OneFamily (ELL) With Profits Fund

annual report to policyholders for 2015

FAMILY ASSURANCE FRIENDLY SOCIETY LIMITED

(trading as OneFamily)

contents

1. introduction 3
2. summary 3
3. governance arrangements for With Profits business 3
4. how we have complied with our PPFM 4
   payouts and bonus rates 4
   investment policy 4
   management of the inherited estate 4
   expenses and charges 5
   business risk 5
5. changes to the PPFM 5
6. implications of the transfer of engagements to Family 5
appendix 7
   report from the With Profits Actuary 7

1. introduction

The OneFamily (ELL) With Profits Fund ("the Fund") was transferred to Family Assurance Friendly Society on 1st April 2015 (see section 6). As part of the transfer the 'Engage Mutual (ELL) With Profits Fund' was renamed the 'OneFamily (ELL) With Profits Fund'.

The purpose of this report is to explain how the Fund has been managed during 2015 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 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/]

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 2015 to 31 December 2015, and at the bonus declaration in respect of the year 2015.

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 OneFamily (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 oversight of the management of the Fund. The composition of this Committee is the responsibility of the Board, and during 2015 it has consisted of three Non Executive Directors. It is also attended by the Chief Executive, the Governance and Risk Director, the Finance Director and the With Profits Actuary.

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 2015 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 its discretion in managing the Fund during 2015.

payouts and bonus rates

Payouts made from the Fund during 2015 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 Board sub-committee.

Claims payouts were monitored throughout 2015 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 2015.

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 2015 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 2015 and agreed to maintain the same distribution rates for claims arising in 2016.

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 2015 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 2015.

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 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 have all remained materially unchanged as a result of the transfer. There were no changes to the policy conditions for any of the Fund's policies as a result of the transfer.

appendix

report from the With Profits Actuary

As With Profits Actuary for the OneFamily (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 2016 the role of With Profits Actuary transfers from myself to David Addison, but I am making this report for 2015 as I have been the With Profits Actuary throughout that period.

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 2015 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 for the OneFamily (ELL) With Profits Fund
Willis Towers Watson

1st April 2016