onefamily

modern family finance

Annual Report and Consolidated Financial Statements 2018

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 advisers

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

Welcome to the OneFamily annual report

£160.9 million
retained earnings

£7.4 billion
funds under management

92%
customer satisfaction

£84 million
excess capital above requirements

£175 million
originated through Lifetime Mortgages since launch

£3 million
awarded by OneFamily Foundation to good causes since 2015

Launched OneFamily Advice

Launched Lifetime ISA

---

88 Community Grants awarded

1,200 hours of employee time given back to the community through volunteering

---

Chairman's review
Christina McComb

Welcome to our 2018 Report and Financial Statements. Last year was a year of stable financial performance for OneFamily, despite difficult markets and an unsettled economy.

During the year, we continued with our strategy to deliver excellent levels of service to our existing customers and maintain a well-capitalised business for the benefit of our members. We launched new products, enhanced our member benefits and undertook a strategy review to ensure we are set up for future success. Our Chief Executive Officer, Simon Markey, will highlight the key business developments on pages 6 to 8; while I would first like to take a brief look at the economy, financial markets and what that means for you as members.

The economic environment

The UK economy grew by 1.4% in 2018, which was relatively slow compared to other developed economies, partly due to the continued uncertainty over Brexit. Interest rates remain low, with the Bank of England making a single base rate increase to 0.75%, which has helped to keep the cost of mortgages and other borrowing low. Employment remained at a high level and wages started to grow faster than inflation, which should over time help ease the pressure on family finances.

However, the political situation in the UK remains fluid, with continuing uncertainty over the outcome of Brexit. The government's preoccupation with Brexit has impacted broadly on UK domestic policy agendas.

Although we are a company selling solely to UK based customers, we have some customers who have moved to other EU countries since taking out their policies with us, as well as a small book of in-force life insurance business which was previously sold to Irish customers. Our priority is to seek to ensure that all of our existing customer servicing needs can continue to be met by OneFamily immediately after Brexit. We have also considered the other potential implications of Brexit on our business and will continue to do so as the changes to the UK economy unfold.

On the international front, financial markets were volatile and decreased in value over 2018, primarily due to a global economic slowdown and political uncertainty; specific factors included rising trade tensions, slowing growth in China and emerging markets, increasing US interest rates, Brexit, and a collapse in oil prices. Sterling also saw increased volatility against the US dollar and ended the year significantly lower.

The decline in the markets resulted in a year of disappointing performance for member investments. However, as a result of steps we took during the year, our investments saw a smaller decline than the financial markets as a whole. Our customers' interests are at the heart of our investment strategy, which focuses on long-term performance rather than the short-term.

Member benefits and the OneFamily Foundation

Our Foundation has now entered its fifth year and we continue to evolve it to ensure that it supports causes close to the hearts of our members. Since its inception, the Foundation has now awarded £3 million to worthy causes nominated by our members and customers. In 2018, over 500 customers benefited from a personal grant of up to £1,000 and 85 community projects each received grants of £5,000 to help them continue their positive work. Initiatives we supported included the building of a playground in Cornwall, a club set up to combat loneliness amongst the older generation in Northern Ireland and a sports club for recently disabled people in Maidenhead. All of these were put forward by OneFamily members and customers.

“During the year we continued with our strategy to deliver excellent levels of service to our existing customers and maintain a well-capitalised business for the benefit of our members.”

During the year, we also evolved our community grants so we are able to help more causes our members care about and we worked with a number of charities including Age UK and Youth Enterprise whose aims are aligned with our aim to deliver a positive impact for our employees, customers and their families.

We are also continuing to investigate ways in which we can extend the benefits we offer to members. One illustration of this was the launch last year of OneFamily Advice which provides independent advice on the whole lifetime mortgage market. This service is available to members, their families and friends at no cost.

You can read more on the Foundation and our initiatives on behalf of members on pages 26 to 29.

Board and governance

Our annual Board self-assessment concluded that the Board continues to operate effectively. As a result of our focus on member strategy, we have strengthened the role of the Member and Customer Sub-Committee to include product oversight.

I would like to take this opportunity to thank Peter Box, who, following the AGM, will be retiring from the Board having served nine years as a non-executive director and Chairman of the Audit Sub-Committee. My colleagues and I have appreciated Peter’s contribution hugely and he will be missed. On a related note, I would like to welcome Sally Williams to our Board as a new non-executive director. Sally brings a wealth of expertise, particularly in risk and governance, from her extensive experience at organisations including Marsh, Aviva and PwC. Sally will, subject to regulatory approval, be taking over from Peter as the chairman of the Audit Sub-Committee.

The Board regularly reviews the strategy and business plans to check they continue to serve our purpose of protecting and creating value for members. At our annual Board strategy day, we reviewed our progress and considered some of the longer-term actions to ensure a sustainable future for OneFamily. Given the headwinds we are experiencing in the economy it should come as no surprise that as we enter 2019, we are focused on preparing the business as robustly as possible for the uncertain times ahead.

Finally, I would like to take this opportunity to thank my Board colleagues and all OneFamily employees for their contributions and commitment during the year.

Christina McComb
Chairman

Chief Executive's report
Simon Markey

In 2018 OneFamily achieved a number of strategic objectives including an expansion in our range of products and services as well as launching a vibrant and refreshed brand, which will sustain our marketing activities over the longer term. At the same time, we maintained the high level of service to customers that's at the heart of our business. Indeed, the progress made was despite the unsettled economic and political backdrop which led to a disappointing investment performance, which I address later in my report. Whilst trading conditions generally proved to be tougher than recent years, I'm pleased to report that we improved our capital position, and ended the year in a strong financial position.

Strategic context

In 2018, we launched new products and services as part of our strategy to provide relevant and good value products and services for our members and customers. The new products and services we launched are marketed directly to consumers and include Lifetime ISAs, aimed at younger savers, and OneFamily Advice, which offers whole of market lifetime mortgage advice at a fixed fee. Developments in our product range available via advisers included enhancements to our existing lifetime mortgages and preparation of new mortgages for the over 55s ready to launch early in 2019. Finally, we also undertook a review of our longer-term options, to ensure that the business remains well-positioned for the future.

Child Trust Funds

We continue to be the largest Child Trust Fund provider with 1.7 million children aged between 8 and 16 having their accounts with OneFamily. We are preparing for the first of these policyholders to turn 18 in 2020 when the first products reach maturity. Saving for the future has never been more important and OneFamily is well placed to provide relevant products to these young investors as they reach adulthood. We undertook research to understand the financial views of these young customers and what they are likely to want to do with their funds as they reach 18. We have made significant progress further developing our reinvestment product range and the maturity process. As you would expect from a firm with family finance at its core, we have started our engagement programme to help these teenagers and their parents understand their options and the importance of saving for the future, as we want them to make the best possible decisions when the time is right.

Lifetime mortgages

The numbers of homeowners using lifetime mortgages continued to grow strongly in 2018 with lending at nearly £4 billion across the UK. This growth has continued to attract new entrants to the market and price competition has increased as a result. During 2018, we continued to build our presence in this market and have now originated £175 million of mortgages to circa 2,000 customers since we launched in 2016. Our customers are using lifetime mortgages for a wide range of needs, with common reasons including helping to share intergenerational wealth and enable younger family members to get on the property ladder, home improvements and consolidation of existing debts.

OneFamily does not lend its own money but rather uses funding provided by corporate investors who wish to hold lifetime mortgage assets as part of their portfolio. We therefore need to develop and offer products which will be attractive to customers, and also meet the interests and needs of such funders. During 2018, we made good progress in securing long-term additional funding for our existing products as well as developing innovative new products, ready for launch in early 2019. We will continue to seek further opportunities to expand our footprint in the lifetime mortgage space by additional mainstream and niche products and by building on our good relationships with funders and financial advisers.

OneFamily Advice

As part of our expansion to meet the needs of the growing numbers of homeowners choosing lifetime mortgages and the increasing interest amongst our own member base, we entered the financial advice market by launching our own service, OneFamily Advice. This new service offers whole of market advice on lifetime mortgages to customers via telephone, video or online. OneFamily Advice is available at no cost to members, their family and friends, and has been created to be as customer friendly as possible, enabling the homeowner to go at their own pace and with the option of involving family members or friends if they wish. Our ambition is to continue to develop the attractiveness and scalability of offering advice and plans are in place to broaden the service to a more holistic later life advice offering.

Lifetime ISA

The launch of our Lifetime ISA in February 2018 is another example of us launching new products to address intergenerational family needs. This ISA is aimed at people aged 18 to 39 years old saving for their first property or their retirement, with the additional benefit that contributions attract a 25% bonus from the government. It is only available online and we have developed a streamlined mobile-friendly application process, recognising these customers operate digitally throughout many aspects of their lives. Behind the scenes, it's our first product to be managed on a new modern IT platform, as we gradually replace our older IT systems.

The number of customers taking out Lifetime ISAs has been smaller than expected with limited active government support resulting in low consumer awareness, and an alternative cash product for first time buyers (the Help To Buy ISA) still available from many banks and building societies. The Help To Buy ISA is scheduled to close to new business in November 2019, however having both ISAs available has created confusion amongst savers and impacted on expected sales. We continue to believe this is an important product for our customers as the 25% government bonus means the Lifetime ISA offers savers under 40 an extremely attractive way to save for a first home or retirement. This will also be one of the reinvestment options we offer to 18-year olds when their Child Trust Funds mature.

Customer satisfaction

As a mutual, the service we deliver to our members is very important to us and I'm pleased to report that we maintained a very high standard throughout the year with our general customer satisfaction averaging 92%.

To stay in touch with our members, we launched a customer research panel, OneFamily Voice, and this has already been used to engage our members and find out their views on several subjects. We continue to look for ways to serve our customers better; for example, during 2018, we added 37,000 customers to the 333,000 who have signed up to our convenient online account management service and over 80% of these also choose to receive paperless statements, which has an added environmental benefit.

Fund performance

As highlighted by the Chairman, the financial markets were volatile during 2018 with most decreasing in value in a disappointing year of investment performance, following several years of strong growth. Our funds were impacted by this unpredictability, although we were able to protect some member value and the reduction seen in our main funds was less than that seen in the financial markets. Another contributing factor in our performance, for our Family Balanced International Fund and our Family Investments Child Trust Fund, was the steps we took to protect member investments and de-risk against the uncertainty in the market, in particular currency fluctuations. In the longer-term we believe that sterling will rise, and so investments will be protected from a corresponding fall in foreign currencies. These factors are covered in more detail in the Investment Report on pages 16 to 18 but in summary, our largest funds all declined in value during the year. However, as with all stocks and shares investments, performance should be viewed over the long-term. The five-year returns from our core funds still exceed those from cash savings and our main Child Trust Fund remains in the top third of its peer group over the same period.

Regulatory developments

In terms of regulatory change, we completed a major programme implementing the General Data Protection Regulation, which is aimed at protecting customer data and was successfully delivered by the May 2018 deadline. This was a significant team effort which required a range of activities across the business and third parties to update contracts, policies, databases and processes.

We continue to build on our positive relationships with our regulators, the Prudential Regulation Authority and the Financial Conduct Authority, with regular meetings during the year, keeping them informed of developments and plans.

Employees

Our employees are very important to us and in 2018 we took part in the established Best Companies survey for the first time. The survey enabled us to measure engagement and provides in depth data to help us to better understand employees' views of what works well at OneFamily and areas for future focus. 83% of employees responded to the survey, which is an extremely high participation rate, and we intend to use this survey to track progress in 2019. Best Companies also supports our longer-term aspiration to be one of the top companies to work for, and to be included in the list published every year in the Sunday Times.

As part of our aspirations to make OneFamily a great place to work we also invested in a new volunteering programme whereby every employee was given time off to support a good cause. We also helped our employees further their careers by offering a range of learning and development opportunities with four out of five employees having the opportunity to attend career enhancing training during 2018.

Furthermore, we invested in our most senior managers during the year by running a programme to help develop their leadership skills and we will be rolling out a similar programme for the wider management team during 2019.

Outlook

Mindful of the unsettled external environment, our approach during 2019 can be expected to be more cautious as we steward the business through the next stage of its development. Whilst we will seek to add to our product range, where we can, in our existing areas of expertise, next year we will look to sensibly review what changes, cost efficiencies, or investment is required to ensure we continue to deliver on our purpose of creating and protecting value for members.

Finally, I would like to thank all my OneFamily colleagues for their continued hard work and dedication during the year.

Simon Markey
Chief Executive

“Looking forward, we will continue to focus on ensuring our products and services are market leading and extending our relationship with our existing customers.”

Simon Markey
Chief Executive Officer

Strategic report

This Strategic report on pages 10 to 18 incorporates a strategy review, financial review, performance highlights and investment report. Our purpose is to create and protect value for members and our vision is to see more people thrive through making better decisions about their financial future, together.

To deliver on our vision we have chosen to expand our product range and now offer mortgages, investments and insurance. Alongside this, we want to retain our existing customers through excellent service and value for money products relevant to modern families. Finally, we seek to maintain a financially sustainable business with a strong focus on long-term profitability and cost efficiency.

In 2018, we delivered against a set of objectives to progress our strategy, within our themes of growth, retention and cost efficiency.

Grow in our chosen markets by acquiring customers and serving more needs

Our approach is to compete in product lines where we have the ability to offer products and services where there is a lack of consumer choice. We believe OneFamily can do this better than mainstream providers, as these products and services are our main focus. In 2018, we launched the Lifetime ISA and OneFamily Advice, which address the financial needs of two different groups of consumers.

Our Lifetime ISA is aimed at 18 to 39 year olds who are saving for their first property or for retirement, and benefits from a 25% yearly government bonus on new money invested in the year. We offer a straightforward choice of two funds, designed around these savings goals, and clear pricing compared to rival firms. The market has, so far, been smaller than we expected, for a number of reasons including the government's lack of public support, and this has created challenges for us during 2018. However, we believe the investment in this product will be beneficial to customers in the longer term, as Lifetime ISAs will provide greater choice and savings options to our Child Trust Fund customers as they reach adulthood.

OneFamily Advice is aimed at the increasingly large number of over 55s who want to supplement their retirement income by using the money tied up in their home. The fixed fee, whole of market advice is provided by telephone, video and online by our own in-house advisers. An additional benefit to members is that it is offered to them and to their family and friends at no cost.

In its first few months, the service has proved popular with homeowners looking for a lifetime mortgage. During 2019 we expect the number of customers using this service will increase. We are also planning to investigate extending the product range we advise on.

These additional products and services, which are sold directly to consumers, have been supported by our new fresh, modern brand that we launched during the year and which will also help in our retention of existing customers.

Finally, we have developed new innovative lifetime mortgages, in anticipation of securing additional funding in 2019, which we are confident will prove attractive to both customers and advisers.

Retain existing customers through good service, attractive products and membership benefits

As mentioned in the Chief Executive's report, giving our existing customers great service is very important to us and we have maintained our high standards during 2018.

We intend to continue to invest in areas such as digital self-service, reflecting how customers increasingly want to deal with us. We will do this without forgoing members' ability to contact us by telephone.

The first of our Child Trust Fund customers reach 18 in 2020 and then have the choice of what to do with their savings. This will be a significant test of our ability to retain customers who wish to continue investing for the longer term. We recognise that many of these young customers will simply wish to withdraw their money when their Child Trust Fund matures. Therefore, our approach is to provide attractive reinvestment products for young savers and also to provide a seamless customer journey, to support the different choices the customers have as they reach adulthood. The programme designing our approach was established during 2018 and this work will accelerate into implementation in 2019-20.

Finally, mutuality remains at the heart of everything we do; our membership strategy is to increase engagement and enhance the value of membership. A good illustration of this is the free advice service through OneFamily Advice. We will continue to explore more opportunities to provide additional member value through our products and services.

Simplify the business and increase our cost efficiency

As a mutual we can only pass on value to members if we have a modern, cost-effective and resilient business. In 2018, we introduced new technology to simplify different processes, retired a number of old IT systems and increased the security of our customer data.

In Customer Services, we implemented a number of improvements to processes to reduce the amount of non-value adding repetitive work. This work has freed up employees to do other work, reduced costs and increased consistency. We believe there is further scope to improve processes and have created a centre of excellence through this project.

We made progress in modernising our IT by replacing three accounting systems with a single, modern system which went live in January 2019. This enabled us to improve efficiency and deliver regulatory reporting earlier to meet new shorter deadlines. Finally, the new platform has also enabled us to introduce a number of other enhancements and consequently reduce risk due to human error. Further modernising our IT systems during 2019 will continue to be a key focus.

Our Security First programme addressed IT security vulnerabilities across the business and improved our resilience against cyber-crime. Whilst the security risk will never entirely go away, the changes made have greatly reduced our exposure to cyber-attacks and should reduce our overall cost and exposure to reputational issues caused by them. This programme, along with our General Data Protection Regulation programme that took place in 2018, will also increase the security of customer data and will complete in the first half of 2019.

Longer term plans

In 2019, we will continue to focus on our core themes of growth, retention and cost effectiveness, to create and protect value for members. As noted in both the Chief Executive's and Chairman's reports, given the economic uncertainty that we are operating in, it is right that we focus on long-term efficiencies in the business to protect member value.

Brexit

Although we are a UK only company selling solely to UK based customers, we have some customers who have moved to other EU countries since taking out their policies with us, as well as a small book of in-force life insurance business which was previously sold to Irish customers. Our priority is to seek to ensure that all of our existing customer servicing needs can continue to be met by OneFamily immediately after Brexit.

The Directors have considered the risks and uncertainties for the Group arising from the impact of Brexit, including the possible impact of a no deal Brexit scenario, and the extent to which the possible outcomes might affect the valuation of assets and liabilities in the financial statements, in particular those where judgement is applied. The Directors are satisfied that the Group has no significant direct risks arising from Brexit.

Financial review

As highlighted in the Chief Executive's report on page 6, 2018 has been a challenging year from a financial perspective due to both stock market performance and the lower level of traction achieved on our new products than was expected.

Stock market performance affects both what investors in our unit-linked funds receive on maturity or surrender of their policies and also the income of the Group by way of annual management charges made to these funds.

Despite these challenges, we have still seen our retained earnings increase by £0.3 million to £160.9 million as the Group has looked to make cost efficiencies to offset the lower than expected income throughout the year.

As mentioned in the 2017 Financial review, a move towards lower volume but higher value products such as lifetime mortgages (through OneFamily Lifetime Mortgages) and fee based services via OneFamily Advice will not add significantly to our funds under management. This combined with the fall in the stock markets in 2018 and the expected maturity of policies has led to a decrease in the funds we manage on behalf of our customers by 9%.

Investment in infrastructure

As mentioned in the Strategic report during 2018 investment has been made into our financial accounting systems within OneFamily to improve efficiencies, reduce risk and also allow us to meet the ever reducing timeframes for Solvency II reporting.

Over 2019 and 2020 we are looking to invest in process improvements which will have multiple benefits, including increased efficiency and reduced reliance on manual processes. We will also be looking at our IT infrastructure and making recommendations on potential improvements. Both are part of a continued drive to ensure the business is set up for a sustainable future.

The impact of this investment is expected to be a short-term decrease in the retained earnings of the Group in 2019.

Capital position under Solvency II

Our capital position (measured under the principles of Solvency II) also remains very strong. Within the non-profit fund the excess capital held above the regulatory requirements is £84 million. This represents a coverage ratio of 218% equal to that at the end of 2017.

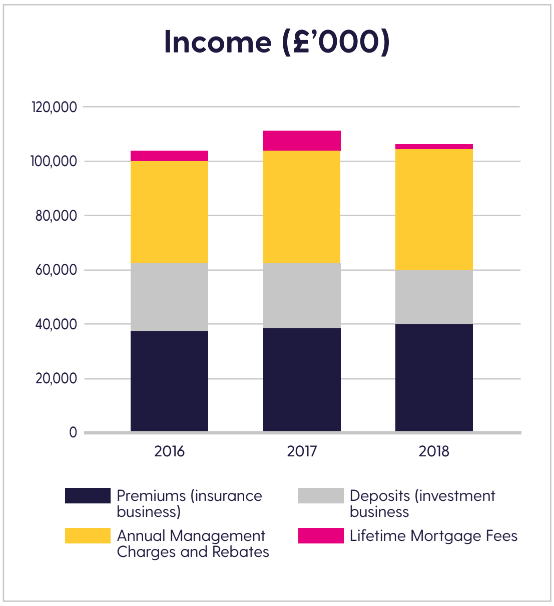
2018 is the third year of reporting under the Solvency II framework. Under this regime there are two capital requirements to meet; the solvency capital requirement and the minimum capital requirement. The regime applies to the Society only as an insurance company rather than the Group as a whole.

The solvency capital requirement is the amount of capital required to provide protection against unexpected losses over the following year, up to the level of a one in 200 year event – that is a 0.5% chance of occurring. The minimum capital requirement 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 solvency capital requirement. 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 solvency capital requirement. A ratio of 100% means the Society would be able to cover its obligations in a one in 200 year event.

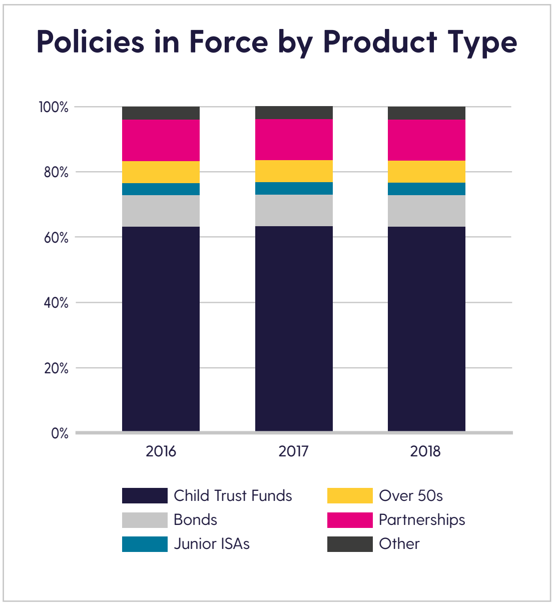
Outlook

As in previous years our focus continues to be the current and long-term needs of our customers. As a mutual we are not driven by dividend decisions and the continued pressures imposed by ever demanding shareholders. Our need to invest in the infrastructure of the business is driven by the requirement to provide our customers with a well run, efficient Group to ensure that there is long-term value for members and a stable platform on which to grow.

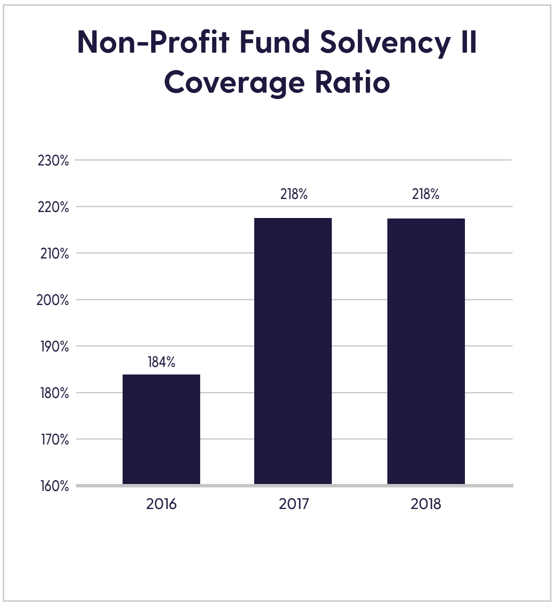
Group performance highlights



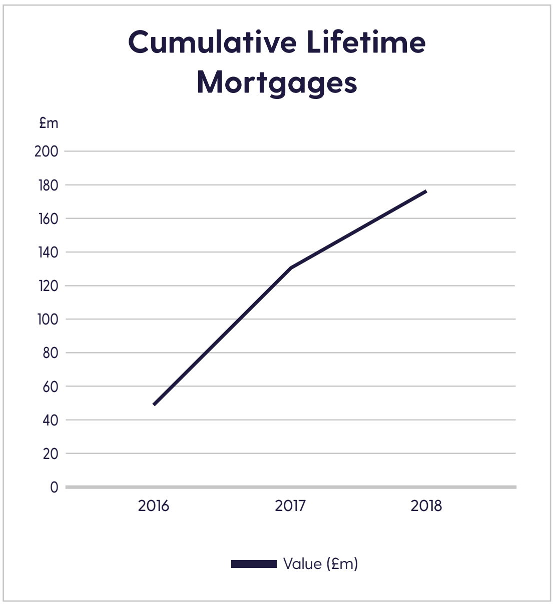
Despite the challenges faced by the Group in 2018, income received through insurance premiums, investment deposits and annual management charges and rebates remains strong.



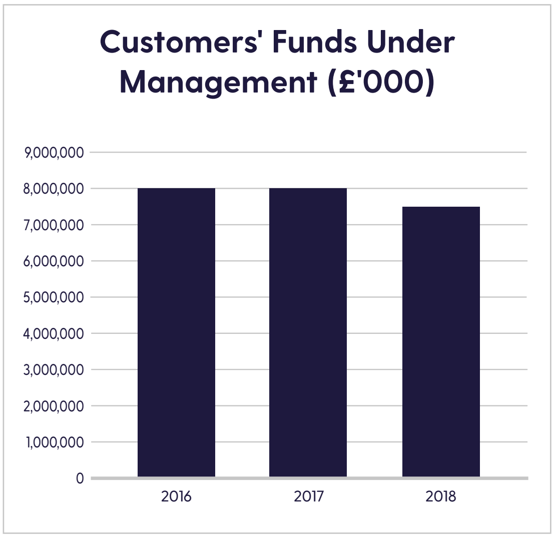
The majority of the Group's policies are Child Trust Funds and a key focus in 2019 is the reinvestment proposition and maturity operations for these policies which will begin to mature in 2020.



The Society continues to have a strong capital position.



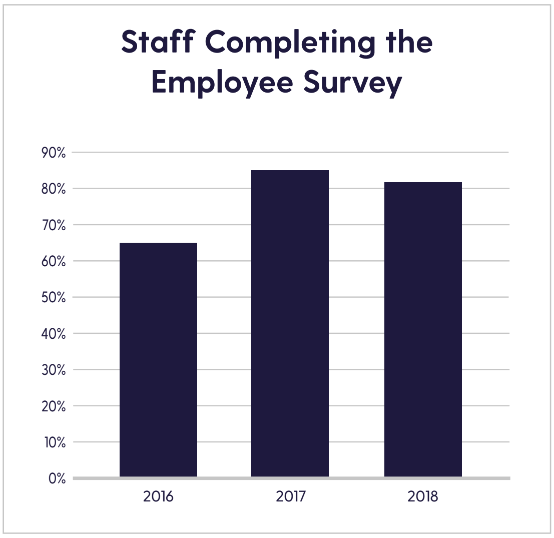
Lifetime mortgage completions now total circa £175 million.



As mentioned in the Financial review, a move towards lower volume but higher value products such as lifetime mortgages (through OneFamily Lifetime Mortgages) and fee based services via OneFamily Advice does not add significantly to our funds under management. This combined with the fall in the stock markets in 2018 and the expected maturity of policies has led to a decrease in the funds we manage on behalf of our customers by 9%.

The figures above are the average for the year. In September 2016 the process for obtaining customer satisfaction scores was automated and as expected this led to a decrease in the average score for 2017 compared to 2016.

OneFamily continues to far exceed the UK benchmark in respect of customer satisfaction and in 2018 an average of 88% of customers would recommend us to friends and family.



Prior to 2016 there was not an annual employee survey.

In 2016 & 2017 the survey was via a simple questionnaire asking employees about the importance of various factors and their satisfaction.

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

OneFamily products

Child Trust Fund
Government backed product given to all children born between 2002 and 2011

Ethical ISA
For savers who want their money invested in ethical businesses

Family and Junior Bonds
Tax exempt savings plans over 10 and 25 years

Junior ISA
For customers who want to save towards their children's future

Lifetime ISA
For customers under 40 saving for a first home or retirement

Lifetime Mortgage
For homeowners over 55 who want to release capital in their property

Over 50s Life Cover
Peace of mind life insurance for the over 50s

Investment report

OneFamily investment fund performance

In 2018 we continued to offer our customers diverse investment opportunities in a range of assets, including shares, bonds, property and cash; however, our funds were impacted by price falls in markets across the globe. The performance of our funds against this backdrop is shown below:

Unit price growth*

Funds**	One Year	Three Years	Five Years
Family Balanced International Fund (FIBI)	(9.63%)	13.37%	19.81%
Family Investments Child Trust Fund	(11.83%)	15.75%	19.61%
Family Sovereign Fund	(8.16%)	14.72%	23.71%
Santander Stock Market 100 Tracker Growth Unit Trust	(9.64%)	16.00%	12.20%
Family Charities Ethical Trust	(6.90%)	16.89%	12.56%
Family Asset Trust	(10.22%)	15.24%	14.48%

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

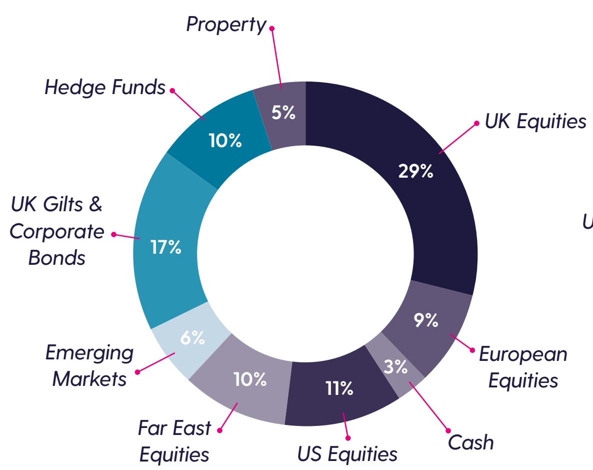
Our two largest funds, in which most of our customers are invested, had a challenging year. The Family Investments Child Trust Fund invests in UK, US, European and Asian equities. In 2018, the Group put in place initiatives to protect customers in both this fund and the Family Balanced International Fund from the currency impact of overseas investments. As a result, the funds did not gain from the fall in sterling, as they had in previous years.

The Family Sovereign Fund is the Group's largest customer investment fund, where the majority of our Family and Junior Bonds are invested.

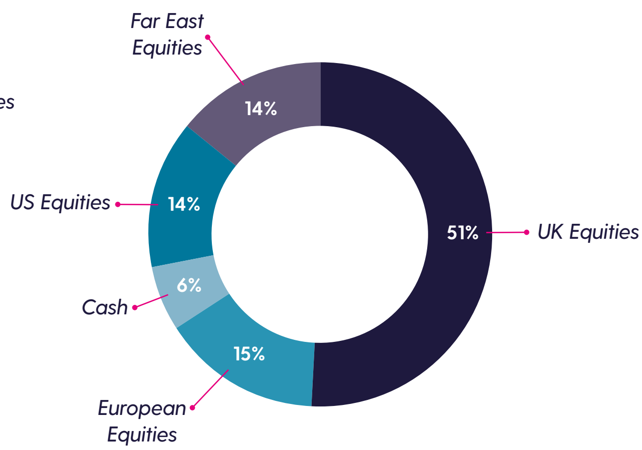
Both of these funds have experienced some recovery in 2019. In the first two months of 2019 the Family Investments Child Trust Fund grew by 7.2% and the Family Balanced International Fund grew by 6.0%.

The compositions of the two funds by asset class as at 31 December 2018 are shown in the following charts:

Family Sovereign Fund



Family Investments Child Trust Fund



Market review

General

Whilst 2018 had a strong start, expected increases in inflation and US interest rates resulted in a sharp market drop in late January. Whilst US equities quickly rebounded and the S&P 500 Index went on to achieve a record high in September, many other markets did not reach the early-year peaks again. The year then ended with the worst quarter since 2011 as a shift towards less risky assets accelerated amid ongoing trade tensions, volatile oil prices, reduced growth prospects and expensive valuations.

For the full year, global equities, as measured by the FTSE World Index, recorded a negative total return of -7.4% in local currency terms. The scale of the turnaround is illustrated by the -12.7% slide in the final quarter of 2018.

UK equities

In the UK, the deterioration in the international investing environment added to pressing concerns around Brexit as the original planned 29 March 2019 exit date loomed. UK equities were buffeted through 2018 as EU-UK negotiations were painfully slow and optimism for a draft agreement in November was quickly dashed amid UK ministerial resignations, widening divisions in Parliament and, in the end, a postponed vote on the deal.

Although the FTSE 100 Index hit a new all-time high in May, it ended 2018 in negative territory with a fall of 12.5% over the year. The economic experience was mixed. UK GDP expanded by just 0.2% in the opening quarter of 2018, although growth did pick up and good weather and World Cup-related spending contributed to growth of 0.6% in the third quarter. Data since then points to some slowing in activity though, particularly in terms of consumer spending. In the final quarter UK GDP grew by just 0.2%, giving full-year growth of 1.4%, the lowest since 2012.

Bonds

UK gilts experienced a rollercoaster year, ultimately posting positive total returns as the final quarter sell-off on global stock markets stoked demand for less risky assets. The Bank of England's decision to delay an anticipated increase in base rates in May sent gilts higher before the August rate rise resulted in gilts selling off again; before Brexit, easing inflation and financial market turbulence drove gilts up by year-end.

Bonds issued by UK companies' underperformed UK gilts with most of the difference occurring towards the end of 2018 as investors showed a preference for government debt. More secure bonds issued by companies' outperformed riskier higher-yielding bonds during the period.

Overseas equities

Our balanced investment funds typically have exposure to UK equities and government and corporate bonds, and also to overseas equity markets.

In the past, the impact of global equity markets on our funds stemmed not just from the performance of the overseas markets, but also from the performance of sterling, as the value of foreign holdings are converted to sterling. At the beginning of 2018, we introduced a currency risk management programme (known as currency hedging) within our Family Balanced International Fund and Family Investments Child Trust Fund to help protect the portfolios from adverse currency movements in investments not held in sterling.

Overall, our balanced portfolios performed poorly during a difficult period in which weaker economic data outside the US, trade conflicts and stresses in emerging market countries weighed on global markets. During 2018, the currency hedging meant that foreign currency gains (sterling weakness) did not benefit members as it would have done in previous years. Clearly sterling's performance has been adversely affected by Brexit negotiations, resulting in short-term underperformance, but we continue to believe that the value of sterling will rise over the longer term, and so the currency protection programme should protect the portfolio from a corresponding fall in foreign currencies.

USA

The US economy maintained its growth trajectory, fuelled in part by the large tax cuts announced at the end of 2017. The economy achieved strong annualised GDP growth, unemployment hit a near 50 year low of 3.7% and consumer sentiment hovered around their highest levels since 2000.

The US stock market's rise stuttered in October with concerns of further increases to its interest rates unsettling the market's expectations for the economy. The FTSE World North America Index ultimately posted a negative total return of -4.7% for the year.

Europe

In Europe, economic data regularly fell short of expectations, while a newly-installed populist government in Italy and ongoing Brexit worries provided a political aspect to investor concerns. However, while jobless rates in Greece, Spain and Italy remained in double digits, all EU member states recorded a drop in respective unemployment rates year-over-year. In the final quarter, regional election losses by Germany's ruling party and escalating protests in France widened investors' political concerns.

Germany's stock market fell 18% as it was held back by a poor performing automotive sector beset by emissions and tariff worries, while France's did relatively better, albeit with a loss of 8% in local currency terms. On a total return basis, the FTSE World Eurobloc Index recorded a negative return of -11.0% in sterling terms for the 12 months.

Asia Pacific

In Asia Pacific, tensions between US and China reverberated through the region. Japanese stocks had initially proved more resilient than others up until a final quarter sell-off. That Japan's economy contracted in Q3 for the second time in 2018 didn't help sentiment either, even though it was largely caused by disruptive natural disasters. The FTSE World Japan Index returned -15.3%.

In the wider Asia-Pacific region, the outcome was mixed with Australian equities lower despite healthy economic growth, while New Zealand's market recorded a positive return for the period. The FTSE World Asia ex Japan Index recorded a negative total return of -6.8% in sterling terms.

Emerging markets

Emerging markets had a turbulent year, although they outperformed in the final quarter. China's Shanghai Composite Index lost more than 20% amid the worsening trade and economic outlook and efforts to rein in lending.

Elsewhere, Brazilian equities advanced on economic reform hopes as a new president was elected, while Indian stocks also outperformed in the 12 months. Turkey's market slumped as the president and central bank clashed over monetary policy amid a tumbling currency, growth concerns and rising inflation. Overall, the MSCI Emerging Markets Index recorded a negative total return of about -9.3% in sterling terms.

Outlook

With markets undoubtedly becoming more volatile and with expectations for this to continue, markets are delicately balanced moving forward. It remains to be seen how they will digest the ongoing uncertainty over trade and geopolitical issues, and the potential for this uncertainty to damage economic growth will remain pivotal.

In such an environment, we believe it is important to remain well-diversified across asset classes while having the ability to actively review the asset mix as market conditions evolve.

Board of Directors

Christina McComb OBE Chairman

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

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

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

Ian Buckley Vice Chairman and Senior Independent Director

Chartered Accountant

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 Sub-Committee, and a member of the Remuneration, Risk, Audit, With Profits and Nominations Sub-Committees.

Ian is an experienced board director in both executive and non-executive capacities and has an in-depth understanding of regulated financial services businesses. He has previously held chief executive roles at Smith & Williamson, EFG Private Bank Limited and Tenon Group plc, served over 11 years as a director and then special advisor at Rathbone Brothers plc, and was a non-executive director and Chairman of Vision Independent Financial Planning Limited from 2012 until April 2018.

Ian is currently Chairman of Quilter Cheviot Limited, a non-executive director at Miller Insurance Services LLP, and a consultant at Rathbone Trust Company Limited.

Peter Box Non-Executive Director

Chartered Accountant

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 an extensive 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 (PwC), he has experience of a broad range of companies from large international businesses to specialist national firms.

Peter is currently a non-executive director at Pool Reinsurance Company Limited and Cardif Pinnacle Insurance Holdings plc. He is also Chair of the Royal Flying Doctor Service of Australia Friends in the UK. Between September 2009 and December 2018 Peter was a non-executive director of Marsh Limited, serving as Chairman of the Audit Committee and a member of the Remuneration and Nominations Committees.

Peter is retiring from the Board of Directors after the 2019 AGM.

Steve Colsell Non-Executive Director

Fellow of the Institute and Faculty of Actuaries

Steve was appointed to the Board in July 2016. He is Chairman of the Risk and With Profits Sub-Committees and is a member of the Audit, Investment and Nominations Sub-Committees.

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

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

Steve is a graduate of Imperial College, London.

Graham Lindsay Non-Executive Director

Fellow of the Institute of Banking & Finance

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

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

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

Sally Williams Non-Executive Director

Chartered Accountant

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

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

Sally is a non-executive director of Lancashire Holdings Limited.

Simon Markey Chief Executive

Associate of the Institute of Banking & Finance

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

Simon started his career in 1984 with Lloyds Bank, and during a 20-year period he held numerous positions including Head of Savings and Director of Customer and Sales.

Following Lloyds Bank, 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

Chartered Accountant

Teddy was appointed to the Board as Chief Finance Officer in July 2016. He is a member of the Investment Sub-Committee.

Teddy has 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

To achieve our purpose of creating and protecting value for our members we aim to do the right thing by all our stakeholders, those we do business with, for employees who work for us, and our customers.

Our culture and values

Having a positive culture is fundamental to our success, and in 2018 we invested a great deal of time and effort to ensure that OneFamily is a positive place to work, and that our employees are engaged with the goals of the business.

During 2018 we took part in the Best Companies survey, recognised as a market leader for gaining insight into a business, for the first time. We had an 83% participation rate which is extremely high for this type of survey. We performed well overall in the survey and areas of very high scoring included 'Giving Something Back', which measures our social conscience and how we support good causes and disadvantaged individuals. Other areas that scored highly were the day-to-day leadership by 'My Manager', demonstrating strong employee satisfaction with their day-to-day boss and 'My Team', where employees tell us about how they feel about working with their own small team. The survey has given us a great deal of insight into employee views on what works well at OneFamily and areas for focus in 2019.

Employee values

We ask and expect that all our employees, right from the top operate inside OneFamily according to five values which are:

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

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

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

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

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

Employee awards programme
To further embed our values, we ran an awards programme throughout 2018 which has seen over 60 employees and three teams highly commended and rewarded for their commitment to living our values

Community investment

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

We are very proud to support the LGBTQ+ community both locally and within OneFamily. During 2018, for the third year running, we partnered with Brighton and Hove Pride in August as one of the key supporters. A number of our employees took part in the parade itself on a OneFamily sponsored float, or by attending the festival, and we opened our office on the day of the parade and invited employees and family members to enjoy the parade going past our offices.

For a number of years, we have invited users of Brighton and Hove Age UK's services to a Christmas event at our offices and in 2018 we were able to increase numbers and positively impact more users. We will be working with Age UK in 2019 to further develop the local relationship.

Finally, we supported the local community through a Christmas wishes campaign with the local newspaper near our head office, through which we donated to 12 different charities and good causes a Christmas financial gift to help them deliver an enhanced service to their users in the festive period.

Volunteering and charity matching

We actively encourage our employees to get involved in the local community and during 2018 we ran a programme of volunteering across Sussex. Through the initiative around 150 employees worked at charities including Raystede Animal Welfare Centre, RSPCA, Chestnut Tree House and the Martlets Hospice through activities such as gardening and painting. In total our employees spent a total of 1,200 hours giving voluntary support.

Finally, we know that our employees are passionate about good causes personally, so we match individual employee fundraising and during 2018 we increased our charity matching from £250 to £500 per employee.

Colleague wellbeing

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

In May and November we held wellbeing events to which all employees were invited and encouraged to take part in. Activities included workshops, yoga, massages, health checks and flu jabs. We also offer employees access to a range of free benefits including a confidential employee assistance programme, if they need professional and confidential support.

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. We currently employ just over 10% of our workforce in a part-time capacity, and we offer a range of flexible working options for our full-time employees, including compressed hours and home-working.

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 embracing diversity and making OneFamily a great place to work for all colleagues is vital.

Gender equality and pay

In 2018 we published two gender pay reports, most recently from April 2018. This is a legal requirement which applies to all companies with over 250 employees and a government initiative we support, as it encourages organisations to ensure they are promoting the right practices and culture.

Our most recent figures showed a mean gender pay gap at OneFamily of 18.3% which improved from 20.3% in April 2017. Our gap is lower than many financial services organisations, in some cases by a significant amount. The gender pay gap is the difference between the average and median pay of all men and women in a workforce expressed as a percentage of men's pay.

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

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

In 2018 we increased the number of females at senior management level which now stands at 34% female and 66% male, compared to 2017 when the figures were 21% female versus 79% male. At Board level we had 14% female and 86% male, however in 2019 this ratio has improved as our new board director, Sally Williams, joined on 1 January 2019.

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 of employees. Over the course of 2018, over 80% of employees took part in career enhancing training involving 700 courses, with the business investing 1184 hours in the programme.

In 2018 we invested in a comprehensive leadership programme aimed at our senior managers in the business. In the latter part of the year this was more generally rolled out and will continue in 2019.

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 peer selected to represent the wider workforce. In 2018 we changed a number of the employees who run this forum to ensure fresh thinking and ideas. 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 across OneFamily to resolve any issues and ensures the Chief Executive

Officer and executive team understand our employees' views.

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
- To receive updates on equal opportunity monitoring and supporting those affected
- Monitoring our progress on equality and diversity and supporting colleagues who have concerns about equal treatment

During 2018 Talking Family held six discussion forums, twelve drop-in sessions, and met with the Chief Executive Officer four times.

Vulnerable customers

The way we treat customers forms an important part of how we meet our responsibilities and provide appropriate levels of care to any potentially vulnerable customers. Customer facing employees take part in ongoing training to understand and deal with vulnerable customers and we take every customer's individual circumstances into consideration when responding to queries or complaints. In 2018 we worked with Age UK to deliver a programme for engaging sensitively with customers with dementia, and we worked with The Samaritans to increase awareness of mental health issues.

Environment

At OneFamily we want to reduce our harmful impact on the environment. We are committed to continually improving our environmental performance and we regularly review our practices.

Initiatives in place in our head office include:

- Recycling activities include a centralised collection point on each floor to encourage and enable efficient recycling, including paper, plastic, tin, confidential waste, coffee cups, cardboard, glass, printer toners and IT equipment including mobile telephones
- A cycle-to-work scheme to encourage employees to reduce their carbon footprint and promote well being. Bicycle racks in our secure car park and shower facilities are provided to further encourage employees
- Motion sensors for lighting and vending machines to reduce electricity consumption
- The heating and cooling systems shut down during weekends and evenings. Our building management system allows us to keep control of the building temperature and adjusts it accordingly to avoid unnecessary heating or cooling
- Planned preventative maintenance. Well maintained equipment is more efficient and lasts longer
- Regular orders, such as stationery, are placed in bulk to reduce the number of deliveries made and therefore reduce CO_2 emissions

Suppliers

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

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

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

OneFamily Foundation report

At OneFamily we're passionate about trying to help families across all generations. Through our OneFamily Foundation we strive to give back to our customers, their loved ones, local communities and to the causes they care about.

In 2018 we did this in a number of ways:

Personal Grants

Available to give a financial helping hand to our customers, a family member or to a friend

Community Grants

A chance for local community projects to be awarded up to £5,000

Charity Partnerships

Supporting charities that positively impact on our customers and their families

The OneFamily Foundation was launched back in 2015, and so far we have donated £3 million to good causes.

We continued to provide Personal Grants through 2018 and refreshed our community project support, with a move from Community Awards to Community Grants. Nominations for the new grants continued to be encouraged from our customers, however we have evolved from a once a year Community Award which was voted for by members of the public, to a grants programme that is run three times a year and all nominations are entered into a draw. By doing this, and changing the size of the grants available, we were able to support more causes that our customers care about. We have received very favourable comments about our shift in emphasis and in total community projects benefited from support of £440,000.

We also continued to work with a small number of charities that can positively impact on our employees, customers and their families. This work started in 2017, evolved in 2018, and will continue in 2019.

Personal Grants

Personal Grants offer our customers or those closest to them a financial helping hand when times get particularly tough. During 2018 we offered two levels of funding; amounts up to £500 and larger grants up to £1,000.

As a result, we were able to nearly double the number of customers who we helped during the year with 529 customers benefiting from grants, totalling just over £500,000. Common types of requests included home modifications after injury or illness, white goods replacements, disability aids, and much needed and deserved respite breaks for carers.

"We applied for a personal grant for our mum as she has been struggling to walk and without her knowing we asked if OneFamily could help with getting a scooter for her. Since our mum has got her scooter, she's not been off it. We all take the dogs out now and mum is loving it as before she was not going out and the difference is great now she's got a bit of freedom."

Dianne, Rotherham

"I would just like to take this opportunity to say a big thank you from myself and my family. The work you do gives families the support they need when times are hard and the memories they make last a lifetime. Thank you again."

Leanne, Wolverhampton

Charity Partners

Through the OneFamily Foundation we were able to work with a number of charities during 2018.

We launched a new Local Heroes scheme which gave our employees the opportunity to nominate good causes that they care about. We ran this scheme twice during the year and awarded a total of 11 charities a £5,000 grant each. Charities that benefited included Martlets Hospice, Winston's Wish and Sussex Homeless.

We further expanded an existing partnership with Age UK in Sussex who we have worked with for a period of years. This work will continue into 2019 and we plan to partner with the organisation to help older people in the Brighton and Hove area.

We also established a new relationship with Youth Enterprise through which we are supporting increased financial education for young people, via a partnership with a Brighton and Hove secondary school.

Community Grants

Our Community Grants give a chance for customers to nominate local community projects to apply for help with funding projects. During 2018 we provided three opportunities for grants to be made and received a total of 200 nominations. Out of these, 88 good causes were successful, with each being awarded £5000.

Case Study

Liz Winwood Foundation

The Liz Winwood Foundation delivers musical workshops to children aged 5 to 16 and was awarded a £5,000 Community Grant meaning pupils in special educational needs schools and organisations across Nottingham could enjoy free music workshops designed to support mindfulness and mental health.

The money has allowed the charity to buy 20 new fibreglass drums, which are lightweight and can be used by wheelchair users without causing discomfort. The activities are often delivered to help groups of children with physical disabilities or learning difficulties. Jude Winwood, founder of The Liz Winwood Foundation, said:

"We're incredibly grateful to receive this funding from OneFamily, and as a result, lots of children across Nottinghamshire are set to benefit. Drumming is an accessible activity for able and disabled-bodied young people, which can help them overcome anxiety and build resilience by taking part in group activities and new challenges. It can also be delivered in a way to suit different groups, whether that's offering a physical workout that's also mentally stimulating or creating a calming experience."

Case Study

SportsAble

Berkshire charity, SportsAble was founded more than 40 years ago and has played a vital role in helping people with physical and sensory difficulties to stay active in an inclusive and supportive environment. The charity has been represented at every Paralympic Games since 1976.

It received a £5,000 Community Grant to enable it to continue to provide monthly sessions to amputee patients referred by Wrexham Park Hospital, which were in doubt following a significant funding problem.

Kerl Haslam, CEO at SportsAble, said:

"Thanks to support from OneFamily this valuable intervention will continue. The wheelchair basketball programme helps to instil a sense of achievement and self-fulfilment to our members, emotions many may not have experienced since their amputation.

It's also been really positive to take patients out of a clinical environment and give them an opportunity to socialise and generally enjoy themselves within a safe, non-judgemental, supportive community."

Risk management report

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

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

Risk culture and governance

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

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

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

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

Risk management framework

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

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

- The controls identified through the assessment process
- A framework of delegated authorities
- Board and executive committee governance
- Accounting procedures
- The Compliance team

Own Risk and Solvency Assessment (ORSA)

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

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

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

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

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

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

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

Principal risks and uncertainties

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

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

Risk	Description	Management and Mitigation
Credit	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; to banks where we deposit money; and to insurance intermediaries in respect of unearned commission payments.	OneFamily generally holds investment grade bonds through exchange traded funds. Counterparty credit risk is managed through risk limits and monitoring of exposure, with bank and investment related counterparty and credit exposures reported quarterly to the Investment Sub-Committee. Exposure to insurance intermediaries is monitored to help maintain intermediary advances to within risk appetite. Mitigating controls have been enhanced during the year to include ongoing due diligence, complaint and lapse level monitoring, and for larger intermediaries, regular meetings with principals.
Lapse	The risk of higher than expected lapses will reduce the value of business in-force. This is a key risk for OneFamily, and persistency is a key focus for management.	Lapse experience is closely monitored, with regular investigations to ensure lapse assumptions are appropriate. Stress testing includes the impact of economic downturns on lapses.
Expense	This relates to higher than expected expenses, not just in-period but going forward in terms of reduced future profits emerging.	Expenses are managed against budgets, with regular expense analyses performed to ensure long-term expense assumptions are appropriate.
Mortality and morbidity	This principally relates to higher than expected death and critical illness claims on Over 50s life cover.	Mortality and morbidity risks are substantially reinsured; residual mortality risk acts as a natural hedge against longevity risk.
Longevity	OneFamily has a small annuity portfolio which is vulnerable to the effect of annuitants living longer than expected. There is also longevity risk in respect of pension schemes.	These risks will be partially offset by mortality risk exposure on Over 50s life cover with longer life expectancy associated with lower death claims.
Staff pension scheme	The risk of balance sheet strains; and/or higher contributions from adverse movements in the assets and liabilities of defined benefit staff pension schemes. This will encompass equity, currency, interest rate and credit risks above, as well as longevity risk in respect of scheme members living longer than expected.	While investment policy is a matter for the trustees of the schemes, OneFamily monitors pension scheme funding; gets advice on the investment policy of schemes; and makes its views on investment policy and risk known to the trustees.

Risk	Description	Management and Mitigation
Liquidity	Relating to the risk of being unable to meet our financial obligations as they fall due or only at an excessive cost.	Liquidity is monitored on a daily basis and the Group holds liquid assets to meet outgoings in stress conditions. The Investment Sub-Committee receives quarterly liquidity reports including liquid assets by fund.
Operational	This includes project risk, IT security/cyber risk, outsourcing risk and more generally other risks from failed internal processes, personnel or systems, or from external events.	Extensive policies and controls are in place to mitigate operational losses. These are supplemented by buildings and other insurance to cover losses from fire and other perils. Scenario analysis is carried out to identify operational risk exposures.
Conduct	This is a subset of operational risk and relates to the failure of OneFamily to conduct its business fairly and properly in relation to customers and other stakeholders. This overlaps with (and is considered in conjunction with) risk of failure to comply with regulations.	Conduct risks are actively monitored with regular conduct risk reports produced for the Risk Sub-Committee. The risk assessment of new products and initiatives has regard to conduct risks.

Risk Developments in 2018

General Data Protection Regulation (GDPR)

GDPR and the Data Protection Act 2018 came into effect on 25 May 2018 and changed the way personal data is controlled and processed. As part of our preparations for GDPR we substantially enhanced our data protection capabilities including the appointment of a full-time Data Protection Officer and strengthened data subject rights requests and breach notification processes. We have updated data protection agreements in place with all our data processors, who have provided us with guarantees that the requirements of GDPR will be met and the rights of data subjects protected. As cyber threats continue to grow in scale and complexity, we have also invested in further enhancing our IT security. Robust governance and oversight policies and processes are in place to manage, monitor and report on our continued compliance position to the Risk Sub-Committee.

Risk management framework

Oversight of the continued embedding and enhancement of the OneFamily risk management framework is a core accountability of the Board and is delegated to the Risk Sub-Committee. During 2018 we revised the risk and control self-assessment process and linked this to the balanced scorecard. A process of substantial review of the risk registers for each executive area has been supported by improved second line risk partnering and reinforced through increasingly mature risk related management committees.

IT security/cyber framework

During 2018 there were a number of high-profile cyber security incidents and data breaches for corporates in the UK and elsewhere. This is expected to increase as cyber criminals and rogue states become ever more sophisticated and with the growth of digital automation in business strategy. We have made a significant investment

in our IT security and cyber capabilities since 2017, which has introduced improved controls to protect our data and to detect and prevent cyber attacks. Awareness training has been provided to employees which includes phishing and other cyber and data related risks.

Brexit

The Risk Sub-Committee has received updates on the analysis of potential impact of Brexit related risks during 2018. Brexit is unlikely to have a significant operational impact on OneFamily due to the UK focus of our business activities. While the outcome of the Brexit negotiations remains unclear there may be increased market volatility over the coming months. We continue to monitor this risk as part of our oversight and stress testing of market risk (including equity, currency and interest rate risk). The Board has considered the impact of Brexit on consumer outcomes. Our priority is to avoid any customer detriment arising and the position is being closely monitored given the continued uncertainty.

Currency

In January 2018 the two main funds in which our savings and investments policyholders are invested implemented a new regional currency overlay programme to hedge exposure between certain (non-sterling) currency denominations of the fund's investments and the base currency of sterling. The aim of this is to reduce risk to investors over the medium-term.

Directors' report

The Annual Report and Consolidated Financial Statements including the Strategic report have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the Regulations). As at 31 December 2018 a Board of Directors comprising the Chairman, four other independent non-executive directors and two executive directors govern the Group. In January 2019 the number of independent non-executives increased to five with the appointment of Sally Williams.

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

Directors' biographies can be found on pages 20 and 21.

Statement of responsibilities of the Board of Directors

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

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

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

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

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

As at 31 December 2018 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 46). In accordance with the Act, the Board confirms that all activities carried out during the year by the Society and its subsidiary undertakings are believed to have been carried out within their respective powers.

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

Going concern

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

The Group's business activities, financial performance and solvency, as well as future outlook, are summarised in the Strategic report on pages 10 and 18.

Principal risks faced by the Group, including liquidity risk, are summarised in the Risk management report on pages 30 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 long-term viability as set out on page 48, the directors are confident that the Group has adequate financial resources to continue in operation as a going concern for the foreseeable future and continue to prepare the financial statements on that basis.

Principal risks and uncertainties

As a result of its normal business activities, OneFamily is exposed to a variety of risks. The Group has established a number of sub-committees and policies to successfully manage these risks. These principal risks and uncertainties are set out in the Risk management report on pages 30 to 35 and in note 1 to the financial statements.

Internal control

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

For 2018 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 514 employees during 2018 (2017: 521) at a total cost of £28.9 million (2017: £28.3 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 2018 the gender mix at management levels is:

	Male		Female	
	2018	2017	**2018**	2017
Board of Directors	**86.0%**	87.5%	**14.0%**	12.5%
Senior Managers	**66.0%**	79.0%	**34.0%**	21.0%

There is a statement on gender pay on page 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 2018 we resolved 99.5% of complaints within four weeks (2017: 99%).

Appointment of auditor

A resolution to re-appoint the external auditor to the Group will be proposed at the 2019 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. The Audit Partner is Ben Priestley, who was appointed in 2017.

Disclosure of information to auditor

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

Actuarial function

OneFamily outsources its actuarial function to Willis Towers Watson. Paul Whitlock of Willis Towers Watson was appointed as Chief Actuary to the Group on 1 January 2018. David Addison resigned and Rob Thurston was appointed as With-Profits Actuary with effect from 1 November 2018, subject to regulatory approval.

Charitable and political donations

Outside of the OneFamily Foundation, during the year the Group made charitable donations of £11,093 (2017: £4,169), primarily through matching donations raised by staff for charities of their choice. No political donations were made (2017: nil).

Directors' interests

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

Directors' insurance and indemnities

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

S. J. Allford

Simon Allford
Secretary
17 April 2019

Corporate governance report

OneFamily is committed to high standards of corporate governance and has adopted the 2016 UK Corporate Governance Code (as annotated for mutual insurers) (the Code). The Code applies to this Annual Report and Consolidated Financial Statements.

Compliance with the 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.1 on remuneration, the directors have considered the specific requirements arising from Schedule 8 for quoted companies and have presented the information that they believe is relevant considering the size and nature of the entity's business.

The table on page 47 shows the number of Board and standing sub-committee meetings held in 2018 and directors' attendance at those meetings. As a matter of principle the Society does not disclose the number of meetings and attendance by directors at non-standing Board sub-committees.

In December 2018, two non-executive directors, Peter Box and Ian Buckley, had served on the Board of Directors for nine years since the date of their first appointment. Mr Box will be resigning from the Board with effect from 5 June 2019. The Board considered both directors' independence in relation to character and judgment in light of their length of service, and concluded that there are no circumstances that prohibited either from being considered independent of the Society.

The role of the Board

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

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

The division of responsibilities between the Chairman and the Chief Executive Officer has been agreed by the Board and documented. The Vice Chairman 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. It also reviews whether directors' skills and experience continue to meet the needs of the Board. It considers whether non-executive directors continue to be independent. The Sub-Committee also reviews Board succession planning including the need to refresh membership of its sub-committees. In reviewing Board composition, the Sub-Committee will consider the benefits of all aspects of diversity 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. At the start of 2019, Sally Williams joined our Board as a non-executive director, increasing female representation.

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 their performance and development needs.

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

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

Compliance with regulatory and legal requirements

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

Board of Directors

During 2018, and up to the date of signing this Annual Report and Consolidated Financial Statements, 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 (retired 6 June 2018)
Sally Williams (appointed 1 January 2019)

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

Secretary
Simon Allford

Sub-Committees

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

Nominations Sub-Committee

Christina McComb (Chairman)
Peter Box
Ian Buckley
Steve Colsell
Graham Lindsay
Simon Markey
Sally Williams (appointed 1 January 2019)

Nigel Masters was also a member until his retirement on 6 June 2018.

The Nominations Sub-Committee comprises all non-executive directors and the Chief Executive Officer, and the Board appoints its Chairman. It may obtain such outside legal or other independent professional advice as it deems necessary. The Sub-Committee meets at least once a year and at such other times as required.

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

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

The Sub-Committee ensures that there are appropriate succession plans in place for all directors and other senior management positions, and that all directors devote sufficient time to their duties. It makes recommendations to the Board regarding membership of the Risk, Audit, Remuneration, With Profits, Member & Customer and Investment Sub-Committees. During 2018 the Sub-Committee continued to oversee implementation of succession planning including the recruitment of a successor for Peter Box, who will resign from the Board in June 2019.

Investment and Product Sub-Committee

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

The Investment and Product Sub-Committee was responsible for monitoring the Group's investment and product performance as well as assessing the effectiveness of the investment strategy in 2018.

From 1 January 2019 the Sub-Committee was reconstituted as the Investment Sub-Committee, with responsibilities for product oversight transferring to other Board and executive sub-committees. Its membership remained unchanged.

The Investment Sub-Committee's responsibilities include 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 normally meets quarterly.

The Sub-Committee agrees and regularly reviews the investment guidelines, objectives and 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.

Key areas of focus in 2018 for the Sub-Committee included an investment strategy review, a review of custodian arrangements, deposit and fund administration, and investment performance in relation to the economic and political uncertainty during 2018. The Sub-Committee also reviewed lifetime mortgage products, and in-depth product reviews of the existing books of business.

Remuneration Sub-Committee

Graham Lindsay (Chairman)
Ian Buckley
Peter Box

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

The Sub-Committee normally meets at least three times each year. Its remit includes review of remuneration policy 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 Officer) and senior management. In doing so, the Sub-Committee takes into consideration all factors which it deems necessary including relevant legal and regulatory requirements, the Financial Conduct Authority's Remuneration Code, OneFamily's culture, the UK Corporate Governance Code (as annotated for mutual insurers) and associated guidance. The Chief Executive Officer'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.

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

Key areas of consideration of the Sub-Committee during 2018 included gender pay reporting, and the auto enrolment rules for the staff pension scheme.

Details of the Directors' remuneration can be found in the remuneration report on pages 50 to 60. The Chief Risk Officer has appropriate input into the setting of the remuneration policy and remuneration decisions other than her own.

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

Risk Sub-Committee

Steve Colsell (appointed Chairman on 1 January 2018)
Peter Box
Ian Buckley
Graham Lindsay (appointed 19 July 2018)
Sally Williams (appointed 1 January 2019)

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

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

The key duties of the Sub-Committee are to:

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

The key activities of the Sub-Committee in 2018 have been focused on:

- GDPR implementation and data protection policies
- Pension scheme assets de-risking
- Group insurance cover
- Liquidity management
- Risk management capability
- The ongoing performance and further development of the ORSA process, including:
  - Review of the specification and outcomes of stress and scenario testing
  - The current and projected profile of risks over the planning period
  - Review of the methodologies and assumptions for quantifications performed as part of the ORSA process
- The continuing development of the Group's response to IT security threats
- The assessment of the impact of legislative and regulatory changes on conduct risk and policyholder outcomes
- The assessment of the impact of potential changes arising from Brexit and the mitigating actions being taken
- 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)
Ian Buckley (appointed 19 July 2018)
Steve Colsell (appointed 19 July 2018)
Graham Lindsay
Sally Williams (appointed 1 January 2019)

Nigel Masters was also a member until his retirement on 6 June 2018.

The Board is satisfied that the Chairman, Peter Box, has recent and relevant financial services experience being a former audit and business advisory partner at PricewaterhouseCoopers and given his current roles as outlined on page 20. His experience is complemented by the wide range of financial and commercial expertise of the other members of the Sub-Committee.

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

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

How the Sub-Committee discharged its responsibilities during the year

Area of responsibility	Actions undertaken by the Sub-Committee
Financial reporting	During the year the Sub-Committee: • Considered the suitability of the going concern concept and the long-term viability statement contained within the Annual Report 2018 • Reviewed and challenged the actuarial methodology and assumptions for demographic and economic assumptions proposed by the Chief Actuary for both statutory and regulatory reporting recommending them to the Board for approval • Reviewed and challenged areas where significant judgement or assumptions had been applied • Reviewed, challenged and approved (or recommended to the Board for approval) policies relating to materiality and proportionality, reporting and disclosure and non-actuarial Solvency II methodologies • Reviewed and discussed reports from the external auditors on the progress and findings of the external audit process. This included consideration of both adjusted and unadjusted audit differences

<table>
<tr><th>Area of responsibility</th><th>Actions undertaken by the Sub-Committee</th></tr>
<tr><td>Internal controls and risk management system</td><td>The internal control environment is underpinned by a robust system of governance and risk management framework. The Group operates a three lines of defence model to ensure that its operational controls remain efficient and effective, its financial reporting is reliable and that the organisation remains compliant with applicable laws and regulations.

The key activities of the Sub-Committee in the year which supported the three lines of defence model, were:
The review and challenge of the activities of the Compliance team (as second line) and Internal Audit (as third line)
The receipt, review and challenge to management in respect of a report from the external auditors detailing deficiencies in the internal control environment which were identified during their year-end audit work</td></tr>
<tr><td>Internal Audit</td><td>The Sub-Committee assessed the effectiveness of the Internal Audit team throughout the year via the review, challenge and approval (as required) of:
Quarterly reports detailing progress of the audit plan and results of internal audit activity
The internal audit charter setting out the authority and scope of the internal audit
The audit plan and internal audit budget
The Sub-Committee also met privately with the Head of Internal Audit during the year.</td></tr>
<tr><td>External Audit</td><td>See the section on External Audit below, for how the Sub-Committee discharged its responsibilities in respect of the effectiveness and reappointment of external auditors and the provision of non-audit services.

In addition, the Sub-Committee held a private meeting with the external auditor during the year.</td></tr>
<tr><td>Compliance</td><td>The Sub-Committee:
Reviewed, challenged and approved the annual compliance monitoring plan
Reviewed and challenged regular compliance reports which included an update on planned activity, compliance monitoring, compliance advice, regulatory change and financial crime</td></tr>
<tr><td>Client Assets (CASS)</td><td>The Sub-Committee:
Reviewed, challenged and approved the CASS policy and risk framework
Received regular reports in relation to client assets
Reviewed and challenged the findings of the external audit of CASS and monitored progress of the resolution of any issues identified</td></tr>
</table>

Significant issues considered by the Sub-Committee in the year

Area of focus	Audit Sub-Committee action in year	Outcome
Valuation of the long-term business provision	The Sub-Committee reviewed and challenged the methodology and assumptions proposed by the Chief Actuary for both demographic and economic assumptions with particular focus on key areas where judgement had been applied. The Sub-Committee also considered the observations from the external auditors before finalising their views.	The methodology and assumptions papers were recommended to the Board for approval.
Valuation of hedge funds defined as level three investments	The Sub-Committee reviewed and challenged a paper produced by management detailing the valuation process applied to hedge funds. The paper also provided comfort to the Sub-Committee on the impact of liquidity on the valuation versus prices obtained on redemption.	The Sub-Committee concluded that they were comfortable with the valuation methodology and controls.
Valuation of the defined benefit pension schemes	The Sub-Committee considered the assumptions used in the FRS 102 valuation of the defined benefit schemes and the observations made by the external auditors regarding industry norms for assumptions.	The Sub-Committee concluded that the assumptions used were reasonable.
Management override of controls	The Sub-Committee received regular reports regarding the operational effectiveness of controls from both the second line of defence (Compliance) and the third line (Internal Audit). In addition, the Finance department provided details of the control framework applied in the production and review of the financial statements.	The Sub-Committee was satisfied that the controls were effective throughout the period of review.

External audit

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

The Sub-Committee considered the effectiveness of the external auditor through the reporting it received from the auditors, the engagement at Sub-Committee meetings and feedback from stakeholders involved in the 2018 year-end audit process. Opportunities to enhance the effectiveness of the year-end audit process were discussed during the year with both stakeholders and the auditors and these were incorporated into the 2018 year-end process.

The Sub-Committee concluded that the external audit was effective for the 2018 year-end.

KPMG was appointed as auditor to the Group in 2015. Their maximum tenure, as set out in UK and EU legislation, before the audit is subject to retender is ten years. The maximum period for which they may serve is 20 years.

During the year the Sub-Committee considered the possible drivers for entering a tender process prior to the completion of the maximum ten-year period. It was concluded that whilst KPMG had experienced issues in its global business during the year, the Sub-Committee assessed that the quality of the audit of the Group's statutory and regulatory returns was at an acceptable level. The Sub-Committee will continue to review the position.

UK & EU legislation define OneFamily, being an insurance group, as a Public Interest Entity. As such there are detailed restrictions of non-audit services that may be provided by external auditors both by type of service and the overall value.

The Sub-Committee reviews on an annual basis the Group's policy on engaging external auditors for non-audit services. The Sub-Committee also reviews the nature of work and related fees for any non-audit work. The policy is designed to protect objectivity, independence and compliance with legislation as a public interest entity. The external auditors provided assurance services during the year in relation to Client Assets and Solvency II.

With Profits Sub-Committee

Steve Colsell (appointed Chairman on 1 January 2018)
Peter Box
Ian Buckley
Sally Williams (appointed 1 March 2019)

Nigel Masters was also a member until his retirement on 6 June 2018.

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

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

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

During 2018 the Sub-Committee focused on the run-off plans and the investment strategy review for the with-profits funds.

Member and Customer Sub-Committee

Graham Lindsay (Chairman)
Christina McComb
Simon Markey
Sally Williams (appointed 1 March 2019)
Philippa Herz – Chief Risk Officer
Guy French – Corporate and Customer Strategy Director (resigned 31 December 2018)

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

- Receive and review recommendations from the executive team in relation to the Society's membership, customer, Foundation and broader corporate responsibility plans
- Recommend to the Board, changes to the Society's membership rules
- Receive and 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

During 2018 the Sub-Committee considered the 2018 AGM member engagement and a charity partnership initiative.

From 1 January 2019 the Sub-Committee took on some responsibilities in respect of products from the Investment and Product Sub-Committee. This includes the following:

- Review and approve the Product and Proposition Framework
- Review any significant changes to existing or new products that affect membership rights

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

Governance of subsidiary companies

The Group subsidiary companies each have a board of directors comprising executive directors, with non-executive directors also appointed to the boards of start-up companies. Board meetings for OneFamily Advice were held seven times and meetings for OneFamily Lifetime Mortgages were held six times in 2018.

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 boards of start-up companies will generally include at least two non-executive directors to provide independent challenge, and a Risk Sub-Committee may be established to monitor the risks of the start-up business.

Attendance at meetings in 2018

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

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

Member relations

The Board is committed to maintaining good communications with members and developing its understanding of members' views and providing members with sufficient relevant information to enable them to understand the performance of OneFamily and its products. 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 Member & Customer Sub-Committee ensures appropriate focus on membership issues, and its remit includes considering arrangements for canvassing members' views. Details of the Group's member relations strategy are available at www.onefamily.com or from the Company Secretary.

Our role as an institutional investor

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

	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	8 (8)	3 (3)	5 (5)					4 (4)
Ian Buckley[1]	8 (8)	3 (3)	5 (5)	4 (4)	4 (4)	2 (2)	3 (3)	
Nigel Masters[2]	4 (4)	1 (1)			2 (2)	4 (4)	1 (1)	
Peter Box	8 (8)	3 (3)		4 (4)	4 (4)	6 (6)	3 (3)	
Steve Colsell[1]	8 (8)	3 (3)	4 (5)		4 (4)	2 (2)	3 (3)	
Graham Lindsay[3]	8 (8)	3 (3)		4 (4)	2 (2)	6 (6)		4 (4)
Simon Markey	7 (8)	3 (3)	5 (5)					4 (4)
Teddy Nyahasha	8 (8)		4 (5)					

1 Ian Buckley and Steve Colsell were appointed to the Audit Sub-Committee on 19 July 2018
2 Nigel Masters retired from the Board on 6 June 2018
3 Graham Lindsay was appointed to the Risk Sub-Committee on 19 July 2018

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 and Edentree Investment Management. We are not involved with undertaking stewardship activity on a day-to-day basis and so do not have direct engagement with companies held within the portfolios managed by these third parties. We monitor the stewardship activities of our investment managers through regular meetings and reporting.

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

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 2023. A five-year period is appropriate for this viability assessment because the Group's internal strategic planning process also covers this time frame. Our business model and strategy are integral to understanding the Group's future prospects.

OneFamily adopts a prudent approach to strategy, with a focus on delivering value to our members 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 2019-2023 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 31 to 34 and its long-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 2023.

Christina McComb OBE
Chairman
17 April 2018

Directors' remuneration report

Annual statement from the Remuneration Sub-Committee Chairman

On behalf of the Board, I am delighted to present the Directors' remuneration report for the year ending 31 December 2018.

Our Directors' remuneration report aims to illustrate the correlation between OneFamily's culture, strategic direction, and how the business performance links to the remuneration outcomes of the executive directors and all employees. We aim to have remuneration arrangements that are straightforward to explain and understand. Ultimately, we want all our members to understand and see clear evidence of our objectives which are driving the best outcomes for OneFamily and our members.

Structure of the remuneration report

In producing the report, we have applied the requirements of the 2016 UK Corporate Governance Code (as annotated for mutual insurers) (the 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 these regulations, however we have chosen to do so as we believe greater levels of disclosure and transparency will help members to better understand how our reward strategy supports their interests and the Society's overall business objectives. The report for the year ending 31 December 2018 has been separated into two sections:

- The Directors' Remuneration Policy
- The Annual Report on Remuneration which reflects the amounts paid to company directors under the remuneration policy approved

Context of the Remuneration Sub-Committee's decisions in 2018

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

The Sub-Committee strives to ensure that variable remuneration is directly correlated to performance and achievement of agreed outcomes, whilst at the same time ensuring that fixed remuneration for executive directors and non-executive directors is a fair reward for the role they fulfil. In linking variable remuneration to performance, we need to ensure that performance measures do not encourage inappropriate risk taking and behaviours.

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

The Remuneration Sub-Committee's major decisions in 2018

The Sub-Committee has considered performance against agreed metrics in line with the remuneration policy and, after having considered reports from the Chairs of the Risk and Audit Sub-Committees, has agreed variable pay (bonus) budgets and recommendations for bonus to be paid based on 2018 business performance.

Conclusion

Looking ahead, during 2019 OneFamily will be implementing the 2018 UK Corporate Governance Code, to ensure we maintain remuneration best practice and the Sub-Committee will oversee any revisions to our remuneration policy and practice. One of our key areas of focus for 2019 is to ensure all salaries are at or above the Voluntary Living Wage.

The Sub-Committee has operated within the directors' remuneration policy agreed for 2018. 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 for our members.

Graham Lindsay
Chairman of the Remuneration Sub-Committee
17 April 2019

Directors' remuneration policy

Remuneration policy

OneFamily's purpose is to create and protect value for our members. Our remuneration policy reflects our purpose, culture and strategy and is formally set by the Board, overseen by the Remuneration Sub-Committee and complies with the requirements of the 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 employees with the relevant skills to help achieve the Group's objectives and to ensure that employees are appropriately rewarded for enhancing the level of service that we provide to our customers and members. It is also designed to achieve a direct correlation between reward and performance whilst not encouraging undue risk taking or inappropriate behaviours. The Sub-Committee has full overview of our remuneration policies and practice and can apply appropriate discretion where any risk, performance or behaviour are contrary to our policies.

OneFamily believes it is important that its mutual status is reflected in its remuneration policy. Variable remuneration schemes (both short and long-term incentives) are designed to be clear, measurable and aligned to our members' interests by rewarding performance against key criteria that are important to our members, for example customer service, product performance, risk factors 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 on-going contribution to the role.	Base salaries reflect individuals' skills and experience and are reviewed annually in the context of annual performance assessment. They are determined by the scope and responsibilities of each role, individual performance and by reference to appropriate market rates obtained from external sources. This is the only element of remuneration which is pensionable.	Base salary increases are assessed annually, along with other employees, with reference to market rates and consideration of affordability. Higher increases may be awarded, for example, for an increase in scope or responsibilities.

Element	Purpose	Operation	Potential value
Benefits	To provide a range of market competitive benefits that are valued.	Includes private medical insurance and life cover.	Benefits are provided in line with the market.
Pensions	To encourage planning for retirement and long-term savings.	Eligible to participate in the defined contribution pension plan. Where contributions exceed the annual or lifetime allowance, executive directors may be permitted to take a cash alternative in place of contributions.	Pension contributions in line with pension scheme rules or cash supplement for executive directors.
Short-term incentive scheme	To drive and reward performance against annual financial, non-financial and individual objectives which are consistent with the business strategy and align to members interests.	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 in which the award is made. The remaining 50% of any long-term incentive earned will be deferred and is payable in two equal parts on the first and second anniversary of the initial payment. Long-term incentive awards are subject to malus and clawback provisions. Malus provisions will apply to an unvested award and clawback provisions will apply to the vested amount for three years following the vesting of such awards.	The potential maximum award for current directors is: Chief Executive – 100% of base salary. Chief Finance Officer – 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 and is subject to malus and clawback conditions.

Other policy elements

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

Element	Potential value
Leavers	The Remuneration Sub-Committee has the discretion to determine an appropriate short or long-term incentive award taking into consideration the circumstances in which an executive director leaves. No award will be made unless the executive director is determined to be a 'good leaver'. For a 'good leaver' the Remuneration Sub-Committee has the discretion to make awards on such basis as it deems appropriate (this could include pro-rating for time and performance). Awards will vest at the usual date subject to the usual deferral periods.
Good leaver	A good leaver for the purposes of the variable pay will be any executive director who leaves employment for reasons of: death, redundancy, disability or ill-health, retirement or any other reason the Remuneration Sub-Committee so decides.
Legacy arrangements	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 are set out in the annual report on remuneration.
Expenses	To provide a level of expenses in line with market practice.	Reimbursement of reasonable out-of-pocket expenses.	The terms and reimbursement of travel and other expenses is aligned with the 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. They 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 2019

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

Total remuneration for each director

The remuneration of the directors of OneFamily for the year ending 31 December 2018 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[1]		Total Remuneration	
	2018 £'000	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000	**2018 £'000**	2017 £'000
Executives										
Simon Markey	460	460	310	323	416	422	117	63	1,303	1,268
Teddy Nyahasha[2]	250	240	154	106	93	–	40	23	537	369
Non-executives										
Christina McComb	112	105	–	–	–	–	–	–	112	105
Peter Box	57	55	–	–	–	–	–	–	57	55
Ian Buckley	65	65	–	–	–	–	–	–	65	65
Nigel Masters resigned 06.06.2018	22	55	–	–	–	–	–	–	22	55
Steve Colsell	57	45	–	–	–	–	–	–	57	45
Graham Lindsay	59	45	–	–	–	–	–	–	59	45
	1,082	**1,070**	**464**	**429**	**509**	**422**	**157**	**86**	**2,212**	**2,007**

1. Other benefits include for example private medical insurance paid for by the company, taxable expenses and the associated tax due on these taxable expenses claimed (taxable expenses include for example travel between offices).

2. Teddy Nyahasha joined in July 2016. His Long-Term Incentive Scheme award in 2018 reflects amounts due under the 2016-2018 scheme, taking into account his start date.

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. Also included are taxable expenses, for example travel between offices and the associated taxation.

Incentive schemes

Short-term incentive scheme

	Value of deferred bonus as at 31 Dec 2017 £'000	Bonus paid during 2018 £'000	Bonus vested in 2018 to be paid 2019 £'000	Bonus vested in 2018 but payment deferred to 2020/2021 £'000	Value of deferred bonus at 31 Dec 2018 £'000
Simon Markey Performance period					
2015	76	(76)	–	–	–
2016	151	(76)	–	–	75
2017	323	(194)	–	–	129
2018	–	–	186	124	310
	550	(346)	186	124	514
Teddy Nyahasha Performance period					
2016	19	(10)	–	–	9
2017	106	(64)	–	–	42
2018	–	–	92	62	154
	125	(74)	92	62	205
Total	**675**	**(420)**	**278**	**186**	**719**

Long-term incentive scheme

	Value of deferred bonus as at 31 Dec 2017 £'000	Bonus paid during 2018 £'000	Bonus vested in 2018 to be paid 2019 £'000	Bonus vested in 2018 but payment deferred to 2020/2021 £'000	Value of deferred bonus at 31 Dec 2018 £'000
Simon Markey Performance period					
2013-2015	88	(88)	–	–	–
2014-2016	193	(96)	–	–	97
2015-2017	422	(211)	–	–	211
2016-2018	–	–	208	208	416
	703	(395)	208	208	724
Teddy Nyahasha Performance period					
2016-2018	–	–	46	47	93
	–	–	46	47	93
Total	**703**	**(395)**	**254**	**255**	**817**

Total bonuses vested in the year	2018 £'000	2017 £'000
Simon Markey		
Long-term incentive	416	386
Short-term incentive	310	378
	726	764
Teddy Nyahasha		
Long-term incentive	93	–
Short-term incentive	154	48
	247	48
Total executive directors bonuses vested in year	**973**	**812**

Substantial changes to directors' remuneration during 2018

There were no substantial changes to directors' remuneration during 2018.

Payments to past directors

No payments have been made to past directors in 2018 other than:

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

Employee expenditure of relative importance

Employee costs form a significant element of Group expenditure, representing 39% of the net operating expenses.

Relative importance of spend on pay	2018 (£m)	2017 (£m)	Change (%)
Net operating expenses	74.9	68.0	10.1
Overall staff costs	28.9	28.3	2.1

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.

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

Non-executive director fees structure

	2018* £'000	2017 £'000
Chairman	115	105
Base fee	48	45
Vice chair	60	60
Audit Sub-Committee chairman	10	10
Risk Sub-Committee chairman	10	10
Remuneration Sub-Committee chairman	10	5
Investment & Product Sub-Committee chairman	5	–
Member & Customer Sub-Committee chairman	5	–
With Profits Sub-Committee chairman	2.5	–

* The new fee structure was effective from 1 April 2018.

Remuneration Sub-Committee members and advisers

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

Graham Lindsay
Chairman of Remuneration Sub-Committee
17 April 2019

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 2018 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 2018 and of the income and expenditure of the Group and of the Society for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland;* and
- have been properly prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Basis for opinion

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

We were first appointed as auditor by the directors on 25 May 2015. The period of total uninterrupted engagement is for the four financial years ended 31 December 2018.

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

Overview		
Materiality: Group financial statements as a whole		£6.0m (2017:£8.0m) 3.1% (2017: 3.9%) of retained earnings and funds for future appropriations
Coverage		100% (2017: 100%) of Group profit before tax
Key Audit Matters		**vs 2017**
Recurring risks	Valuation of long term business provision	◀▶
New significant risk	Valuation of hedge fund investments	New Risk
New event driven risk	The impact of uncertainties due to the UK exiting the European Union on our audit.	New Risk

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters 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
The impact of uncertainties due to the UK exiting the European Union on our audit *New event driven risk* *Refer to page 30 (Risk Management Report), page 4 (Chairman's review) and page 11 (Strategic report)*	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in the valuation of the long term business provision and the valuation of the hedge fund investments, below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. This key audit matter, along with our corresponding response and findings, applies to both the Group and Society financial statements.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: — **Our Brexit knowledge:** We considered the directors' assessment of Brexit-related sources of risk for the Group's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks. — **Assessing transparency:** As well as assessing individual disclosures as part of our procedures over the valuation of the long term business provision and the valuation of the hedge fund investments we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** — As reported in the valuation of the long term business provision and the valuation of the hedge fund investments, we found the resulting estimates, related disclosures of sensitivity and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Group and this is particularly the case in relation to Brexit.

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

	The risk	Our response
Valuation of long term business provision (£262 million; 2017: £270 million) *Refer to page 45 (Audit Committee Report), page 82 (accounting policy) and page 116 (financial disclosures)*	**Subjective valuation:** The Group has significant liabilities for long term insurance business representing 16.3% of the Group's total liabilities based on 31 December 2018 results. The actuarial liabilities are highly sensitive to the underlying assumptions set by management. The assumption setting process is an inherently judgemental area due to uncertainty around the ultimate total settlement value of long term policyholder liabilities. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of long term business provision has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. Key assumptions include: • Demographic assumptions which are determined by reference to the Group's own experience and expected changes to future mortality or policyholder behaviour; • Valuation interest rates which are determined using the 'risk free' gilt yields, expected inflation, the credit default allowance, and the 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. 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 management's valuation processes. This included the change management controls over the actuarial models. — **Evaluation of key assumptions:** — Challenged the Group's rationale for the assumptions made when deriving the FRS 102 assumptions by comparing to wider industry practice and our own expectations derived from market experience; — Evaluated the appropriateness of the valuation interest rates by comparing key inputs such as the 'risk free' gilt yield and implied inflation rate to externally sourced data. We have checked that the valuation interest rates have been derived in line with management's methodology. We have also assessed whether the allowance for credit default risk is reasonable given market benchmarks; — 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, funds and different cost types; and — **Methodology choice:** Challenged management's process for selecting the assumptions and for calculating the long term business provision. This includes evaluating the analysis of the movements in the long term business provision during the year, and assessing whether the movements were in line with the methodology and assumptions adopted. — **Assessing transparency:** Considered whether the Group's disclosures in relation to the assumptions used in the valuation of the long term business provision are compliant with the relevant accounting requirements and appropriately represent the sensitivities of these assumptions to alternative scenarios and inputs. — **Our results:** We found the valuation of long term business provision to be acceptable (2017: acceptable).

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

	The risk	Our response
Valuation of hard to value (level 3) investments (£73.8 million; 2017: £108.7 million) *Refer to page 45 (Audit Committee Report), page 78 (accounting policy) and page 113 (financial disclosures).*	**Subjective valuation:** Within the Group's hard to value (level 3) investment portfolio are £64.6 million (2017: £94.2 million) of hedge fund assets, the valuation of which requires significant management judgement due to a lack of availability of quoted prices and limited liquidity in these assets. Therefore the application of expert judgement in the valuations adopted is required. Holdings in these assets represented 4.6% (2017: 5.8%) of the total financial investments at 31 December 2018. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of hedge fund investments has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. This key audit matter, along with our corresponding response and findings, applies to both the Group and Society financial statements.	Our procedures included: — **Methodology choice:** We assessed the appropriateness of the pricing methodologies with reference to relevant accounting standards as well as industry practice. — **Evaluation of key assumptions:** — We obtained the most recent Net Asset Value (NAV) statements produced by the underlying investment manager and agreed these to the fair value reported in the financial statements. We challenged any adjustments made to the NAV statement valuations. — We obtained the most recent audited hedge fund financial statements and performed a retrospective test over the NAV valuations for each fund to assess whether the fund valuations reported in the NAV valuation statements were materially consistent with audited financial statements available at the time. **Our results** We found the valuation of hedge fund investments to be acceptable (2017: acceptable).

We continue to perform procedures over the carrying value of the present value of in force business (PVIF) intangible asset. However, following the decrease in the inherent risk associated with this asset as the value continues to run off within the boundaries established, we have not assessed this as one of the most significant risks in our current year audit and, therefore, it is not separately identified in our report this year.

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

Materiality for the Group financial statements as a whole was set at £6.0m (2017: £8.0m), determined with reference to a benchmark of retained earnings and Funds for Future Appropriations ("FFA") (of which it represents 3.1% (2017: 3.9%)).

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 £5.9m (2017: £8.0m), determined with reference to a benchmark of retained earnings and FFA, of which it represents 3.0% (2017: 3.9%).

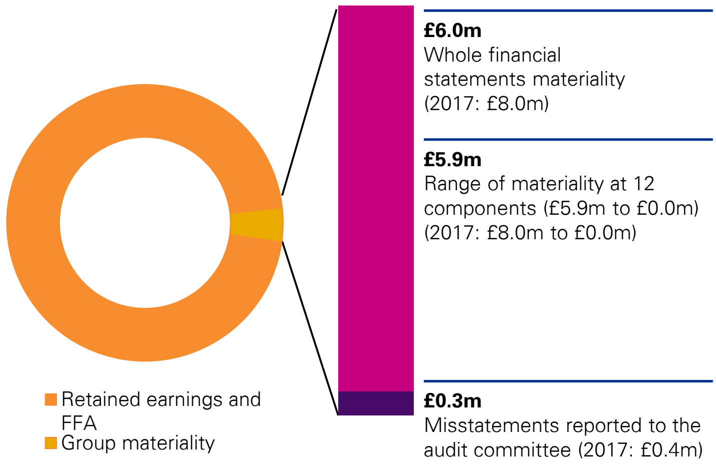
We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.3m (2017: £0.4m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 12 (2017: 12) reporting components, we subjected 12 (2017: 12) to full scope audits for Group purposes. Audits of the components were performed by the Group audit team.

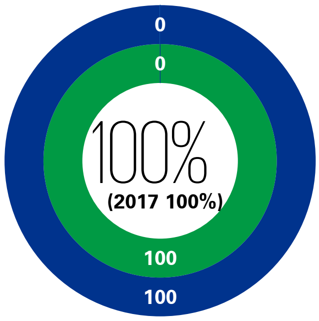
The components within the scope of our work accounted for the percentages illustrated opposite.

Retained earnings and FFA
£194.1m (2017: £204.2m)

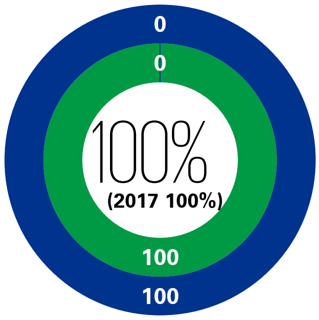
Group materiality
£6.0m (2017: £8.0m)



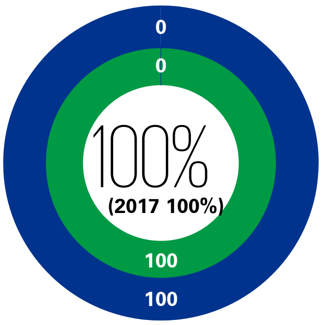
Group Premiums



Group profit before tax



Group total assets



Full scope for Group audit purposes 2018
Full scope for Group audit purposes 2017

4. We have nothing to report on going concern

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

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

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

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

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

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

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

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

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

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

Report of the Directors

Based solely on our work on the other information:

- we have not identified material misstatements in the 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: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

Irregularities – ability to detect

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

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

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

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

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

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

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

17 April 2019

onefamily
modern family finance

Annual Report and Consolidated Financial Statements 2018

Group and Society statement of income and expenditure accounts
for the year ended 31 December 2018

Technical account **Long-term business**	Notes	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Earned premiums, net of reinsurance					
Gross premiums written	3	**39,470**	38,464	**39,470**	38,464
Outward reinsurance premiums	3	**(11,291)**	(10,900)	**(11,291)**	(10,900)
Investment income	4	**106,260**	81,475	**111,017**	86,214
Unrealised (losses)/gains on investments	4	**(196,201)**	63,676	**(196,201)**	63,676
Other technical income	11	**8,527**	8,584	**10,557**	16,182
Claims incurred, net of reinsurance					
Gross claims incurred	5	**(37,336)**	(36,331)	**(37,336)**	(36,331)
Outward claims reinsurance	5	**11,623**	9,831	**11,623**	9,831
Change in long-term business provision, net of reinsurance	20	**10,314**	(451)	**10,314**	(451)
Change in gross liability for investment contracts	21	**93,992**	(115,591)	**93,992**	(115,591)
Other technical charges		**(6,594)**	(8,032)	**(6,594)**	(8,032)
Goodwill and intangibles amortisation	14, 20	**(3,351)**	(4,453)	**(3,351)**	(4,453)
Net operating expenses	7	**(31,168)**	(27,063)	**(31,168)**	(27,063)
Investment expenses and charges	4	**(1,992)**	(3,280)	**(1,992)**	(3,280)
Taxation credit	13	**2,025**	1,370	**2,025**	1,370
Transfer from/(to) the fund for future appropriations		**10,407**	(3,421)	**10,407**	(3,421)
Balance on the long-term business technical account		**(5,315)**	(6,122)	**1,472**	6,215

The notes to the financial statements on pages 87 to 130 are an integral part of these financial statements.

Group and Society statement of income and expenditure accounts (continued) for the year ended 31 December 2018

Non-technical account	Notes	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Balance on the long-term business technical account		**(5,315)**	(6,122)	**1,472**	6,215
Other income	12	**51,614**	53,289	**–**	–
Net operating expenses	7	**(43,684)**	(40,971)	**–**	–
Goodwill and intangibles amortisation	14	**(1,533)**	(624)	**–**	–
Excess of income over expenditure on ordinary activities before tax		**1,082**	5,572	**1,472**	6,215
Tax on excess of income over expenditure on ordinary activities	13	**(883)**	(558)	**–**	–
Excess of income over expenditure after tax		**199**	5,014	**1,472**	6,215

The notes to the financial statements on pages 87 to 130 are an integral part of these financial statements.

Group and Society statement of other comprehensive income
for the year ended 31 December 2018

	Notes	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Excess of income over expenditure after tax		**199**	5,014	**1,472**	6,215
Remeasurement of defined benefit scheme, net of tax	26	**100**	(2,511)	**200**	(2,000)
Total recognised profit in the year	26	**299**	2,503	**1,672**	4,215

Group and Society statement of changes in equity
for the year ended 31 December 2018

Retained earnings	Notes	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Reported at 1 January		**160,630**	158,127	**162,906**	158,691
Total recognised profit in the year		**299**	2,503	**1,672**	4,215
As at 31 December		**160,929**	160,630	**164,578**	162,906

The notes to the financial statements on pages 87 to 130 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2018

Assets	Notes	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Intangible assets					
Goodwill	14	**1,975**	2,261	**717**	831
Other intangible assets	14	**8,619**	9,767	**596**	5,220
Investments					
Investment in land and buildings	15	**9,806**	5,457	**9,806**	5,457
Investment in group undertakings	16	**–**	–	**24,266**	19,508
Non-linked financial investments	17	**254,566**	268,344	**254,566**	268,344
Assets held to cover linked liabilities	17	**1,154,219**	1,360,712	**1,154,219**	1,360,712
Debtors	17, 18	**13,216**	12,938	**17,610**	16,324
Reinsurers' share of technical provisions					
Long-term business provision	20	**101,783**	96,828	**101,783**	96,828
Other assets					
Tangible assets	19	**793**	1,137	**644**	878
Cash at bank	17	**60,309**	68,414	**42,868**	53,667
Deferred taxation	13	**320**	774	**–**	–
Prepayments and accrued income					
Accrued interest and rent		**2,807**	2,667	**1,134**	1,254
Other prepayments and accrued income		**1,659**	1,088	**1,659**	1,088
Total assets		**1,610,072**	1,830,387	**1,609,868**	1,830,111
Net pension asset	26	**–**	–	**–**	–
Total assets including the pension asset		**1,610,072**	1,830,387	**1,609,868**	1,830,111

The notes to the financial statements on pages 87 to 130 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2018

Liabilities	Notes	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Retained earnings	25	**160,929**	160,630	**164,578**	162,906
Fund for future appropriations (FFA)	24	**33,174**	43,581	**33,174**	43,581
Technical provisions					
Long-term business provision	20	**221,723**	224,117	**221,723**	224,117
Claims outstanding	20	**5,623**	6,158	**5,623**	6,158
Technical provision for linked liabilities	21	**1,154,219**	1,359,043	**1,154,219**	1,359,043
Deposits from reinsurers		**7,284**	8,174	**7,284**	8,174
Creditors					
Creditors arising out of insurance operations	22	**3,106**	1,173	**3,106**	1,173
Other creditors including taxation and social security	23	**7,089**	8,697	**7,191**	9,681
Accruals and deferred income		**16,925**	18,814	**12,970**	15,278
Total liabilities		**1,610,072**	1,830,387	**1,609,868**	1,830,111

The notes to the financial statements on pages 87 to 130 are an integral part of these financial statements.

The financial statements were approved at a meeting of the Board of Directors on 17 April 2019 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 they apply to the financial statements of the Group for the year ended 31 December 2018.

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 date of change of control.

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

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

F. Discontinued operations

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

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

G. Classification of contracts

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

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

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

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

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

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

A number of contracts issued by the Group contain a discretionary participation feature (DPF). Such features entitle the contract holder to receive, as a supplement to guaranteed benefits, a minimum percentage of the surplus arising in designated funds, 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
In certain cases directly attributable costs of acquiring new insurance contracts are deferred. Such costs are disclosed as an asset in the statement of financial position. The deferred acquisition costs are amortised in line with the expected life of the policies.

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

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

Amounts recoverable from reinsurers are estimated based upon the related gross insurance provisions, having due regard for collectability. The recoverability of reinsurance assets is assessed having regard to market data on the financial strength of each of the reinsurance companies. The reinsurers' share of claims incurred; disclosed in Note 5, reflects the amounts received and receivable from reinsurers in respect of claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised in the Technical Account – Long-term business when payable, 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 plus attributable transaction costs. Basic financial liabilities including trade and other creditors are recognised initially at transaction price less attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses (for financial assets). At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is calculated as the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in income and expenditure accounts.

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

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

Financial assets held at fair value through income and expenditure

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

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

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

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

Recognition and de-recognition of financial instruments

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Loans and receivables, comprising 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 are used for hedge accounting.

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

K. Non-technical account

Revenue is recognised as follows:

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

Origination and service income in relation to Lifetime Mortgages is recognised as services are provided. Origination fees, 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 annually at the statement of financial position date for factors which indicate impairment 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 only if there is an indication of impairment.

M. Tangible assets

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

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

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

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

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

Land and buildings

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

Investment properties

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

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

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

N. Impairment of non-financial assets

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

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

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

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

O. Valuation of insurance liabilities

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

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

P. Linked investment contracts

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

Q. Taxation

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

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

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

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.

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

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

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

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

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

iii. Annual bonus plan

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

iv. Short-term incentive scheme

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

v. Long-term incentive scheme

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

T. Foreign currency

i. Functional and presentation currency

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

ii. Transactions and balances

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

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

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

U. Operating leases

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

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

V. Cash flow statement

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

W. Retained earnings and fund for future appropriations

Under FRS 102 the Group 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 the Fund for future appropriations (FFA). This balance represents all with-profits surpluses, the allocation of which to individual policies has not yet been determined by the end of the financial year.

X. Contingent reinsurance financing

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

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

Y. Related party transactions

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

Notes to the financial statements

for the year ended 31 December 2018

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 ongoing basis. The Group does not have significant credit risk relating to amounts due from contract holders since policy benefits are directly related to the payment of outstanding premiums.

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

Credit risk	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Non-linked financial investments subject to credit risk	**169,016**	198,791	**169,016**	198,791
Debtors	**13,216**	12,938	**17,610**	16,324
Cash at bank	**60,309**	68,414	**42,868**	53,667
Reinsurers share of technical provisions	**101,783**	96,828	**101,783**	96,828
Total assets bearing credit risk	**344,324**	376,971	**331,277**	365,610
Debt and other assets rated as:				
UK government	**129,570**	154,978	**129,570**	154,978
A rated and above	**188,441**	195,382	**165,251**	174,733
B rated – BBB	**18,999**	18,178	**18,999**	18,178
Not rated	**7,314**	8,433	**17,457**	17,721
Total assets bearing credit risk	**344,324**	376,971	**331,277**	365,610

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.

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

d. Liquidity risk

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

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

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 2018					
Long-term business					
Non-profit fund	**82,679**	**4,003**	**17,451**	**39,222**	**22,003**
With-profits fund 1	**49,286**	**4,317**	**17,474**	**26,650**	**845**
With-profits fund 2	**35,374**	**3,050**	**11,068**	**18,888**	**2,368**
Total	**167,339**	**11,370**	**45,993**	**84,760**	**25,216**
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

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 £1,154,219k (2017: £1,359,043k) 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 leads to a reduction in this asset and therefore an increase to aggregate reserves.

1. Management of financial and insurance risk (continued)

f. Expense risk

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

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

g. Mortality and longevity risk

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

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

h. Unit-linked investment contracts

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

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

i. Capital management

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

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

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

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

1. Management of financial and insurance risk (continued)

The Society's objectives in managing capital are that:

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

The Society has not breached its Solvency II capital requirement at any point in 2018.

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

Movement of capital resources

The Own Funds (capital resources) of the Society have decreased by £13,572k (2017: increase of £4,323k). The key contributors to this movement are outlined in the table below:

	Increase/ (decrease) in Own Funds 2018 £'000	Increase/ (decrease) in Own Funds 2017 £'000
New business	**(1,461)**	2,465
Impact from with-profits funds	**(7,595)**	–
Non maintenance expenses and miscellaneous other	**(9,006)**	(21,991)
Investment return on opening Own Funds	**(2,144)**	2,408
Expected run-off of risk margin	**3,242**	3,183
Experience on in-force insurance and investment contracts	**(5,240)**	11,401
Profits from subsidiaries	**8,632**	12,050
Change in presentation of pension scheme	**–**	(5,193)
Total (decrease)/increase in Own Funds	**(13,572)**	4,323

1. Management of financial and insurance risk (continued)

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).

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

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	–	–	–	–	–	(5,880)	5,880	683	(683)
With-profits fund 1	–	–	–	–	–	(343)	343	3,988	(3,988)
With-profits fund 2	–	–	–	–	–	(640)	640	2,163	(2,163)
Change in asset valuations	**–**	**–**	**–**	**–**	**–**	**(6,863)**	**6,863**	**6,834**	**(6,834)**
Impact on retained earnings and the FFA									
Retained earnings (non-profit fund)	**(87)**	**(1,918)**	**638**	**(2,441)**	**2,384**	**(268)**	**(412)**	**683**	**(683)**
FFA (with-profits funds)	**93**	**(99)**	**–**	**(252)**	**238**	**(11)**	**(169)**	**6,177**	**(6,183)**

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 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 2018.

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

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

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 Group determines the net interest expense or income on the net defined benefit liability or asset for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability or asset taking account of changes arising as a result of contributions and benefit payments.

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

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

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

2. Critical accounting estimates and judgements (continued)

Classification of long-term contracts

The Group has exercised 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.

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.

Non-consolidation of Unit Trusts

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

3. Premium analysis

Group and Society	**2018** **£'000**	2017 £'000
Gross premiums written	**39,470**	38,464
Less: reinsurers' share	**(11,291)**	(10,900)
Net earned premiums – insurance business	**28,179**	27,564

Long-term business only includes premiums in respect of insurance business. Consideration received in respect of investment contracts of £20,661k (2017: £23,056k) is treated as customer deposits and taken directly to the statement of financial position (see Note 21).

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

4. Investment income

	Group 2018 £'000	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Income from other investments	**36,396**	39,163	**41,165**	43,915
Interest income	**1,525**	1,558	**1,513**	1,545
Realised gains on investments	**68,339**	40,754	**68,339**	40,754
Total investment income	**106,260**	81,475	**111,017**	86,214
Unrealised (losses)/gains on investments	**(196,201)**	63,676	**(196,201)**	63,676
Investment management expenses	**(1,992)**	(3,280)	**(1,992)**	(3,280)
Total net investment return	**(91,933)**	141,871	**(87,176)**	146,610

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

5. Claims incurred, net of reinsurance

Group and Society	**2018 £'000**	2017 £'000
Gross claims paid	**37,871**	38,077
Change in provision for claims outstanding at year-end	**(535)**	(1,746)
Gross claims incurred	**37,336**	36,331
Outward claims reinsurance	**(11,623)**	(9,831)
Total claims incurred, net of reinsurance	**25,713**	26,500

Policies defined as investment rather than insurance contracts are accounted for on a deposit basis. The claims analysis above excludes £131,493k (2017: £128,126k) of payments made in relation to investment contracts (see Note 21).

6. Bonuses

The value of terminal bonuses paid to with-profit policyholders in the year was £4,151k (2017: £3,853k).

7. Net operating expenses

Technical account – long-term business	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Acquisition costs	**9,817**	8,685	**9,817**	8,685
Change in deferred acquisition costs	**–**	19	**–**	19
Administrative expenses (including auditor's remuneration)	**21,351**	18,359	**21,351**	18,359
Net operating expenses	**31,168**	27,063	**31,168**	27,063
Non-technical account				
Acquisition costs	**9,583**	9,028	**–**	–
Administrative expenses	**34,101**	31,943	**–**	–
Net operating expenses	**43,684**	40,971	**–**	–
Total net operating expenses	**74,852**	68,034	**31,168**	27,063

Acquisition costs relate to business written in the Society and its subsidiaries, including ISAs and CTFs which are not recognised within these Financial Statements.

Total commission paid by the Group on new business was £7,675k (2017: £8,020k).

8. Auditor's remuneration

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

Audit services	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
Fees payable to the Society's auditor for the audit of the annual accounts	297	295	297	295
Audit of the accounts of subsidiaries	80	78	–	–
Audit-related assurance services	107	275	–	175
Other assurance services	199	–	199	–
Total	**683**	648	**496**	470

Excluded from the numbers above is £32k (2017 £28k) incurred in connection with audits of the unit trusts and open ended investment company managed by a subsidiary company and £75k (2017 £75k) in relation to out of pocket expenses.

9. Operating lease rentals

Group and Society	2018 £'000	2017 £'000
Operating lease amounts payable:		
– less than one year	384	341
– between one and five years	311	399
Total	**695**	740
Payments made under operating leases (recognised as an expense)		
Hire of fixtures and fittings – rental under operating leases	203	239
Hire of other assets – rental under operating leases	–	2
Rental expenses in the year	235	223
Total	**438**	464

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

10. Staff costs

Group and Society	**2018 £'000**	2017 £'000
Wages and salaries	**24,627**	24,193
Social security costs	**2,692**	2,597
Defined contribution pension costs	**1,625**	1,475
Total staff costs	**28,944**	28,265

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	**2018 FTE**	2017 FTE
Administration	**438**	444
Management	**41**	41
Marketing	**35**	36
Total number of staff	**514**	521

All staff are employed and remunerated by Family Assurance Friendly Society Limited (FAFSL). The directors have been wholly remunerated by FAFSL for their services to the Society and other group undertakings. During 2018 the total remuneration paid to the directors was £2,212k (2017: £2,007k) and the total remuneration paid to the highest paid director was £1,303k (2017: £1,268k).

Key management compensation

Compensation to key management personnel (including executive directors) in the year was £3,914k (2017: £3,506k).

11. Other technical income, net of reinsurance

	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
Annual management rebates	**829**	753	**829**	753
Mortgage interest receivable	**45**	67	**45**	67
Reassurance financing advance	**6,398**	7,764	**6,398**	7,764
Other	**1,255**	–	**3,285**	7,598
Total other technical income	**8,527**	8,584	**10,557**	16,182

Other technical income 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, and other administration charges.

12. Other income

	Group 2018 £'000	Group 2017 £'000
Annual management charges	**44,171**	43,733
Lifetime mortgage income	**3,450**	5,696
Other operating income	**3,993**	3,860
Total other income	**51,614**	53,289

13. Taxation

Analysis of the tax charge for the year is:

The tax credit for the Group is £1,142k (2017: tax credit £812k).

The applicable UK corporation tax rate is 19% (2017: 19.25%).

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

The Group primarily writes tax exempt business, with a small proportion of taxable business. The UK rate of income tax applicable to this taxable business is 20% (2017: 20%).

Tax (credit)/charge	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Technical account	**(2,025)**	(1,370)	**(2,025)**	(1,370)
Non-technical account	**883**	558	**–**	–
Total tax credit	**(1,142)**	(812)	**(2,025)**	(1,370)
Analysed as follows:				
Corporation tax				
Tax credit	**(1,596)**	(1,442)	**(2,025)**	(1,370)
Deferred tax				
Timing differences, origination and reversal	**454**	630	**–**	–
Total tax credit	**(1,142)**	(812)	**(2,025)**	(1,370)

Deferred tax expected to reverse in the year ending 31 December 2019 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 2019 has been re-measured at the rate expected to apply at the point of reversal.

At 31 December 2018, the Group did not hold any provisions for uncertain tax positions.

13. Taxation (continued)

Reconciliation of current year tax charge	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Excess of income over expenditure	**(943)**	4,202	**(553)**	4,844
Result for year	**(943)**	4,202	**(553)**	4,844
Tax on result (2018: 19%, 2017: 19.25%)	**(179)**	809	**(105)**	932
Factors affecting tax charge:				
Accounting result not subject to policyholder tax	**179**	(809)	**105**	(932)
Items taxed on a different basis	**(1,528)**	(1,488)	**(2,025)**	(1,370)
Items disallowable in tax computation	**1**	98	**–**	–
Timing differences	**(13)**	(6)	**–**	–
Utilisation of unrecognised losses	**(56)**	(46)	**–**	–
Losses utilised during the year	**454**	630	**–**	–
Current corporation and income tax credit for the year	**(1,142)**	(812)	**(2,025)**	(1,370)

Analysis of deferred tax asset	**Group 2018 £'000**	Group 2017 £'000	**Society 2018 £'000**	Society 2017 £'000
Losses recognised	**320**	774	**–**	–
Total recognised deferred tax asset	**320**	774	**–**	–
Unrecognised deferred tax assets	**9,993**	11,754	**8,868**	7,590
Total	**10,313**	12,528	**8,868**	7,590

The deferred tax asset includes £320k (2017: £407k) of deferred tax that is forecast to be fully utilised in the next financial period. All deferred tax relates to prior year losses.

The Group has an unrecognised deferred tax asset of £9,993k, with £1,125k of the deferred tax asset being in relation to the subsidiary companies and the remaining £8,868k relating to the Society.

The Society has an unrecognised deferred tax asset of £8,868k at 31 December 2018, which has increased by £1,278k in the period. It is considered unlikely that the remaining net deferred tax asset will be used and therefore it continues not to be recognised. The unrecognised net deferred tax asset is made up of deductible expenses carried forward and unrealised capital losses reduced by carried forward taxable gains as at the balance sheet date.

14. Goodwill and intangible assets

Group	**Goodwill £'000**	**Brand & foundation £'000**	**Beneficial contracts £'000**	**IT, systems & project development £'000**	**Acquired funds under management £'000**	**Total £'000**
Cost						
At 1 January 2018	2,863	2,878	1,757	5,723	5,000	**18,221**
Additions	–	–	–	485	–	**485**
At 31 December 2018	**2,863**	**2,878**	**1,757**	**6,208**	**5,000**	**18,706**
Amortisation						
At 1 January 2018	602	2,878	1,577	683	453	**6,193**
Provided in the year	286	–	180	964	489	**1,919**
At 31 December 2018	**888**	**2,878**	**1,757**	**1,647**	**942**	**8,112**
Net book value at 31 December 2018	**1,975**	**–**	**–**	**4,561**	**4,058**	**10,594**
Net book value at 31 December 2017	2,261	–	180	5,040	4,547	12,028

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

In 2017 and 2018 the Society capitalised the system and project development costs relating to new product development. The asset is amortised over its useful economic life and the amortisation is included in administrative expenses.

14. Goodwill and intangible assets (continued)

Society	Goodwill £'000	Brand & foundation £'000	Beneficial contracts £'000	IT, systems & project development £'000	Total £'000
Cost					
At 1 January 2018	1,147	2,878	1,757	5,723	**11,505**
Disposals	–	–	–	(4,352)	**(4,352)**
At 31 December 2018	**1,147**	**2,878**	**1,757**	**1,371**	**7,153**
Amortisation					
At 1 January 2018	316	2,878	1,577	683	**5,454**
Provided in the year	114	–	180	92	**386**
At 31 December 2018	**430**	**2,878**	**1,757**	**775**	**5,840**
Net book value at 31 December 2018	**717**	**–**	**–**	**596**	**1,313**
Net book value at 31 December 2017	831	–	180	5,040	6,051

During 2018 the Society transferred the majority of capitalised costs relating to IT, systems and project development to its subsidiary Family Equity Plan Limited and as such the capitalised assets remain within the Group.

15. Land and buildings

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

Land and buildings are all freehold. A full external professional valuation of the West Street investment property was carried out by G L Hearn, Chartered Surveyors at 31 December 2018 and a full external professional valuation of the property in Kew was carried out by Roy McClure Associates Chartered Surveyors at 15 November 2018.

16. Investments in Group undertakings

The Society investment in subsidiaries can be analysed as follows:	**Society 2018 £'000**	Society 2017 £'000
Fair value at 1 January	**19,508**	15,577
Dividends paid to Society	**(3,500)**	(3,500)
Impact of investments during year	**2,500**	2,760
Other fair value changes	**5,758**	4,671
Fair value as at 31 December	**24,266**	19,508

Investments are carried at fair value.

16. Investments in Group undertakings (continued)

Set out below are the Society's investments in subsidiary undertakings as at 31 December 2018 all of which are included in the consolidation; the carrying value of these subsidiaries cancel out on consolidation. All companies are incorporated in England and Wales.

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

17. 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:	**2018 £'000**	2017 £'000
Linked financial investments	**1,154,219**	1,360,712
Non-linked financial investments	**254,566**	268,344
Debtors	**13,216**	12,938
Cash at bank	**60,309**	68,414
Total Financial Investments	**1,482,310**	1,710,408

The above investments, which exclude 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 2018 £'000**	Fair value 2017 £'000	**Cost 2018 £'000**	Cost 2017 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,159,707**	1,360,310	**936,287**	947,333
Debt securities and other fixed income securities	**139,796**	145,224	**126,074**	125,553
Share of investment property	**6,734**	12,703	**5,091**	9,070
Derivatives held at fair value through profit and loss	**378**	679	**–**	–
Financial assets held at fair value through profit and loss	**1,306,615**	1,518,916	**1,067,452**	1,081,956
Loans and receivables				
Loans secured by mortgage	**516**	867	**516**	867
Deposits with credit institutions	**159,631**	174,360	**159,631**	174,360
Accrued income and receivables	**15,548**	16,265	**15,548**	16,265
Loans and receivables	**175,695**	191,492	**175,695**	191,492
Total Group financial assets (excluding land & buildings)	**1,482,310**	1,710,408	**1,243,147**	1,273,448
Financial liabilities				
Financial liabilities held at fair value through profit and loss	**1,154,219**	1,359,043		
Financial liabilities held at amortised cost	**10,195**	9,870		
Total Group financial liabilities	**1,164,414**	1,368,913		

17. Financial instruments (continued)

Group Analysis – Linked and Non-Linked, Excluding Land & Buildings

Group financial assets held at fair value through profit and loss	Linked fair value 2018 £'000	Non-linked fair value 2018 £'000	Total fair value 2018 £'000	Linked fair value 2017 £'000	Non-linked fair value 2017 £'000	Total fair value 2017 £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,026,667	133,040	1,159,707	1,237,609	122,701	1,360,310
Debt securities and other fixed income securities	19,232	120,564	139,796	771	144,453	145,224
Shares of investment property	6,734	–	6,734	12,703	–	12,703
Derivatives held at fair value through profit and loss	378	–	378	679	–	679
Financial assets held at fair value through profit and loss	**1,053,011**	**253,604**	**1,306,615**	1,251,762	267,154	1,518,916
Loans and receivables						
Loans secured by mortgage	–	516	516	–	867	867
Deposits with credit institutions	99,322	60,309	159,631	105,944	68,416	174,360
Accrued income and receivables	1,886	13,662	15,548	3,006	13,259	16,265
Loans and receivables	**101,208**	**74,487**	**175,695**	108,950	82,542	191,492
Total Group financial assets	**1,154,219**	**328,091**	**1,482,310**	1,360,712	349,696	1,710,408
Financial liabilities						
Financial liabilities held at fair value through profit and loss	1,154,219	–	1,154,219	1,359,043	–	1,359,043
Financial liabilities held at amortised cost	–	10,195	10,195	–	9,870	9,870
Total Group financial liabilities	**1,154,219**	**10,195**	**1,164,414**	1,359,043	9,870	1,368,913

17. Financial instruments (continued)

The financial investments held by the Society are valued as:	**2018 £'000**	2017 £'000
Linked financial investments	**1,154,219**	1,360,712
Non-linked financial investments	**254,566**	268,344
Debtors	**17,610**	16,324
Cash at bank	**42,868**	53,667
Total financial investments	**1,469,263**	1,699,047

The above investments, which exclude 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 2018 £'000**	Fair value 2017 £'000	**Cost 2018 £'000**	Cost 2017 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,159,707**	1,360,310	**936,287**	947,333
Debt securities and other fixed income securities	**139,796**	145,224	**126,074**	125,553
Shares of investment property	**6,734**	12,703	**5,091**	9,070
Derivatives held at fair value through profit and loss	**378**	679	**–**	–
Financial assets held at fair value through profit and loss	**1,306,615**	1,518,916	**1,067,452**	1,081,956
Loans and receivables				
Loans secured by mortgage	**516**	867	**516**	867
Deposits with credit institutions	**142,190**	159,613	**142,190**	159,613
Accrued income and receivables	**19,942**	19,651	**19,942**	19,651
Loans and receivables	**162,648**	180,131	**162,648**	180,131
Total Society financial assets	**1,469,263**	1,699,047	**1,230,100**	1,262,087
Financial liabilities				
Financial liabilities held at fair value through profit and loss	**1,154,219**	1,359,043		
Financial liabilities held at amortised cost	**10,297**	10,854		
Total Society financial liabilities	**1,164,516**	1,369,897		

17. Financial instruments (continued)

Society Analysis – Linked and Non-Linked, Excluding Land & Buildings

Society financial assets held at fair value through profit and loss	**Linked fair value 2018 £'000**	**Non-linked fair value 2018 £'000**	**Total fair value 2018 £'000**	Linked fair value 2017 £'000	Non-linked fair value 2017 £'000	Total fair value 2017 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,026,667**	**133,040**	**1,159,707**	1,237,609	122,701	1,360,310
Debt securities and other fixed income securities	**19,232**	**120,564**	**139,796**	771	144,453	145,224
Shares of investment property	**6,734**	**–**	**6,734**	12,703	–	12,703
Derivatives held at fair value through profit and loss	**378**	**–**	**378**	679	–	679
Financial assets held at fair value through profit and loss	**1,053,011**	**253,604**	**1,306,615**	1,251,762	267,154	1,518,916
Loans and receivables						
Loans secured by mortgage	**–**	**516**	**516**	–	867	867
Deposits with credit institutions	**99,322**	**42,868**	**142,190**	105,944	53,669	159,613
Accrued income and receivables	**1,886**	**18,056**	**19,942**	3,006	16,645	19,651
Loans and receivables	**101,208**	**61,440**	**162,648**	108,950	71,181	180,131
Total Society financial assets	**1,154,219**	**315,044**	**1,469,263**	1,360,712	338,335	1,699,047

17. Financial instruments (continued)

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

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

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

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

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

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. These exchange quotes are then projected to 31 December to arrive at the value disclosed in the financial statements using a movement factor based on current hedged positions.

17. Financial instruments (continued)

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

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

18. Debtors

Group and Society	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
Amounts owed from Group undertakings	–	–	11,223	10,259
Amounts owed from policyholders	484	484	484	484
Amounts owed from intermediaries	73	83	73	83
Debtors arising out of reinsurance operations	1,467	1,130	1,467	1,130
Other debtors	11,192	11,241	4,363	4,368
Total	**13,216**	12,938	**17,610**	16,324

All amounts fall due to be paid within one year.

19. Tangible assets

Group Cost	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
At 1 January 2018	418	1,181	1,599
Disposals	–	(10)	(10)
At 31 December 2018	**418**	**1,171**	**1,589**
Depreciation			
At 1 January 2018	164	298	462
Provided in the year	109	234	343
On disposals	(4)	(5)	(9)
As at 31 December 2018	**269**	**527**	**796**
Net book value at 31 December 2018	**149**	**644**	**793**
Net book value at 31 December 2017	254	883	1,137

The charge for depreciation for the Group in the year ended 31 December 2018 was £343k (2017: £353k). Depreciation is included in operating expenses.

19. Tangible assets (continued)

Society	Fixtures, fittings and office equipment £'000	Total £'000
Cost		
At 1 January 2018	**1,171**	**1,171**
At 31 December 2018	**1,171**	**1,171**
Depreciation		
At 1 January 2018	**293**	**293**
Provided in the year	**234**	**234**
At 31 December 2018	**527**	**527**
Net book value at 31 December 2018	**644**	**644**
Net book value at 31 December 2017	878	878

The charge for depreciation for the Society in the year ended 31 December 2018 was £234k (2017: £234k).

20. 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 2018	**269,556**	**(45,439)**	**(96,828)**	**6,158**
Amortisation of PVIF	**–**	**2,965**	**–**	**–**
Movement in provision for outstanding claims	**–**	**–**	**–**	**(535)**
Change in long-term business provision	**(7,459)**	**–**	**(4,955)**	**–**
Impairment of PVIF	**–**	**2,100**	**–**	**–**
At 31 December 2018	**262,097**	**(40,374)**	**(101,783)**	**5,623**

20. Technical provisions (continued)

An impairment of £2,100k has been recognised in respect of the PVIF due to changes in demographic and economic assumptions to the extent that they are not seen as short-term. The impairment is included within the change in long-term business provision, net of reinsurance in the statement of Income and Expenditure Account.

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

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

Uncertainties and estimation techniques

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

Long-term business provisions (LTBPs) are computed using statistical and other mathematical techniques, which are expected to give approximately the same results as if an individual liability were calculated for each long-term contract. The computations are made by suitably qualified personnel engaged by the Group on the basis of recognised actuarial methods. This methodology takes into account the risks and uncertainties of the particular classes of long-term business written and the results are certified by the professionals undertaking the valuations.

Process for determining assumptions

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

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

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

Mortality – a base mortality table and, where relevant, mortality improvement factors are selected which are most appropriate for each type of contract taking into account rates charged to the Group by reinsurers.

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

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

20. Technical provisions (continued)

The LTBP has been calculated on the basis of the following principal interest assumptions for 2018:

Class of business	**2018**
Non-linked Annuities tax exempt/taxable	1.63% gross/2.33% net
Index-linked Annuities tax exempt/taxable	(1.74)% gross/(1.74)% net
Term Assurance/whole of life	1.63%
With-Profits 1 unitised with-profits tax exempt/taxable	1.63% gross/0.58% net
With-Profits 1 conventional with-profits tax exempt/taxable	0.79% gross/1.03% net
With-Profits 2 with-profits bond taxable	2.55% net
With-Profits 2 conventional with-profits tax exempt/taxable	2.07% gross/1.23% net

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

With-Profits bonuses

The LTBP includes £0.2m (2017: £0.2m) for reversionary bonuses already declared. The cost of any bonuses is included in "Change in Long-Term Business Provision" in the Long-Term Business – Technical Account. The cost of terminal bonuses on with-profits policies is included in "Gross claims incurred" in the Long-Term Business – Technical Account.

21. Technical provisions for linked liabilities

Policies defined as investment, rather than insurance contracts are accounted for on a deposit basis.

Group and Society	**2018 £'000**	2017 £'000
At 1 January	**1,359,043**	1,348,522
Deposits received from policyholders	**20,661**	23,056
Withdrawals by policyholders	**(131,493)**	(128,126)
Annual management charges	**(12,654)**	(13,321)
Change in fair value of gross liabilities	**(81,338)**	128,912
At 31 December	**1,154,219**	1,359,043

22. Creditors arising out of insurance operations

Group and Society	2018 £'000	2017 £'000
Amounts owed in respect of reinsurance	**1,126**	991
Other creditors	**1,980**	182
Total	**3,106**	1,173

23. Other creditors, including social security and taxation

	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
Amounts owed to group undertakings	**–**	–	**184**	1,374
Other taxes and social security costs	**754**	1,303	**760**	986
Other creditors	**6,335**	7,394	**6,247**	7,321
Total	**7,089**	8,697	**7,191**	9,681

All other creditors are payable within one year.

24. Fund for future appropriations

Group and Society	2018 £'000	2017 £'000
At 1 January	**43,581**	40,160
Transfer (to)/from the long-term business technical account	**(10,407)**	3,421
At 31 December	**33,174**	43,581

25. Retained earnings

	Group 2018 £'000	Group 2017 £'000	Society 2018 £'000	Society 2017 £'000
At 1 January	**160,630**	158,127	**162,906**	158,691
Recognised gains in the year	**299**	2,503	**1,672**	4,215
At 31 December	**160,929**	160,630	**164,578**	162,906

26. Pension commitments

Defined Benefit Schemes

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

Defined Contribution Schemes

Following the closure of these defined benefit schemes to future accrual, the Group makes pension contributions to a defined contribution stakeholder pension scheme on behalf of staff when they become eligible for pension benefits. The stakeholder scheme is provided by Legal and General Assurance Society Limited. The defined pension contributions for 2018 were £1,505k (2017: £1,523k).

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

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

The Family Scheme closed to all further benefit accrual with effect 31 December 2009.

The funding plan is for the Scheme to hold assets equal to the value of the benefits earned by employees, based on a set of assumptions used for funding the Family Scheme. The funding assumptions differ from the assumptions used to calculate the figures for these accounts, and therefore produce different results. If there is a shortfall against this funding plan, then the Society and trustees agree on deficit contributions to meet this deficit over a period. As part of the actuarial valuation with an effective date of 31 December 2016 it was agreed that the Society would pay contributions of £166,667 per month until 31 December 2017 and £33,333 per month from 1 January 2018 until 31 December 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 FRS 102, allowing for contributions, benefit payments made, and changes in market conditions. As required by FRS 102, the defined benefit liabilities have been measured using the projected unit method.

26. Pension commitments (continued)

The following table sets out the key FRS 102 assumptions used for the Family Scheme. The table also sets out, as at 31 December 2018, the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 102 liabilities and the surplus or deficit of the assets over the FRS 102 liabilities (the gross pension asset or liability).

Under FRS 102, 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:

Family Scheme assumptions	**2018**	2017
Retail prices index inflation	**3.40%**	3.40%
Consumer prices index inflation	**2.30%**	2.30%
Revaluation in deferment	**2.30%**	2.30%
Pension increases:		
- pre April 1997 pension	**0.00%**	0.00%
- post April 1997 pension	**3.20%/2.30%**	3.20%/2.30%*
- post April 2005 pension	**1.80%**	1.80%*
Salary growth	**N/A**	N/A
Discount rate	**2.90%**	2.40%
Life expectancy:		
- male aged 65 at the statement of financial position date	**22.5 years**	22.7 years
- male aged 65 in 2041 (25 years from the statement of financial position date)	**24.3 years**	24.5 years

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

26. Pension commitments (continued)

Family Scheme fair value of assets	**2018 £'000**	2017 £'000
Equities	**10,684**	11,679
Diversified growth/absolute return on funds	**4,072**	8,433
LDI portfolio (including liquidity fund)	**37,138**	35,730
Cash	**68**	335
Other net assets	**(17)**	177
Total fair value of assets	**51,945**	56,354
Present value of defined benefit obligations	**(42,361)**	(48,423)
Pension surplus	**9,584**	7,931
Adjustment for asset limit	**(9,584)**	(7,931)
Recognised pension asset	**–**	–

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

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

Family Scheme change in present value	**2018 £'000**	2017 £'000
Opening defined benefit obligation	**48,423**	48,240
Past service cost	**600**	–
Interest on obligation on funds	**1,117**	1,261
Actuarial (loss)/gain	**(4,882)**	225
Benefits paid	**(2,897)**	(1,303)
Closing defined benefit obligation	**42,361**	48,423

The past service cost above of £0.6m relates to a provision for the estimated costs arising as a result of the October 2018 High Court judgement on the Lloyds Bank GMP Inequalities case. The Family Scheme was contracted-out between 17 May 1990 and 5 April 1997, and therefore has accrued GMP benefits for all active members during that period. From the data available as at 31 December 2016, which was used for the most recent actuarial valuations, the amount of the GMP liability in the Family Scheme, applicable for each member for this period of service, has been estimated.

26. Pension commitments (continued)

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

Family Scheme change in fair value	2018 £'000	2017 £'000
Opening value of scheme assets	**56,354**	52,186
Interest on scheme assets	**1,312**	1,392
Actuarial (loss)/gain	**(3,224)**	2,079
Contributions by the employer	**400**	2,000
Benefits paid	**(2,897)**	(1,303)
Closing value of scheme assets	**51,945**	56,354

The actual return on the Family Scheme's assets over the year was a gain of £1,912k (2017: £3,471k gain).

The following amounts are included within income and expenditure under FRS 102.

Family Scheme amounts included in income and expenditure	2018 £'000	2017 £'000
Past service (cost)/credit	**(600)**	–
Loss recognised in income and expenditure	**(600)**	–

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

Family Scheme change in comprehensive income	2018 £'000	2017 £'000
Experience (loss)/gain on scheme assets	**(3,224)**	2,079
Experience gain/(loss) on scheme liabilities	**160**	(136)
Actuarial gain/(loss) due to the changes in assumptions of the DBO	**4,722**	(89)
Actuarial gains/(losses)	**1,658**	1,854
Loss due to movement in the statement of financial position limitation	**(1,458)**	(3,854)
Gain/(loss) recognised outside income and expenditure	**200**	(2,000)

26. Pension commitments (continued)

Family Scheme sensitivity of defined benefit obligation to alternative assumptions as at 31 December 2018	**Increase £'000**	**Decrease £'000**
Discount rate – Effect of 0.5% change	**(3,800)**	**4,300**
Inflation – Effect of 0.5% change	**3,000**	**(2,700)**
Life expectancy – Effect of one year change	**1,300**	**(1,300)**

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 Engage Scheme for future accrual with effect from 31 December 2012.

The funding plan is for the Engage Scheme to hold assets equal to the value of the benefits earned by employees, based on a set of assumptions used for funding the Engage Scheme. The funding assumptions differ from the assumptions used to calculate the figures for these accounts, and therefore produce different results. If there is a shortfall against this funding plan, then the 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 FRS 102, allowing for contributions, benefit payments made, and changes in market conditions. As required by FRS 102, the defined benefit liabilities have been measured using the projected unit method.

26. Pension commitments (continued)

The following table sets out the key FRS 102 assumptions used for the Engage Scheme. The table also sets out, as at 31 December 2018 and 2017 the fair value of assets, a breakdown of the assets into the main asset classes, the present value of the FRS 102 liabilities and the surplus or deficit of the assets over the FRS 102 liabilities (the gross pension asset or liability).

Engage Scheme assumptions	**2018**	2017
Retail prices index inflation	**3.40%**	3.35%
Consumer prices index inflation	**2.30%**	2.25%
Revaluation in deferment	**2.30%**	2.25%
Pension increases:		
- pre April 1997 pension (Homeowners Friendly Society Limited)	**0.00%**	0.00%
- post April 1997 pension (Homeowners Friendly Society Limited)	**3.20%**	3.20%
- post April 2005 pension (Homeowners Friendly Society Limited)	**2.15%**	2.15%
- 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%**	3.75%
Salary growth	**N/A**	N/A
Discount rate	**2.90%**	2.40%
Life expectancy:		
- male aged 60 at the statement of financial position	**26.8 years**	27.0 years
- female aged 60 at the statement of financial position	**28.4 years**	28.5 years

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

26. Pension commitments (continued)

Under FRS 102, 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	**2018 £'000**	2017 £'000
Equities	**3,477**	3,779
Fixed interest gilts	**11,738**	13,022
Index linked gilts	**16,952**	17,708
Cash	**–**	262
Expenses due	**–**	(162)
Other net assets	**168**	153
Total fair value of assets	**32,335**	34,762
Present value of defined benefit obligations	**(22,708)**	(26,151)
Pension surplus	**9,627**	8,611
Adjustment for asset limit	**(9,627)**	(8,611)
Recognised pension asset	**–**	–

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

Engage Scheme change in present value	**2018 £'000**	2017 £'000
Opening defined benefit obligation	**26,151**	27,297
Past service cost	**–**	–
Interest on obligation on funds	**607**	697
Actuarial (loss)/gain	**(2,319)**	183
Benefits paid	**(1,731)**	(2,026)
Closing defined benefit obligation	**22,708**	26,151

26. Pension commitments (continued)

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

Engage Scheme change in fair value	**2018 £'000**	2017 £'000
Opening value of scheme assets	**34,762**	34,033
Interest on scheme assets	**815**	882
Actuarial (loss)/gain	**(1,611)**	1,362
Contributions by the employer	**100**	673
Benefits paid	**(1,731)**	(2,026)
Administration costs incurred	**–**	(162)
Closing value of scheme assets	**32,335**	34,762

The actual return on the Engage Scheme's assets over the year was a gain of £796k (2017: £2,244k).

Engage Scheme amounts included in income and expenditure	**2018 £'000**	2017 £'000
Running costs	**–**	(162)
Loss recognised in income and expenditure	**–**	(162)

During the year no administration expenses were incurred (2017: £162k).

26. Pension commitments (continued)

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

Engage Scheme change in comprehensive income	**2018 £'000**	2017 £'000
Experience (loss)/gain on scheme assets	**(1,611)**	1,362
Experience loss on scheme liabilities	**(56)**	(361)
Actuarial gain due to the changes in assumptions of the DBO	**2,375**	178
Actuarial gain	**708**	1,179
Loss due to movement in the statement of financial position limitation	**(808)**	(1,690)
Loss recognised outside income and expenditure	**(100)**	(511)

Engage Scheme sensitivity of defined benefit obligation to alternative assumptions as at 31 December 2018	**Increase £'000**	**Decrease £'000**
Discount rate – Effect of 0.5% change	**(1,900)**	**2,100**
Inflation – Effect of 0.5% change	**1,200**	**(1,200)**
Life expectancy – Effect of one year change	**700**	**(700)**

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

Group Schemes change in comprehensive income	**2018 £'000**	2017 £'000
Gain/(loss) outside the income and expenditure account for the Family Scheme	**200**	(2,000)
Loss outside the income and expenditure account for the Engage Scheme	**(100)**	(511)
Total Scheme change in comprehensive income	**100**	(2,511)

27. Statement of information relating to the Chief Actuary

The Chief Actuary of the Group is Mr P Whitlock of Willis Towers Watson plc.

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

- Mr P Whitlock was not a member of the Group at any time during 2018
- No other member of his family was a member of the Group during 2018
- Willis Towers Watson were paid fees for the year of £1,782k (2017 £1,589k)

28. Related party transactions

Transactions or balances between Group Entities

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

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

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

Related party transactions	**2018 £'000**	2017 £'000
Group and Society		
Family Asset Trust	**30,264**	36,410
Family Charities Ethical Trust - Accumulation Units	**8,877**	10,171
Family Balanced International Fund - Share Class C	**4,878**	3,566
Family Balanced International Fund - Share Class F	**634,473**	841,067
OneFamily Global Equity Fund - Share Class C	**44,840**	–
OneFamily Global Mixed Investment Fund - Share Class C	**33,712**	–
Total	**757,044**	891,214

28. Related party transactions (continued)

During 2018, the Society and the Group made the following investments of policyholders' funds. All purchases of units were made at arm's length based on the buying price:

Purchase of Investments **Group and Society**	**2018 £'000**	**2018 Units**	2017 £'000	2017 Units
Family Balanced International Fund - Share Class A	**–**	**–**	5,613	1,334,981
Family Balanced International Fund - Share Class C	**1,803**	**1,202,878**	1,380	924,175
Family Balanced International Fund - Share Class F	**24,067**	**5,642,534**	–	–
OneFamily Global Equity Fund - Share Class C	**50,000**	**50,000,000**	–	–
OneFamily Global Mixed Investment Fund - Share Class C	**35,000**	**35,000,000**	–	–
Total	**110,870**		6,993	

onefamily
modern family finance

Any questions, contact OneFamily in one of these ways:

members@onefamily.com

0344 8920 920

www.onefamily.com

OneFamily 16-17 West Street, Brighton, BN1 2RL