Engage Mutual (ELL) With Profits Fund

annual report to policyholders for 2014

FAMILY ASSURANCE FRIENDLY SOCIETY LIMITED
(trading as Engage Mutual Assurance)

engage
Mutual Assurance

contents

1. introduction

The Engage Mutual (ELL) With Profits Fund ("the Fund") was transferred to Family Assurance Friendly Society on 1st April 2015 (see section 6), but continues to trade as Engage Mutual. Over the coming months, the organisation will begin to trade as OneFamily, and the Engage Mutual (ELL) With Profits Fund will be renamed the 'OneFamily (ELL) With Profits Fund'.

The purpose of this report is to explain how we have managed the Fund during 2014 and to demonstrate that we have followed our published Principles and Practices of Financial Management (PPFM). This includes the setting of bonuses and the investment decisions we have made.

You may find it helpful to refer to 'Your Guide to how we manage our Engage Mutual (ELL) with-profits Fund' which summarises how we manage the Fund. This is available on our website [http://www.engagemutual.com/engage-mutual-ell-with-profits]

If you require more technical detail our PPFM is also available on our website.

2. summary

In the opinion of the Board, the management of the Fund has met the requirements of the PPFM over the period 1 January 2014 to 31 December 2014, and at the bonus declaration in respect of the year 2014.

This opinion takes into account all areas where discretion has been exercised, or where there have been any competing rights, or interests, between different groups of policyholders.

Appropriate governance arrangements have been maintained throughout this period to ensure that we comply with the PPFM in the conduct of Engage Mutual (ELL) With Profits business.

3. governance arrangements for With Profits business

The Board has established a sub-committee of the Board, whose terms of reference include the management of the Fund. The composition of this Committee is the responsibility of the Board, and during 2014 it has comprised the Chief Executive, the Finance Director and at least two Non Executive Directors.

The Non Executive Directors provide independent judgement in the assessment of compliance with the PPFM and how any conflicting rights of policyholders are addressed.

When the Board sub-committee discusses matters relating to the Fund the With Profits Actuary is in attendance.

The Board sub-committee reviews all key developments for the Fund and regularly reviews its financial progress, referring matters to the Board for approval, as required by the PPFM. On an annual basis the Board sub-committee confirms that the Fund has been managed in accordance with the PPFM and this is reported to the Board.

The With Profits Actuary has provided advice on key aspects of discretion at the Board sub-committee meetings, and at Board meetings, when matters relating to the Fund have been discussed. The With Profits Actuary's report to policyholders in respect of 2014 can be found in the Appendix.

4. how we have complied with our PPFM

There are a number of important areas where the Board has exercised their discretion in managing the Fund during 2014.

payouts and bonus rates

Payouts made from the Fund during 2014 have reflected asset shares, subject to meeting any guaranteed benefits and allowing for smoothing in accordance with the PPFM. The calculation of asset shares was consistent with the PPFM.

In setting regular and final bonus rates and Market Value Reductions (MVRs) the Board have been supplied with sufficient information for it to be satisfied that they were calculated in accordance with the PPFM. All bonus rates and MVRs were reviewed by the With Profits Actuary and the Finance Committee.

Claims payouts were monitored throughout 2014 to ensure that payouts remained in line with the targets defined in the PPFM.

investment policy

The investment policy for the Fund is regularly monitored by the Board sub-committee, and proposals for any changes in policy are reported to the Board for approval. The investment policy has remained largely unchanged during 2014.

management of the inherited estate

The Fund contains an amount of money over and above the amount expected to be paid to existing policyholders, and risk capital to comply with the Prudential Regulatory Authority (PRA) regulations. This is known as the inherited estate. The Board has regard to the size of the inherited estate in its financial management of the Fund.

The Fund was closed to new business with effect from 30 November 2010. As a result a Run Off Plan was approved by the Board and agreed with the Financial

Services Authority to distribute the inherited estate to existing policyholders in a fair and equitable manner.

One of the key principles shaping the Run Off Plan is that the Fund should be managed on a self sufficient basis during run off. This means that for most of the Fund, the distribution of the estate is made at the date of claim, with the amount of distribution depending on the financial strength of the Fund at that time.

For the purposes of determining claims payouts, the distribution rate for claims arising in 2014 was an enhancement to asset shares of 9% and guaranteed benefits by 2.25%. For Deposit Administration schemes, each scheme remaining in force received a special bonus of 1.5%. Schemes exiting during the year received the remaining amount of their estate distribution on exit, at a rate of 1.5% each year, in line with the Run Off Plan.

The Board reviewed the distribution rate during 2014 and agreed to increase the distribution rate for claims arising in 2015. An enhancement to asset shares of 9.5% and guaranteed benefits of 2.38% will apply to claims arising in 2015. For Deposit Administration schemes, each scheme remaining in force will receive a special bonus of 1.58%.

expenses and charges

Expenses and tax continue to be charged to the Fund in line with the Scheme, as summarised in Appendix B of the PPFM. Aggregate charges and expenses applied to asset shares during 2014 were consistent with the PPFM and the charges borne by the Fund overall.

business risk

Risks were monitored regularly throughout the year, with a full risk assessment for the Fund approved by the Board in September 2014.

5. changes to the PPFM

The PPFM describes how the Fund is managed on an ongoing basis.

There were some changes to the practices in the PPFM during 2014, to make it clearer that claims values are set by grouping similar policies together and compared to the average asset share for each group when comparing to the target ranges set out in the PPFM.

There were some further changes to the practices in the PPFM during January 2015, to confirm that the final bonuses payable on pension endowment policies are calculated based on a percentage of sum assured plus attaching regular bonus. This change has been made to achieve a better alignment between claim payouts and asset shares for this class of business.

All changes to the PPFM were approved by the Board, and the current PPFM is available on our website.

6. implications of the transfer of engagements to Family

On 1st April 2015, the engagements of Homeowners Friendly Society were transferred to Family Assurance Friendly Society. As part of the merger approval process, the Board fully considered the likely effect on with profits policyholders, and took advice from the With Profits Actuary.

The Board concluded that the transfer did not materially affect the benefit expectations or security of benefits for with profits policyholders, and that it is consistent with the fair treatment of policyholders and the PPFM. This view was supported by an Independent Actuary who was appointed to advise on the transfer, and the transfer was subsequently approved by the Prudential Regulatory Authority and the Financial Conduct Authority.

Following the transfer, the fund continues to be operated as a ring fenced sub-fund and remains entitled to all of the surpluses arising within the fund. The PPFM, capital framework, governance arrangements, investment policy and expense agreements all remain materially unchanged as a result of the transfer. There are no changes to the policy conditions for any of the Engage policies as a result of the transfer.

appendix

report from the With Profits Actuary

As With Profits Actuary for the Engage Mutual (ELL) With Profits Fund, I advise the Board, and any sub-committees of the Board, on key aspects of the discretion that they exercise.

In April 2014 the role of With Profits Actuary transferred from Trevor Batten to myself. As the current With Profits Actuary I am making the report for the whole of 2014, although in preparing the report I have fully consulted with the previous With Profits Actuary and I am satisfied that his views were properly reflected in all key decisions that were made for the period prior to my appointment.

I have been involved in all matters referred to in this report. In my opinion, based on the information and explanations provided to me by Family Assurance Friendly Society, the discretion exercised by the Board during 2014 took your interests into account in a reasonable and proportionate manner.

In arriving at my opinion, I have taken into account where relevant the rules and guidance contained in the Financial Conduct Authority's Conduct of Business Rules (Treating with profits policyholders fairly).

Steve Turland
With Profits Actuary
Family Assurance Friendly Society

1st April 2015

engage
Mutual Assurance

Engage Mutual Assurance is a trading name of Family Assurance Friendly Society Limited,
Hornbeam Park Avenue, Harrogate, HG2 8XE, United Kingdom.
Tel: 01423 855000 Fax: 01423 855181.

150510/002