which are determined by reference to the Group's own experience and expected levels of future mortality; • valuation interest rates which are determined using the 'risk free' gilt yields, expected inflation, the credit default allowance, and the market value of the Group's investment assets; and • the expected level of future expenses which is based on the expected future costs of administering the underlying policies. **Disclosure quality:** There is a risk that the Group's disclosures in relation to the assumptions used in the calculation of actuarial reserves are not compliant with the relevant accounting requirements. This key audit matter, along with our corresponding response and findings, applies to both the Group and Society financial statements.	We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: — **Control design and performance:** Tested the design, implementation and operating effectiveness of key controls over the processes to determine the valuation of the policyholder liabilities including management's review and approval of the methods and assumptions adopted over the calculation of policyholder liabilities and appropriate change management controls over the actuarial models; — **Our actuarial expertise:** — Challenged the Group's rationale for the assumptions made when deriving the UK GAAP economic and non-economic assumptions by comparing to wider industry practice and our own expectations derived from market experience; — Evaluated the appropriateness of the valuation rate of interest by comparing key inputs such as the 'risk free' gilt yield and implied inflation rate to externally sourced data. Checked that the valuation rates of interest had been derived in line with management's methodology; — Critically assessed whether the expense assumptions reflect the expected future costs of administering the underlying policies, in particular assessing whether the cost base has been allocated in an appropriate manner between the different products and different cost types; *(continued on page 60)*

KPMG

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

	The risk	Our response
Actuarial reserving (Gross long term business provision) (continued) (£270 million; 2016: £264 million) *Refer to page 44 (Audit Committee Report), page 78 (accounting policy) and page 113 (financial disclosures)*		— **Expectation vs outcome:** For each material line of business, calculated an expectation of the movement in the reserves since the prior year, for example using external data or other audited information. This expectation was compared to the movement recognised in the financial statements; and — **Assessing transparency:** Considered whether the Group's disclosures in relation to the assumptions used in the calculation of actuarial reserves are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs. **Our results** — We found the valuation of actuarial reserves to be acceptable (2016: We found the valuation of actuarial reserves to be acceptable).
Carrying value of the Present Value of In Force business (PVIF) intangible asset (£45.4 million; 2016: £49 million) *Refer to page 44 (Audit Committee Report), page 77 (accounting policy) and page 113 (financial disclosures)*	**Subjective valuation:** A Present Value of In-force Business ('PVIF') intangible asset was recognised on the 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. Management are required to use judgement in assessing the extent to which impairment indicators exist which could impact the recoverability of the PVIF intangible asset. Adverse variation in the business may constitute a potential indicator of impairment. **Calculation error:** The amortisation of the asset is based on the run off profile of the underlying business as set at the point of the merger. As the carrying value of the PVIF asset is material to the Group statement of financial position, an incorrect calculation of the run off could lead to a material misstatement of the amortisation recognised. **Disclosure quality:** There is a risk that the Group's disclosures in relation to the carrying value of PVIF are not compliant with the relevant accounting requirements. This key audit matter, along with our corresponding response and findings, applies to both the Group and Society financial statements.	We used our own actuarial specialists to assist us in performing our procedures in this area. Our procedures included: — **Our actuarial expertise:** Critically assessed the review of impairment indicators performed by management by, for each material impairment indicator, calculating an expectation of the value in force of the relevant policies under updated assumptions and comparing this expectation to management's own assessment. The updated assumptions were validated against actual experience and market information through the audit procedures performed over the actuarial reserving documented above; — **Tests of detail:** Tested the accuracy of the amortisation of the intangible asset in the period by comparing the charge in the year to the original run off profile as at the point of initial recognition; and — **Assessing transparency:** Considered the adequacy of the Group's disclosures in relation to carrying value of PVIF. **Our results** — We found the carrying value of the PVIF intangible asset to be acceptable (2016: We found the carrying value of the PVIF intangible asset to be acceptable).

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

Materiality for the Group financial statements as a whole was set at £8m (2016: £5.6m), determined with reference to a benchmark of retained earnings and FFA (of which it represents 3.9% (2016: 2.8%)).

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

Materiality for the Society financial statements as a whole was set at £8m (2016: £5.6m), determined on the same basis as that used to calculate Group materiality.

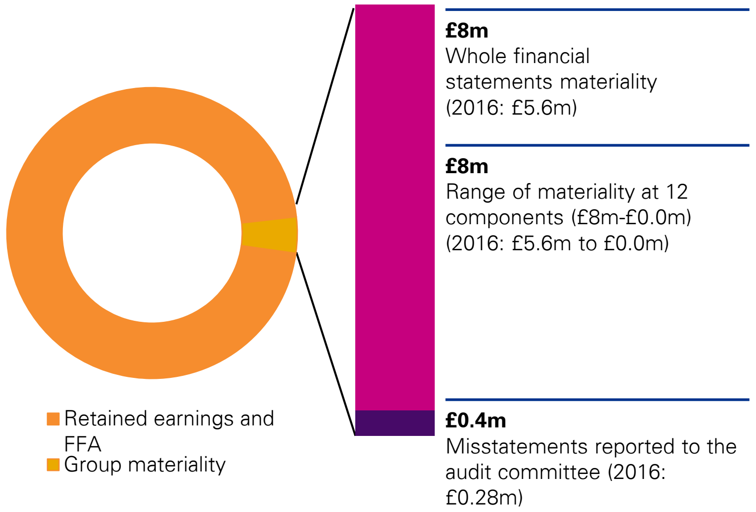
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.4m (2016: £0.28m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 (2016: 12) reporting components, we subjected 12 (2016: 12) to full scope audits for Group purposes. Audits of the components were performed by the Group audit team.

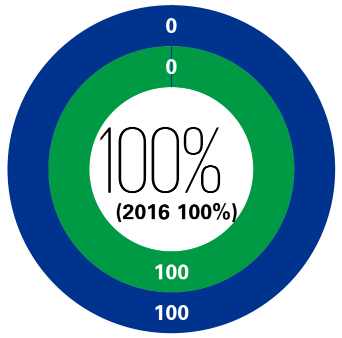
The components within the scope of our work accounted for the percentages illustrated opposite.

Retained earnings and FFA
£204m (2016: £198.3m)

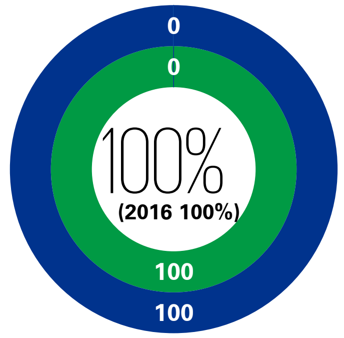
Group Materiality
£8m (2016: £5.6m)



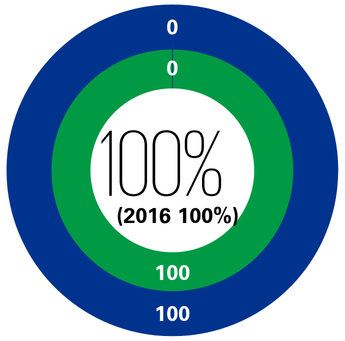
Group revenue

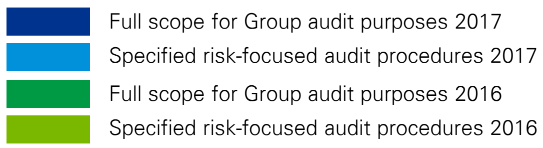


Group profit before tax



Group total assets





4. **We have nothing to report on going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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

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

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

Report of the Directors

Based solely on our work on the other information:

— we have not identified material misstatements in the Directors' Report;

— in our opinion the information given in that report for the financial year is consistent with the financial statements; and

— in our opinion that report has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Directors' remuneration report

In addition to our audit of the financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Society were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006, as if those requirements applied to the Society.

Corporate governance disclosures

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

We have nothing to report in this respect.

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

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

— adequate accounting records have not been kept;

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

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

We have nothing to report in these respects.

7. **Respective responsibilities**

Directors' responsibilities

As explained more fully in their statement set out on page 36, the Directors are responsible for: preparing financial statements which give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

Our audit aimed to detect non-compliance with relevant laws and regulations (irregularities) that could have a material effect on the financial statements. We identified relevant areas of laws and regulations from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related friendly society legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statement items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital, and certain aspects of company legislation recognising the financial and regulated nature of the Group's activities and its legal form. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

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

This report is made solely to the Society's members, as a body, in accordance with section 73 of the Friendly Societies Act 1992 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 we are required 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.

Ben Priestley (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
E14 5GL
25 April 2018

Annual Report and Consolidated Financial Statements 2017

Group and Society statement of income and expenditure accounts
for the year ended 31 December 2017

Technical account Long-term business	Notes	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Earned premiums, net of reinsurance					
Gross premiums written	4	**38,464**	37,187	**38,464**	37,187
Outward reinsurance premiums	4	**(10,900)**	(10,567)	**(10,900)**	(10,567)
Investment income	5	**81,475**	66,485	**86,214**	70,109
Unrealised gains on investments	5	**63,676**	117,183	**63,676**	117,183
Other technical income	12	**8,584**	7,828	**16,182**	8,913
Claims incurred, net of reinsurance					
Gross claims incurred	6	**(36,331)**	(34,868)	**(36,331)**	(34,868)
Outward claims reinsurance	6	**9,831**	9,281	**9,831**	9,281
Change in long-term business provision, net of reinsurance	22	**(451)**	6,976	**(451)**	6,976
Change in gross liability for investment contracts	23	**(115,591)**	(148,057)	**(115,591)**	(148,057)
Other technical charges		**(8,032)**	(7,427)	**(8,032)**	(7,427)
Goodwill and intangibles amortisation	15, 22	**(4,453)**	(5,903)	**(4,453)**	(5,903)
Net operating expenses	8	**(27,063)**	(33,577)	**(27,063)**	(33,577)
Investment expenses and charges	5	**(3,280)**	(3,547)	**(3,280)**	(3,547)
Taxation credit	14	**1,370**	1,377	**1,370**	1,377
Transfer (to)/from the fund for future appropriations		**(3,421)**	2,401	**(3,421)**	2,401
Balance on the long-term business technical account		**(6,122)**	4,772	**6,215**	9,481

The notes to the financial statements on pages 83 to 125 are an integral part of these financial statements.

Group and Society statement of income and expenditure accounts (continued)
for the year ended 31 December 2017

Non-technical account	Notes	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Balance on the long-term business technical account		**(6,122)**	4,772	**6,215**	9,481
Other income	13	**53,289**	41,124	**–**	–
Net operating expenses	8	**(40,971)**	(35,466)	**–**	–
Goodwill and intangibles amortisation	15	**(624)**	(114)	**–**	–
Profit on disposal of subsidiary		**–**	100	**–**	–
Excess of income over expenditure on ordinary activities before tax		**5,572**	10,416	**6,215**	9,481
Tax on excess of income over expenditure on ordinary activities	14	**(558)**	(855)	**–**	–
Excess of income over expenditure after tax		**5,014**	9,561	**6,215**	9,481

The notes to the financial statements on pages 83 to 125 are an integral part of these financial statements.

Group and Society statement of other comprehensive income
for the year ended 31 December 2017

	Notes	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Excess of income over expenditure after tax		**5,014**	9,561	**6,215**	9,481
Remeasurement of defined benefit scheme	28	**(2,511)**	(2,501)	**(2,000)**	(2,000)
Unrealised gain of property revaluation	16	**–**	162	**–**	162
Total recognised profit in the year		**2,503**	7,222	**4,215**	7,643

Group and Society statement of changes in equity
for the year ended 31 December 2017

Retained earnings	Notes	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Reported at 1 January		**158,127**	150,905	**158,691**	151,048
Total recognised profit in the year		**2,503**	7,222	**4,215**	7,643
As at 31 December		**160,630**	158,127	**162,906**	158,691

The notes to the financial statements on pages 83 to 125 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2017

Assets	Notes	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Intangible assets					
Goodwill	15	**2,261**	2,548	**831**	946
Other intangible assets	15	**9,767**	5,957	**5,220**	957
Investments					
Investment in land and buildings	16	**5,457**	4,513	**5,457**	4,513
Investment in group undertakings	17	**–**	–	**19,508**	15,577
Non-linked financial investments	18	**268,344**	283,749	**268,344**	274,468
Assets held to cover linked liabilities	18	**1,360,712**	1,349,451	**1,360,712**	1,349,451
Debtors	18, 19	**12,938**	11,197	**16,324**	25,592
Reinsurers' share of technical provisions					
Long-term business provision	22	**96,828**	91,971	**96,828**	91,971
Other assets					
Tangible assets	20	**1,137**	1,432	**878**	1,112
Cash at bank	18	**68,414**	47,782	**53,667**	36,245
Deferred taxation	14	**774**	1,404	**–**	–
Prepayments and accrued income					
Accrued interest and rent		**2,667**	2,541	**1,254**	1,256
Deferred acquisition costs	21	**–**	19	**–**	19
Other prepayments and accrued income		**1,088**	1,386	**1,088**	1,367
Total assets		**1,830,387**	1,803,950	**1,830,111**	1,803,474
Net pension asset	28	**–**	–	**–**	–
Total assets including the pension asset		**1,830,387**	1,803,950	**1,830,111**	1,803,474

The notes to the financial statements on pages 83 to 125 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2017

Liabilities	Notes	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Retained earnings	27	**160,630**	158,127	**162,906**	158,691
Fund for future appropriations (FFA)	26	**43,581**	40,160	**43,581**	40,160
Technical provisions					
Long-term business provision	22	**224,117**	215,248	**224,117**	215,248
Claims outstanding	22	**6,158**	7,905	**6,158**	7,905
Technical provision for linked liabilities	23	**1,359,043**	1,348,522	**1,359,043**	1,348,522
Deposits from reinsurers		**8,174**	7,421	**8,174**	7,421
Creditors					
Creditors arising out of insurance operations	24	**1,173**	993	**1,173**	993
Other creditors including taxation and social security	25	**8,697**	4,592	**9,681**	8,779
Accruals and deferred income		**18,814**	20,982	**15,278**	15,755
Total liabilities		**1,830,387**	1,803,950	**1,830,111**	1,803,474

The notes to the financial statements on pages 83 to 125 are an integral part of these financial statements.

The financial statements were approved at a meeting of the Board of Directors on 25 April 2018 and signed on its behalf by:

Simon Markey
Chief Executive

Christina McComb
Chairman

Simon Allford
Secretary

Statement of accounting policies

A. Statement of compliance

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

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (FRS 102) and Financial Reporting Standard 103 "Insurance contracts" (FRS 103) as it applies to the financial statements of the Group for the year ended 31 December 2017.

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.

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

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

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

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

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

E. Basis of consolidation

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

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary 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. The Group does not recognise customer funds under management, including CTF assets, in its statement of financial position as it is neither exposed to the risks and rewards of ownership nor does it receive the investment returns generated from these assets held in trust accounts.

F. Discontinued operations

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

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

G. Classification of contracts

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

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

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

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

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

H. Long-term business

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

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

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

Deferred acquisition costs
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 O - 'Valuation of insurance liabilities' and policy P – 'Linked investment contracts'.

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

Amounts recoverable from reinsurers are estimated based upon the related gross insurance provisions, having due regard for collectability. The recoverability of reinsurance assets is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred, disclosed in note 6, 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. Investment income and unrealised gains and losses on investments ('investment return')

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

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

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

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

J. Financial instruments

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

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

Basic financial instruments

Financial assets and liabilities

Basic financial assets including trade and other debtors, and cash and bank balances are recognised initially at transaction price 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 income and expenditure accounts.

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

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

Financial assets held at fair value through income and expenditure

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

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

In compliance with FRS 102, the Group discloses in note 18 for each class of financial instrument held at fair value in the statement of financial position, an analysis of the level in the fair value hierarchy into which the fair value measurements are categorised. The three levels applied are summarised below:

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

Recognition and de-recognition of financial instruments

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Loans and receivables, comprising 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 income and expenditure as permitted under FRS 102.

Other financial instruments

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

Complex financial instruments

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

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

K. Non-technical account

Revenue is recognised as follows:

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

Origination and service income in relation to Lifetime Mortgages is recognised as services are provided. Origination fees, 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.

L. Intangible assets

General

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

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

The UEL of other intangible assets are as follows:

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

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

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

The assets are reviewed 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, which is deemed to be approximately 40 years from acquisition.

A review for impairment of the PVIF is performed at each statement of financial position date.

M. Tangible assets

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

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

The assets' residual values and useful lives are reviewed, and 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. Fair value is calculated using valuations made by independent, professionally qualified chartered surveyors' following RICS guidelines or using a contractually agreed sale price. Valuations are carried out annually. On revaluation of a property the accumulated depreciation is eliminated against the gross carrying amount and the net amount is restated to the revalued amount. Increases in the net carrying amount are recognised in other comprehensive income, except to the extent that the increase reverses a previous revaluation deficit on the same asset recognised in income and expenditure accounts. Any deficit on revaluation is recognised in income and expenditure accounts except to the extent that it reverses a previous revaluation surplus on the same asset, in which case it is recognised in other comprehensive income.

Investment properties

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

If a reliable measure is not available without undue cost or effort for an item of investment property, this item is thereafter accounted for as a tangible fixed asset in accordance with section 17 of FRS102 until a reliable measure of fair value becomes available.

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

N. Impairment of non-financial assets

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

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

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

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

O. Valuation of insurance liabilities

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

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

P. Linked investment contracts

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

Q. Taxation

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

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

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantially enacted at the statement of financial position date.

R. Provisions and contingencies

Provisions

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

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

In particular:

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

(ii) Provision is not made for future operating losses

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

Contingencies

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

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

S. Employee benefits

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

i. Short-term benefits

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

ii. Pension plans

The Group operates two defined benefit pension schemes (collectively 'the Schemes') following the merger with Homeowners Friendly Society Limited (HFSL). All rights of the HFSL defined benefit scheme members were preserved under the instrument of transfer at merger.

The Group now makes contributions to a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

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

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

In its place the Group makes pension contributions to a defined contribution stakeholder pension scheme on behalf of 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 income and expenditure accounts.

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

iii. Annual bonus plan

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

iv. Short-term incentive scheme

The Group operates a cash-settled short-term incentive scheme for certain members of the executive team and senior management. 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.

T. Foreign currency

i. Functional and presentation currency

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

ii. Transactions and balances

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

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

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

U. Operating leases

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

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

V. Cash flow statement

The 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.

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

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

X. Contingent reinsurance financing

The Group receives reinsurance financing on sales of its Over 50s life cover from reinsurers. The financing repayment is contingent upon margins emerging on the business in future years. The advances are receivable at the inception of a policy and are included as income within Other Technical Income in the Technical Account – Long-Term Business. The repayment of the financing advance is repayable as the margins emerge and is included in other technical charges. The amount of refinancing repayable at the statement of financial position date is included on the statement of financial position as deposits from reinsurers. This liability is classified as an insurance liability under FRS103.

Y. Related party transactions

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

Notes to the financial statements

for the year ended 31 December 2017

1. Management of financial and insurance risk

a. Market risk – interest rate and equity

Interest rate risk

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

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

Equity price risk

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

The Group 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 exposed to credit risk in relation to corporate bonds, bank deposits and its reinsurance arrangements, both in relation to the reinsurers' share of the long-term business provision and in relation to amounts they owe on claims which the Group has already paid.

1. Management of financial and insurance risk (continued)

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

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

Other credit risk arises from exposure to various business counterparties, including insurance intermediaries. The Group conducts appraisals of the level of risk associated with business counterparties at the inception of an agreement, as well as on an 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 2017 £'000**	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
Non-linked financial investments subject to credit risk	**198,791**	213,629	**198,791**	204,348
Debtors	**12,938**	11,197	**16,324**	25,592
Cash at bank	**68,414**	47,782	**53,667**	36,245
Reinsurers share of technical provisions	**96,828**	91,971	**96,828**	91,971
Total assets bearing credit risk	**376,971**	364,579	**365,610**	358,156
Debt and other assets rated as:				
UK government	**154,978**	155,431	**154,978**	155,431
A rated and above	**195,382**	179,498	**174,733**	178,328
B rated – BBB	**18,178**	19,174	**18,178**	19,174
Below BBB or not rated	**8,433**	10,476	**17,721**	5,223
Total assets bearing credit risk	**376,971**	364,579	**365,610**	358,156

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

1. Management of financial and insurance risk (continued)

c. Foreign exchange risk

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

In 2017, the Group hedged most of the currency risk arising on overseas assets in two of its larger linked funds to reduce the volatility of returns for policyholders.

d. Liquidity risk

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

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

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

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

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

1. Management of financial and insurance risk (continued)

Liquidity risk	Total £'000	Within 1 year £'000	1–5 years £'000	5–15 years £'000	More than 15 years £'000
As at 31 December 2017					
Long-term business					
Non-profit fund	**87,387**	**4,339**	**19,135**	**41,763**	**22,150**
With-profits fund 1	**52,329**	**3,812**	**18,783**	**28,650**	**1,084**
With-profits fund 2	**41,383**	**3,325**	**13,323**	**22,022**	**2,713**
Total	**181,099**	**11,476**	**51,241**	**92,435**	**25,947**
As at 31 December 2016					
Long-term business					
Non-profit fund	78,351	2,998	15,283	30,001	30,069
With-profits fund 1	54,672	7,198	25,646	19,795	2,033
With-profits fund 2	46,723	5,300	19,045	15,842	6,536
Total	179,746	15,496	59,974	65,638	38,638

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

Investment liabilities of £1,359,043k (2016: £1,348,522k) are classed as repayable on demand but we would not expect these to all become due over the next 12 months. However there is considered to be sufficient liquidity to meet claims as they arise, and the Group has the right to defer repayments in order to realise the corresponding linked assets. As such an analysis of expected maturity periods of the investment liabilities has not been completed.

e. Lapse risk

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

The methodology for calculating the long-term business provision for the majority of whole of life business allows the calculation of negative reserves, in compliance with PRA Policy 06/14 (PS06/14). Negative reserves act as an asset to the overall long-term business provision. An increase in future lapse rates lead to a reduction in this asset and therefore an increase to aggregate reserves.

1. Management of financial and insurance risk (continued)

f. Expense risk

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

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

g. Mortality and longevity risk

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

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

h. Unit-linked investment contracts

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

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

i. Capital management

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

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

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

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

1. Management of financial and insurance risk (continued)

The Society's objectives in managing capital are that:

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

The Society has not breached its Solvency II capital requirement at any point in 2017.

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

Capital statement

The table below shows the Society's Solvency II Own funds and reconciles this to the retained earnings and fund for future appropriations.

	2017 £'000	2016 £'000
Retained earnings and fund for future appropriations in the financial statements as at 31 December	**206,487**	198,851
Adjustment to the value of technical provisions and reinsurance assets	**1,241**	(738)
Goodwill and other intangibles	**(6,051)**	(1,903)
Other differences in valuation of assets	**(8,467)**	(7,505)
Deduction in respect of restricted with-profits funds	**(14,930)**	(14,748)
Solvency II own funds as at 31 December	**178,280**	173,957

The goodwill and other intangibles adjustment is due to the different treatment under Solvency II, where they are valued at nil.

The other differences in valuation of assets relates mainly to the adjustments required in the valuation of some subsidiary companies on the Solvency II statement of financial position.

The deduction in respect of restricted with-profits funds removes the surplus in the with-profits funds over their capital requirement.

1. Management of financial and insurance risk (continued)

Movement of capital resources

The Own Funds (capital resources) of the Society have increased by £4,323k (2016: decrease of £10,675k). The key contributors to this movement are outlined in the table below:

	Increase/ (decrease) in Own Funds 2017 £'000	Increase/ (decrease) in Own Funds 2016 £'000
Investment surplus	**–**	6,855
New business	**2,465**	2,108
Increase in risk margin	**–**	(4,985)
Voluntary contribution to Defined Benefit Pension Scheme	**–**	(2,000)
Non maintenance expenses and miscellaneous other	**(21,991)**	(12,653)
Investment return on opening Own Funds	**2,408**	–
Expected run-off of risk margin	**3,183**	–
Experience on in-force insurance and investment contracts	**11,401**	–
Profits from subsidiaries	**12,050**	–
Change in presentation of pension scheme	**(5,193)**	–
Total increase/(decrease) in Own Funds	**4,323**	(10,675)

Sensitivities

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

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

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

1. Management of financial and insurance risk (continued)

2017	Mortality		Lapse	Expenses		Fixed Interest Yield		Equities/ Property	
	5% £'000	-5% £'000	10% £'000	10% £'000	-10% £'000	20% £'000	-20% £'000	10% £'000	-10% £'000
Impact on long-term business provision (LTBP)									
Fund									
Non-profit fund	87	1,918	(638)	2,441	(2,384)	(5,612)	6,292	–	–
With-profits fund 1	(28)	30	–	252	(238)	(533)	637	–	–
With-profits fund 2	(65)	69	–	–	–	(439)	515	(26)	32
Change in LTBP	(6)	2,017	(638)	2,693	(2,622)	(6,584)	7,444	(26)	32
Impact on asset valuations									
Fund									
Non-profit fund	–	–	–	–	–	(5,346)	5,346	683	(683)
With-profits fund 1	–	–	–	–	–	(312)	312	3,988	(3,988)
With-profits fund 2	–	–	–	–	–	(582)	582	2,163	(2,163)
Change in asset valuations	–	–	–	–	–	(6,240)	6,240	6,834	(6,834)
Impact on retained earnings and the FFA									
Retained earnings (non-profit fund)	(87)	(1,918)	638	(2,441)	2,384	266	(946)	683	(683)
FFA (with-profits funds)	93	(99)	–	(252)	238	78	(258)	6,177	(6,183)

1. Management of financial and insurance risk (continued)

2016	Mortality		Lapse	Expenses		Fixed Interest Yield		Equities/ Property	
	5% £'000	-5% £'000	10% £'000	10% £'000	-10% £'000	20% £'000	-20% £'000	10% £'000	-10% £'000
Impact on long-term business provision (LTBP)									
Fund									
Non-profit fund	672	1,975	(407)	2,368	(2,295)	(5,582)	6,836	–	–
With-profits fund 1	(34)	37	–	296	(279)	(630)	771	–	–
With-profits fund 2	(80)	85	–	–	–	(593)	681	52	(48)
Change in LTBP	558	2,097	(407)	2,664	(2,574)	(6,805)	8,288	52	(48)
Impact on asset valuations									
Fund									
Non-profit fund	–	–	–	–	–	(5,039)	5,039	1,408	(1,408)
With-profits fund 1	–	–	–	–	–	(363)	363	2,664	(2,664)
With-profits fund 2	–	–	–	–	–	(537)	537	1,946	(1,946)
Change in asset valuations	–	–	–	–	–	(5,939)	5,939	6,018	(6,018)
Impact on retained earnings and the FFA									
Retained earnings (non-profit fund)	(672)	(1,975)	407	(2,368)	2,295	543	(1,797)	1,408	(1,408)
FFA (with-profits funds)	114	(122)	–	(296)	279	323	(552)	4,558	(4,562)

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.

1. Management of financial and insurance risk (continued)

Funding of subsidiary undertakings

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

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

Guarantees

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

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

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

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 2016.

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 policy O – 'Valuation of Insurance Liabilities' and in note 22 to these financial statements.

Other areas of focus

Defined benefit pension scheme

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

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

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

Classification of long-term contracts

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

2. Critical accounting estimates and judgements (continued)

Fair value of financial assets and land and buildings

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

3. Acquisition 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.

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.

4. Premium analysis

Group and Society	**2017 £'000**	2016 £'000
Gross premiums written	**38,464**	37,187
Less: reinsurers' share	**(10,900)**	(10,567)
Net earned premiums – insurance business	**27,564**	26,620

As set out in accounting policy H – 'Long-Term Business' 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 23).

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 13).

5. Investment income

	Group 2017 £'000	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
Income from other investments	**39,163**	39,029	**43,915**	42,762
Interest income	**1,558**	1,301	**1,545**	1,192
Realised gains on investments	**40,754**	26,155	**40,754**	26,155
Total investment income	**81,475**	66,485	**86,214**	70,109
Unrealised gains on investments	**63,676**	117,183	**63,676**	117,183
Investment management expenses	**(3,280)**	(3,547)	**(3,280)**	(3,547)
Total net investment return	**141,871**	180,121	**146,610**	183,745

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

6. Claims incurred, net of reinsurance

Group and Society	2017 £'000	2016 £'000
Gross claims paid	**38,077**	35,598
Change in provision for claims outstanding at year-end	**(1,746)**	(730)
Gross claims incurred	**36,331**	34,868
Outward claims reinsurance	**(9,831)**	(9,281)
Total claims incurred, net of reinsurance	**26,500**	25,587

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 £128.1 million (2016: £129.4 million) of payments made in relation to investment contracts.

7. Bonuses

The value of terminal bonuses paid to with-profit policyholders in the year was £3,853k (2016: £1,372k).

8. Net operating expenses

Technical account – long-term business	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Acquisition costs	**8,685**	8,819	**8,685**	8,819
Change in deferred acquisition costs	**19**	85	**19**	85
Administrative expenses (including auditor's remuneration)	**18,359**	24,673	**18,359**	24,673
Net operating expenses	**27,063**	33,577	**27,063**	33,577
Non-technical account				
Acquisition costs	**9,028**	7,069	**–**	–
Administrative expenses	**31,943**	28,397	**–**	–
Net operating expenses	**40,971**	35,466	**–**	–
Total net operating expenses	**68,034**	69,043	**27,063**	33,577

Acquisition costs relate solely to insurance products and lifetime mortgage business.

Total commission paid by the Group on new business was £8,020k (2016: £7,826k).

9. Auditor's remuneration

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

Audit services	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Fees payable to the Society's auditor for the audit of the annual accounts	**295**	269	**295**	269
Audit of the accounts of subsidiaries	**78**	68	**–**	–
Audit-related assurance services	**275**	295	**175**	200
Non-audit services				
Tax compliance services	**–**	–	**–**	–
Other assurance services	**–**	–	**–**	–
Other non audit services	**–**	151	**–**	151
Total	**648**	783	**470**	620

Excluded from the numbers above was £28k (2016: £28k) incurred in connection with audits of the unit trusts and open ended investment company managed by a subsidiary company.

10. Operating lease rentals

Group and Society	2017 £'000	2016 £'000
Operating lease amounts payable:		
– less than one year	**341**	–
– between one and five years	**399**	136
Total	**740**	136
Payments made under operating leases (recognised as an expense)		
Hire of fixtures and fittings – rental under operating leases	**239**	133
Hire of other assets – rental under operating leases	**2**	10
Rental expenses in the year	**223**	–
Total	**464**	143

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

11. Staff costs

Group and Society	2017 £'000	2016 £'000
Wages and salaries	**24,193**	21,995
Social security costs	**2,597**	2,305
Defined contribution pension costs	**1,475**	1,316
Total staff costs	**28,265**	25,616

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	2017 FTE	2016 FTE
Administration	**444**	449
Management	**41**	29
Marketing	**36**	40
Total number of staff	**521**	518

All staff are employed and remunerated by Family Assurance Friendly Society Limited (FAFSL) or Engage Mutual Administration Limited (EMAL) (in 2016 only), the Group administration companies. The Directors have been wholly remunerated by FAFSL (or EMAL in 2016) for their services to the Society and other group undertakings.

The costs of the Directors are recovered through charges to the group companies. During 2017 the total remuneration paid to the Directors was £2,007k (2016: £2,736k) and the total remuneration paid to the highest paid director was £1,268k (2016: £1,240k).

Key management compensation

Compensation to key management personnel (including executive directors) in the year was £3,506k. A comparative figure has not been provided as in 2016 only executive directors were deemed key management.

12. Other technical income, net of reinsurance

	Group 2017 £'000	Group 2016 £'000	Society 2017 £'000	Society 2016 £'000
Property rental	**–**	–	**–**	163
Annual management rebates	**753**	510	**753**	510
Mortgage interest receivable	**67**	105	**67**	105
Reassurance financing advance	**7,764**	7,213	**7,764**	7,213
Other	**–**	–	**7,598**	922
Total other technical income	**8,584**	7,828	**16,182**	8,913

Other technical income in the Society in 2016 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.

Other income relates to charges from the Society to Subsidiaries as a management charge on the CTF business.

13. Other income

	Group 2017 £'000	Group 2016 £'000
Annual management charges	**43,733**	36,325
Lifetime mortgage income	**5,696**	3,503
Other operating income	**3,860**	1,296
Total other income	**53,289**	41,124

14. Taxation

Analysis of the tax charge for the year is:

The tax credit for the Group is £812k (2016: tax credit £522k).

The applicable UK corporation tax rate is 19.25% for the subsidiaries (2016: 20%), due to the reduction of the UK corporation tax rate from 20% to 19%, which was effective from 1 April 2017.

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

The Group primarily writes tax exempt business, with a small proportion of taxable business. The UK rate of income tax applicable to the Group is 20% (2016: 20%).

Tax (credit)/charge	**Group 2017 £'000**	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
Technical account	**(1,370)**	(1,377)	**(1,370)**	(1,377)
Non-technical account	**558**	855	**–**	–
Total tax credit	**(812)**	(522)	**(1,370)**	(1,377)
Analysed as follows:				
Corporation tax				
Tax credit	**(1,442)**	(822)	**(1,370)**	(1,377)
Deferred tax				
Timing differences, origination and reversal	**630**	300	**–**	–
Total tax credit	**(812)**	(522)	**(1,370)**	(1,377)

Deferred tax expected to reverse in the year ending 31 December 2018 has been measured using the effective rate of 19% that is expected to apply in the period. Deferred tax expected to reverse after the year ending 31 December 2018 has been remeasured at the rate expected to apply at the point of reversal.

At 31 December 2017, the Group did not hold any provisions for uncertain tax positions.

14. Taxation (continued)

Reconciliation of current year tax charge	**Group 2017 £'000**	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
Excess of income over expenditure	**4,202**	9,039	**4,844**	8,104
Result for year	**4,202**	9,039	**4,844**	8,104
Tax on result (2017: 19.25%, 2016: 20%)	**809**	1,808	**932**	1,621
Factors affecting tax charge:				
Accounting profit not subject to policyholder tax	**(809)**	(1,808)	**(932)**	(1,621)
Items taxed on a different basis	**(1,488)**	(1,039)	**(1,370)**	(1,377)
Items disallowable in tax computation	**98**	217	**–**	–
Timing differences	**(6)**	–	**–**	–
Utilisation of unrecognised losses	**(46)**	–	**–**	–
Losses utilised during the year	**630**	300	**–**	–
Current corporation tax credit for the year	**(812)**	(522)	**(1,370)**	(1,377)

Analysis of deferred tax asset	**Group 2017 £'000**	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
Losses recognised	**774**	1,404	**–**	–
Total recognised deferred tax asset	**774**	1,404	**–**	–
Unrecognised deferred tax assets	**11,754**	9,727	**7,590**	7,469
Total	**12,528**	11,131	**7,590**	7,469

The deferred tax asset includes £407k (2016: £290k) of deferred tax that is forecast to be utilised in the next financial period. All deferred tax relates to prior year losses.

The Society has an unrecognised deferred tax asset of £7,590k, which has increased by £121k 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 and unrealised gains as at the statement of financial position date.

15. Goodwill and intangible assets

Group	Goodwill £'000	Brand & foundation £'000	Beneficial contracts £'000	IT, systems & project development £'000	Acquired funds under management £'000	Total £'000
Cost						
At 1 January 2017	2,863	2,878	1,757	683	5,000	**13,181**
Additions	–	–	–	5,040	–	**5,040**
Disposals	–	–	–	–	–	**–**
At 31 December 2017	**2,863**	**2,878**	**1,757**	**5,723**	**5,000**	**18,221**
Amortisation						
At 1 January 2017	315	2,519	1,386	456	–	**4,676**
Provided in the year	287	359	191	227	453	**1,517**
At 31 December 2017	**602**	**2,878**	**1,577**	**683**	**453**	**6,193**
Net book value at 31 December 2017	**2,261**	**–**	**180**	**5,040**	**4,547**	**12,028**
Net book value at 31 December 2016	2,548	359	371	227	5,000	8,505

Society	Goodwill £'000	Brand & foundation £'000	Beneficial contracts £'000	IT, systems & project development £'000	Total £'000
Cost					
At 1 January 2017	1,147	2,878	1,757	683	**6,465**
Additions	–	–	–	5,040	**5,040**
Disposals	–	–	–	–	**–**
At 31 December 2017	**1,147**	**2,878**	**1,757**	**5,723**	**11,505**
Amortisation					
At 1 January 2017	201	2,519	1,386	456	**4,562**
Provided in the year	115	359	191	227	**892**
At 31 December 2017	**316**	**2,878**	**1,577**	**683**	**5,454**
Net book value at 31 December 2017	**831**	**–**	**180**	**5,040**	**6,051**
Net book value at 31 December 2016	946	359	371	227	1,903

16. Land and buildings

Group and Society	Occupied £'000	Current value investment £'000	Total £'000	Occupied £'000	Historical cost investment £'000	Total £'000
– Opening balance	–	4,513	4,513	–	2,442	2,442
– Revaluation/fair value adjustment	–	944	944	–	–	–
Balance at 31 December 2017	**–**	**5,457**	**5,457**	**–**	**2,442**	**2,442**
Group and Society						
– Opening balance	5,000	4,351	9,351	8,147	2,442	10,589
– Disposal	(5,000)	–	(5,000)	(8,147)	–	(8,147)
– Revaluation/fair value adjustment	–	162	162	–	–	–
Balance at 31 December 2016	–	4,513	4,513	–	2,442	2,442

Land and buildings are all freehold. The full external professional valuation of the investment properties were carried out by G L Hearn, Chartered Surveyors at 31 December 2017.

A contract has been entered into to dispose of the investment property in Kew for £2,910k. The carrying value of the property has been increased to match this amount.

Gardner House was sold on 2 June 2016 for £5,000k, which was equal to the carrying value of the property and accordingly no gain or loss has arisen.

17. Investments in group undertakings

The Society investment in subsidiaries can be analysed as follows:	**Society 2017 £'000**	Society 2016 £'000
Fair value at 1 January	**15,577**	6,035
Impact of business combination	**–**	2,995
Dividends paid to Society	**(3,500)**	–
Impact of investments during year	**2,760**	2,550
Other fair value changes	**4,671**	3,997
Fair value as at 31 December	**19,508**	15,577

Included in the prior year 'impact of business combinations' is the purchase of OneFamily Lifetime Mortgages Limited.

Investments are carried at fair value.

Set out below are the Society's investments in subsidiary undertakings as at 31 December 2017 all of which are included in the consolidation; the carrying value of these subsidiaries cancel out on consolidation. All companies are incorporated in England and Wales.

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

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

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

18. 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:	**2017 £'000**	2016 £'000
Linked financial investments	**1,360,712**	1,349,451
Non-linked financial investments	**268,344**	283,749
Debtors	**12,938**	11,197
Cash at bank	**68,414**	47,782
Total Financial Investments	**1,710,408**	1,692,179

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 2017 £'000**	Fair value 2016 £'000	**Cost 2017 £'000**	Cost 2016 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,360,310**	1,216,452	**947,333**	881,274
Debt securities and other fixed income securities	**145,224**	293,557	**125,553**	253,648
Share of investment property	**12,703**	11,537	**9,070**	9,070
Derivatives held at fair value through profit and loss	**679**	(1,032)	**–**	–
Financial assets held at fair value through profit and loss	**1,518,916**	1,520,514	**1,081,956**	1,143,992
Loans and receivables				
Loans secured by mortgage	**867**	1,107	**867**	1,106
Deposits with credit institutions	**174,360**	157,066	**174,360**	157,066
Accrued income and receivables	**16,265**	13,492	**16,265**	13,492
Loans and receivables	**191,492**	171,665	**191,492**	171,664
Total Group financial assets (excluding land & buildings)	**1,710,408**	1,692,179	**1,273,448**	1,315,656
Financial liabilities				
Financial liabilities held at fair value through profit and loss	**1,359,043**	1,353,114		
Financial liabilities held at amortised cost	**9,870**	1,627		
Total Group financial liabilities	**1,368,913**	1,354,741		

18. 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 2017 £'000	Non-linked fair value 2017 £'000	Total fair value 2017 £'000	Linked fair value 2016 £'000	Non-linked fair value 2016 £'000	Total fair value 2016 £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,237,609	122,701	1,360,310	1,182,349	34,103	1,216,452
Debt securities and other fixed income securities	771	144,453	145,224	51,745	241,812	293,557
Shares of investment property	12,703	–	12,703	11,537	–	11,537
Derivatives held at fair value through profit and loss	679	–	679	(1,032)	–	(1,032)
Financial assets held at fair value through profit and loss	1,251,762	267,154	1,518,916	1,244,599	275,915	1,520,514
Loans and receivables						
Loans secured by mortgage	–	867	867	–	1,107	1,107
Deposits with credit institutions	105,944	68,416	174,360	150,339	6,727	157,066
Accrued income and receivables	3,006	13,259	16,265	13,492	–	13,492
Loans and receivables	108,950	82,542	191,492	163,831	7,834	171,665
Total Group financial assets	1,360,712	349,696	1,710,408	1,408,430	283,749	1,692,179
Financial liabilities						
Financial liabilities held at fair value through profit and loss	1,359,043	–	1,359,043	1,353,114	–	1,353,114
Financial liabilities held at amortised cost	–	9,870	9,870	–	1,627	1,627
Total Group financial liabilities	1,359,043	9,870	1,368,913	1,353,114	1,627	1,354,741

18. Financial instruments (continued)

The financial investments held by the Society are valued as:	2017 £'000	2016 £'000
Linked financial investments	1,360,712	1,349,451
Non-linked financial investments	268,344	274,468
Debtors	16,324	25,592
Cash at bank	53,667	36,245
Total financial investments	1,699,047	1,685,756

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 2017 £'000	Fair value 2016 £'000	Cost 2017 £'000	Cost 2016 £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,360,310	1,216,452	947,333	881,274
Debt securities and other fixed income securities	145,224	290,921	125,553	251,012
Shares of investment property	12,703	11,537	9,070	9,070
Derivatives held at fair value through profit and loss	679	(1,032)	–	–
Financial assets held at fair value through profit and loss	1,518,916	1,517,878	1,081,956	1,141,356
Loans and receivables				
Loans secured by mortgage	867	1,107	867	1,107
Deposits with credit institutions	159,613	138,884	159,613	128,231
Accrued income and receivables	19,651	27,887	19,651	27,886
Loans and receivables	180,131	167,878	180,131	157,224
Total Society financial assets	1,699,047	1,685,756	1,262,087	1,298,580
Financial liabilities				
Financial liabilities held at fair value through profit and loss	1,359,043	1,357,301		
Financial liabilities held at amortised cost	10,854	1,739		
Total Society financial liabilities	1,369,897	1,359,040		

18. 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 2017 £'000	Non-linked fair value 2017 £'000	Total fair value 2017 £'000	Linked fair value 2016 £'000	Non-linked fair value 2016 £'000	Total fair value 2016 £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,237,609	122,701	1,360,310	1,182,349	34,103	1,216,452
Debt securities and other fixed income securities	771	144,453	145,224	51,745	239,176	290,921
Shares of investment property	12,703	–	12,703	11,537	–	11,537
Derivatives held at fair value through profit and loss	679	–	679	(1,032)	–	(1,032)
Financial assets held at fair value through profit and loss	1,251,762	267,154	1,518,916	1,244,599	273,279	1,517,878
Loans and receivables						
Loans secured by mortgage	–	867	867	–	1,107	1,107
Deposits with credit institutions	105,944	53,669	159,613	138,802	82	138,884
Accrued income and receivables	3,006	16,645	19,651	27,887	–	27,887
Loans and receivables	108,950	71,181	180,131	166,689	1,189	167,878
Total Society financial assets	1,360,712	338,335	1,699,047	1,411,288	274,468	1,685,756
Financial liabilities						
Financial liabilities held at fair value through profit and loss	1,359,043	–	1,359,043	1,357,301	–	1,357,301
Financial liabilities held at amortised cost	–	10,854	10,854	–	1,739	1,739
Total Society financial liabilities	1,359,043	10,854	1,369,897	1,357,301	1,739	1,359,040

18. Financial instruments (continued)

VALUATION METHODS – These are based on FRS102 (section 34) disclosure requirements on the three levels indicated.

2017 Group **Financial assets held at fair value through profit and loss**	Level 1 Active quoted prices £'000	Level 2 Other observable inputs £'000	Level 3 Other £'000	Total £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,060,105	206,018	94,187	1,360,310
Debt securities and other fixed income securities	96,270	47,174	1,780	145,224
Shares of investment property	–	–	12,703	12,703
Derivatives held at fair value through profit and loss	536	143	–	679
Financial assets held at fair value through profit and loss	1,156,911	253,335	108,670	1,518,916
Financial liabilities held at fair value through profit and loss	–	1,359,043	–	1,359,043

2016 Group **Financial assets held at fair value through profit and loss**	Level 1 Active quoted prices £'000	Level 2 Other observable inputs £'000	Level 3 Other £'000	Total £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,011,488	106,135	98,829	1,216,452
Debt securities and other fixed income securities	243,813	49,744	–	293,557
Shares of investment property	–	–	11,537	11,537
Derivatives held at fair value through profit and loss	(1,032)	–	–	(1,032)
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

Level 3 assets consist of investment property and hedge fund holdings. Investment properties are valued by reference to independent valuations or agreed sale contracts as detailed in note 16 and accounting policy M – 'Tangible Assets'. Hedge fund holdings are valued using prices obtained from the hedge fund administrator, the majority of these are based on exchange quotes of the underlying assets that would be classified as level 1 or 2 if they were held outside of the hedge fund.

18. Financial instruments (continued)

2017 Society Financial assets held at fair value through profit and loss	Level 1 Active quoted prices £'000	Level 2 Other observable inputs £'000	Level 3 Other £'000	Total £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,060,105**	**206,018**	**94,187**	**1,360,310**
Debt securities and other fixed income securities	**96,270**	**47,174**	**1,780**	**145,224**
Shares of investment property	**–**	**–**	**12,703**	**12,703**
Derivatives held at fair value through profit and loss	**536**	**143**	**–**	**679**
Financial assets held at fair value through profit and loss	**1,156,911**	**253,335**	**108,670**	**1,518,916**
Financial liabilities held at fair value through profit and loss	**–**	**1,359,043**	**–**	**1,359,043**

2016 Society Financial assets held at fair value through profit and loss	Level 1 Active quoted prices £'000	Level 2 Other observable inputs £'000	Level 3 Other £'000	Total £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,011,488	106,135	98,829	1,216,452
Debt securities and other fixed income securities	241,177	49,744	–	290,921
Shares of investment property	–	–	11,537	11,537
Derivatives held at fair value through profit and loss	(1,032)	–	–	(1,032)
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

19. Debtors

Group and Society	**Group 2017 £'000**	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
Amounts owed from Group undertakings	**–**	–	**10,259**	22,155
Amounts owed from policyholders	**484**	476	**484**	476
Amounts owed from intermediaries	**83**	80	**83**	72
Debtors arising out of reinsurance operations	**1,130**	1,095	**1,130**	1,109
Other debtors	**11,241**	9,546	**4,368**	1,780
Total	**12,938**	11,197	**16,324**	25,592

All amounts fall due to be paid within one year.

20. Tangible assets

Group Cost	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
At 1 January 2017	**5,952**	**1,934**	**7,886**
Additions	**58**	**–**	**58**
Disposals	**(5,592)**	**(753)**	**(6,345)**
At 31 December 2017	**418**	**1,181**	**1,599**
Depreciation			
At 1 January 2017	**5,644**	**810**	**6,454**
Provided in the year	**112**	**241**	**353**
On disposals	**(5,592)**	**(753)**	**(6,345)**
As at 31 December 2017	**164**	**298**	**462**
Net book value at 31 December 2017	**254**	**883**	**1,137**
Net book value at 31 December 2016	308	1,124	1,432

20. Tangible assets (continued)

The charge for depreciation for the Group in the year ended 31 December 2017 was £353k (2016: £254k). The Group policy on depreciation of fixed assets is as described in accounting policy M – 'Tangible assets'. Depreciation is included in operating expenses.

Society Cost	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
At 1 January 2017	4,676	1,810	6,486
Disposals	(4,676)	(639)	(5,315)
At 31 December 2017	**–**	**1,171**	**1,171**
Depreciation			
At 1 January 2017	4,676	698	5,374
Provided in the year	–	234	234
On disposals	(4,676)	(639)	(5,315)
At 31 December 2017	**–**	**293**	**293**
Net book value at 31 December 2017	**–**	**878**	**878**
Net book value at 31 December 2016	–	1,112	1,112

The charge for depreciation for the Society in the year ended 31 December 2017 was £234k (2016: £59k).

21. Deferred acquisition costs (DAC)

Group and Society	2017 £'000	2016 £'000
At 1 January	19	104
Amortisation in year	(19)	(85)
As at 31 December	**–**	19

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

22. Technical provisions

Group and Society	Long-term business provision £'000	Acquired value of in force business £'000	Reinsurers share £'000	Provision for outstanding claims £'000
At 1 January 2017	264,248	(49,000)	(91,971)	7,905
Amortisation of PVIF	–	3,561	–	–
Movement in provision for outstanding claims	–	–	–	(1,747)
Change in long-term business provision	5,308	–	(4,857)	–
At 31 December 2017	**269,556**	**(45,439)**	**(96,828)**	**6,158**

The acquired PVIF is being amortised as described in accounting policy L – 'Intangible Assets' and the amortisation is shown under Goodwill and intangible amortisation in the Statement of Income and Expenditure Account. The acquired PVIF is being netted off against Long-term business provision (LTBP).

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

Uncertainties and estimation techniques

One of the purposes of insurance is to enable policyholders to protect themselves against uncertain future events. Insurance companies accept the transfer of uncertainty from policyholders and seek to add value through the aggregation and management of these risks. The uncertainty inherent in insurance is inevitably reflected in the financial statements of insurance companies and principally arises in respect of the technical provisions of the company. As a consequence of this uncertainty, the insurance company needs to apply sophisticated estimation techniques to determine the appropriate provisions.

Long-term business provisions (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.

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.

22. Technical provisions (continued)

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 2017:

Class of business	2017
Non-linked Annuities tax exempt/taxable	1.59% gross/1.78% net
Index-linked Annuities tax exempt/taxable	2.75% gross/2.75% net
Term Assurance/whole of life	1.59%
With-Profits 1 unitised with-profits tax exempt/taxable	1.69% gross/0.44% net
With-Profits 1 conventional with-profits tax exempt/taxable	1.09% gross/1.27% net
With-Profits 2 with-profits bond taxable	2.24% net
With-Profits 2 conventional with-profits tax exempt/taxable	1.85% gross/1.05% net

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

With-Profits bonuses

The LTBP includes £0.2 million (2016: £0.2 million) 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.

23. Technical provisions for linked liabilities

Group and Society	2017 £'000	2016 £'000
At 1 January	**1,348,522**	1,304,487
Deposits received from policyholders	**23,056**	25,411
Withdrawals by policyholders	**(128,126)**	(129,433)
Annual management charges	**(13,321)**	(13,860)
Change in fair value of gross liabilities	**128,912**	161,917
At 31 December	**1,359,043**	1,348,522

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.

24. Creditors arising out of insurance operations

Group and Society	2017 £'000	2016 £'000
Amounts owed in respect of reinsurance	**991**	770
Other creditors	**182**	223
Total	**1,173**	993

25. Other creditors, including social security and taxation

	Group 2017 £'000	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
Amounts owed from Group undertakings	**–**	–	**1,374**	4,766
Other taxes and social security costs	**1,303**	1,583	**986**	1,047
Other creditors	**7,394**	3,009	**7,321**	2,966
Total	**8,697**	4,592	**9,681**	8,779

All other creditors are payable within one year.

26. Fund for future appropriations

	Group 2017 £'000	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
At 1 January	**40,160**	42,561	**40,160**	42,561
Transfer from/(to) the long-term business technical account	**3,421**	(2,401)	**3,421**	(2,401)
At 31 December	**43,581**	40,160	**43,581**	40,160

27. Retained earnings

	Group 2017 £'000	Group 2016 £'000	**Society 2017 £'000**	Society 2016 £'000
At 1 January	**158,127**	150,905	**158,691**	151,048
Recognised gains in the year	**2,503**	7,222	**4,215**	7,643
At 31 December	**160,630**	158,127	**162,906**	158,691

28. Pension commitments

Defined Benefit Schemes

Following the merger of Homeowners Friendly Society Limited and Family Assurance Friendly Society Limited on 1 April 2015 the Group operates two defined benefit pension schemes. The following note summarises the pension valuation and commitments under FRS 102 for each Scheme individually.

Defined Contribution Schemes

The Family Assurance Friendly Society (Family) defined benefit scheme was closed to future benefit accrual with effect from 31 December 2009. 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 their 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 defined pension contributions for 2017 were £1,523k (2016: £1,316k).

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

The Society operates a defined pension scheme, the Family Assurance Staff Pension Scheme ("the Scheme"). The Scheme funds are administered by trustees and are independent of the Society's finances. Contributions are paid to the Scheme in accordance with the recommendations of an independent actuary.

As stated above, the Scheme closed to all further benefit accrual with effect 31 December 2009.

The funding plan is for the Scheme to hold assets equal to the value of the benefits earned by employees, based on a set of assumptions used for funding the Scheme. The funding assumptions differ from the assumptions used to calculate the figures for these accounts, and therefore produce different results. If there is a shortfall against this funding plan, then the Society and trustees agree on deficit contributions to meet this deficit over a period. As part of the actuarial valuation with an effective date of 31 December 2016 it was agreed that the Society would pay contributions of £166,667 per month until 31 December 2017 and £33,333 per month from 1 January 2018 until 31 December 2018.

The results of the formal actuarial valuation as at 31 December 2016 were 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 method.

The following table sets out the key FRS102 assumptions used for the Scheme. The table also sets out, as at 31 December 2017, 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, income and expenditure, and the actuarial gains and losses entries are shown in the following figures:

28. Pension commitments (continued)

Family scheme assumptions	2017	2016
Retail prices index inflation	**3.40%**	3.46%
Consumer prices index inflation	**2.30%**	2.35%
Revaluation in deferment	**2.30%**	2.35%
Pension increases:		
- pre April 1997 pension	**0.00%**	0.00%
- post April 1997 pension	**3.20%/2.30%**	3.20%/2.40%*
- post April 2005 pension	**1.80%**	1.85%*
Salary growth	**N/A**	N/A
Discount rate	**2.40%**	2.65%
Life expectancy:		
- male aged 65 at the statement of financial position date	**22.7 years**	23.4 years
- male aged 65 in 2041 (25 years from the statement of financial position date)	**24.5 years**	26.3 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	2017 £'000	2016 £'000
Equities	**11,679**	19,881
Diversified growth/absolute return on funds	**8,433**	16,889
LDI portfolio (including liquidity fund)	**35,730**	14,768
Cash	**335**	340
Other net assets	**177**	308
Total fair value of assets	**56,354**	52,186
Present value of defined benefit obligations	**(48,423)**	(48,240)
Pension surplus	**7,931**	3,946
Adjustment for asset limit	**(7,931)**	(3,946)
Recognised pension asset	**–**	–

28. 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 (DBO) are as follows:

Family scheme change in present value	2017 £'000	2016 £'000
Opening defined benefit obligation	**48,240**	37,443
Interest on obligation on funds	**1,261**	1,403
Actuarial gain	**225**	10,387
Benefits paid	**(1,303)**	(993)
Closing defined benefit obligation	**48,423**	48,240

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

Family scheme change in fair value	2017 £'000	2016 £'000
Opening value of scheme assets	**52,186**	41,155
Interest on scheme assets	**1,392**	1,582
Actuarial gain	**2,079**	8,442
Contributions by the employer	**2,000**	2,000
Benefits paid	**(1,303)**	(993)
Closing value of scheme assets	**56,354**	52,186

The actual return on the Scheme's assets over the year was a gain of £3,471k (2016: £10,024k gain).

28. Pension commitments (continued)

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

Family scheme change in comprehensive income	**2017 £'000**	2016 £'000
Experience gain on scheme assets	**2,079**	8,442
Experience (loss)/gain on scheme liabilities	**(136)**	396
Actuarial loss due to the changes in assumptions of the DBO	**(89)**	(10,783)
Actuarial gains/(losses)	**1,854**	(1,945)
Loss due to movement in the statement of financial position limitation	**(3,854)**	(55)
Loss recognised outside income and expenditure	**(2,000)**	(2,000)

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

The latest independent actuarial funding review of the Engage Scheme was at 31 December 2016 and took into account the closure of the Scheme for future accrual with effect from 31 December 2012.

The funding plan is for the Scheme to hold assets equal to the value of the benefits earned by employees, based on a set of assumptions used for funding the Scheme. The funding assumptions differ from the assumptions used to calculate the figures for these accounts, and therefore produce different results. If there is a shortfall against this funding plan, then the Group and trustees agree on deficit contributions to meet this deficit over a period. As part of the actuarial valuation with an effective date of 31 December 2016 it was agreed that the Society would pay contributions of £56,083 per month until 31 December 2017 and £8,333 per month from 1 January 2018 until 31 December 2018.

The results of the formal actuarial valuation as at 31 December 2016 were 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 method.

28. 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 2017 and 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).

Engage scheme assumptions	**2017**	2016
Retail prices index inflation	**3.35%**	3.45%
Consumer prices index inflation	**2.25%**	2.35%
Revaluation in deferment	**2.25%**	2.35%
Pension increases:		
- pre April 1997 pension (Homeowners Friendly Society Limited)	**0.00%**	0.00%
- post April 1997 pension (Homeowners Friendly Society Limited)	**3.20%**	3.25%
- post April 2005 pension (Homeowners Friendly Society Limited)	**2.15%**	3.25%
- pre April 1997 pension (UKCS)	**3.00%**	3.00%
- post April 1997 pension (UKCS)	**3.75%**	3.75%
- post April 2005 pension (UKCS)	**3.75%**	N/A
Salary growth	**N/A**	N/A
Discount rate	**2.40%**	2.65%
Life expectancy:		
- male aged 60 at the statement of financial position	**27.0 years**	27.2 years
- female aged 60 at the statement of financial position	**28.5 years**	30.0 years

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

28. Pension commitments (continued)

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 figures below.

Engage scheme fair value of assets	**2017 £'000**	2016 £'000
Equities	**3,779**	3,613
Fixed interest gilts	**13,022**	11,992
Index linked gilts	**17,708**	18,566
Cash	**262**	–
Expenses due	**(162)**	–
Other net assets	**153**	(138)
Total fair value of assets	**34,762**	34,033
Present value of defined benefit obligations	**(26,151)**	(27,297)
Pension surplus	**8,611**	6,736
Adjustment for asset limit	**(8,611)**	(6,736)
Recognised pension asset	**–**	–

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

Engage scheme change in present value	**2017 £'000**	2016 £'000
Opening defined benefit obligation	**27,297**	21,020
Interest on obligation on funds	**697**	793
Actuarial gain	**183**	6,334
Benefits paid	**(2,026)**	(850)
Closing defined benefit obligation	**26,151**	27,297

28. Pension commitments (continued)

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

Engage scheme change in fair value	**2017 £'000**	2016 £'000
Opening value of scheme assets	**34,033**	27,498
Interest on scheme assets	**882**	1,055
Actuarial gain	**1,362**	5,829
Contributions by the employer	**673**	673
Benefits paid	**(2,026)**	(850)
Administration costs incurred	**(162)**	(172)
Closing value of scheme assets	**34,762**	34,033

The actual return on the Scheme's assets over the year was a gain of £2,244k (2016: £6,884k).

The value of the Scheme assets was restricted to £nil in both years. During the year administration expenses of £162k (2016: £172k) were incurred.

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

Engage scheme change in comprehensive income	**2017 £'000**	2016 £'000
Experience gain on scheme assets	**1,362**	5,829
Experience (loss)/gain on scheme liabilities	**(361)**	107
Actuarial gain/(loss) due to the changes in assumptions of the DBO	**178**	(6,441)
Actuarial gains/(losses)	**1,179**	(505)
(Loss)/gain due to movement in the statement of financial position limitation	**(1,690)**	4
Loss recognised outside income and expenditure	**(511)**	(501)

28. Pension commitments (continued)

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

Group schemes change in comprehensive income	2017 £'000	2016 £'000
Loss outside the income and expenditure account for the Family Scheme	**(2,000)**	(2,000)
Loss outside the income and expenditure account for the Engage Scheme	**(511)**	(501)
Total scheme change in comprehensive income	**(2,511)**	(2,501)

29. Statement of information relating to the Chief Actuary

The Chief Actuary of the Group was Mr D Addison of Willis Towers Watson plc until 31 December 2017. From January 2018 the Chief Actuary is Mr P Whitlock of Willis Towers Watson plc.

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

- Neither Mr D Addison or Mr P Whitlock were members of the Group at any time during 2017
- No other member of their families was a member of the Group during 2017
- Willis Towers Watson were paid fees for the year of £1,589k (2016 £2,355k)

30. 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 Society, nor their close family, had a material transaction with the Group.

30. Related party transactions (continued)

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

Related party transactions	2017 £'000	2016 £'000
Group and Society		
Family Asset Trust	**36,410**	38,524
Family Charities Ethical Trust - Accumulation Units	**10,171**	9,707
Family Balanced International Fund - Share Class A	**–**	829,519
Family Balanced International Fund - Share Class C	**3,566**	1,940
Family Balanced International Fund - Share Class F	**841,067**	–
Total	**891,214**	879,690

During 2017, 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	2017 £'000	2017 Units	2016 £'000	2016 Units
Group and Society				
Family Balanced International Fund - Share Class A	**5,613**	**1,334,981**	14,651	4,368,618
Family Balanced International Fund - Share Class C	**1,380**	**924,175**	899	688,660
Family Balanced International Fund - Share Class F	**–**	**–**	–	–
Total	**6,993**		15,550	

On the 1 November 2017 there was a conversion of Share Class A to the newly created Share Class F on a one for one basis. This was carried out in order to separate the Unit Link holders and the JISA holders. All purchase investments in Share Class A were made prior to the 1 November 2017.

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