

OneFamily

**OneFamily (ELL) With Profits Fund
annual report to policyholders for 2016**

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Section 1: Introduction

- 1.1 The purpose of this report is to explain how the OneFamily (ELL) With Profits Fund (“the Fund”) has been managed during 2016 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.
- 1.2 You may find it helpful to refer to ‘Your Guide to how we manage our OneFamily (ELL) With Profits Fund’ which summarises how we manage the Fund. This is available on our website <http://www.onefamily.com/company-information/financial-reports/>
- 1.3 If you require more technical detail our PPFM is also available on our website.

Section 2: Summary

- 2.1 In the opinion of the Board, the management of the Fund has met the requirements of the PPFM over the period 1 January 2016 to 31 December 2016, and at the bonus declaration in respect of the year 2016.
- 2.2 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.
- 2.3 Appropriate governance arrangements have been maintained throughout this period to ensure that we comply with the PPFM in the conduct of OneFamily (ELL) With Profits business.

Section 3: Governance arrangements for with profits business

- 3.1 The Board has established a With Profits sub-committee of the Board, whose terms of reference include oversight of the management of the Fund. The composition of this Committee is the responsibility of the Board, and during 2016 it has consisted of at least three Non Executive Directors. It is also attended by the Chief Executive, the Chief Risk Officer, the Finance Director and the With Profits Actuary.
- 3.2 The Non Executive Directors provide independent judgement in the assessment of compliance with the PPFM and how any conflicting rights of policyholders are addressed.
- 3.3 The With Profits 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 With Profits sub-committee confirms that the Fund has been managed in accordance with the PPFM and this is reported to the Board.
- 3.4 The With Profits Actuary has provided advice on key aspects of discretion at the With Profits 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 2016 can be found in the Appendix.

Section 4: How we have complied with our PPFM

- 4.1 There are a number of important areas where the Board has exercised their discretion in managing the Fund during 2016.

Payouts and bonus rates

- 4.2 Payouts made from the Fund during 2016 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.
- 4.3 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 With Profits sub-committee.
- 4.4 Claims payouts were monitored throughout 2016 to ensure that payouts remained in line with the targets defined in the PPFM.

Investment policy

- 4.5 The investment policy for the Fund is regularly monitored by the With Profits sub-committee, and proposals for any changes in policy are reported to the Board for approval. The investment policy has remained largely unchanged during 2016.

Management of the inherited estate

- 4.6 The Fund contains an amount of money over and above the amount expected to be paid to existing policyholders (based on asset shares and guarantees), 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.
- 4.7 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.
- 4.8 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 inherited estate is made at the date of claim, with the amount of distribution depending on the financial strength of the Fund at that time.
- 4.9 For the purposes of determining claims payouts, the distribution rate for claims arising in 2016 was an enhancement to asset shares of 9.5% and guaranteed benefits by 2.38%. For Deposit Administration schemes, each scheme remaining in force received a special bonus of 1.58%. The Board reviewed the distribution rate during 2016 and agreed to increase the enhancement rates to 10.0% and 2.5% for asset shares and guaranteed benefits respectively in 2017. As the special annual bonus for Deposit Administration schemes that was applicable for 6 years from 30 November 2010 has ended, no special bonus will be applied to these contracts from 2017 onwards.

Expenses and charges

- 4.10 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 2016 were consistent with the PPFM and the charges borne by the Fund overall.

Business risk

- 4.11 Risks were monitored regularly throughout the year and a full risk assessment for the Fund was carried out in 2016.

Section 5: Changes to the PPFM

- 5.1 The PPFM describes how the Fund is managed on an ongoing basis.
- 5.2 There were no changes to the PPFM during 2016.
- 5.3 The current PPFM is available on our website.

Appendix A: Report from the With Profits Actuary

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

I have been the With Profits Actuary since April 2016.

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 OneFamily, the discretion exercised by the Board during 2016 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).

The Financial Reporting Council ("FRC") sets technical actuarial standards ("TASs") for the members of the UK Actuarial Profession. This report is intended to comply with the Insurance TAS (which is the specific technical actuarial standard applying to insurance business), TAS D (which relates to data) and TAS R (which relates to the reporting of actuarial information), except that, in terms of completeness, I have not considered it necessary or desirable to repeat or elaborate on material that is covered by the Board report to which my report is annexed

David Addison BSc FFA

With Profits Actuary for the OneFamily (ELL) With Profits Fund

27 April 2017