

OneFamily

**OneFamily (EM) 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 (EM) 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 (EM) 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 (EM) With Profits business.

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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.

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, market value reductions and surrender scales were reviewed by the With Profits Actuary and the Board sub-committee.

Claims payouts

- 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.

New business

- 4.6 In last year's report we noted that the new business strategy for the Fund was being reviewed. Following this review the Fund was closed to new business effective from 1 October 2016.
- 4.7 We wrote to you at the time the Fund closed to new business explaining why we took this decision.

Other areas of discretion

Free Assets

- 4.8 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 Free Assets. The Board has regard to the size of the Free Assets in its financial management of the Fund.
- 4.9 Due to the financial strength of the Fund, during 2011 the Board agreed a set of proposals by which some of the Free Assets can be used to improve policyholder payouts. This is done by uplifting asset shares by an agreed percentage at the point of claim when calculating final bonus rates, market value reductions and surrender values. For claims arising in 2016 up until the point of closure the uplift rate was 11.5%, and the Board agreed a recommendation to increase the uplift rate for claims after 1 October 2016 to 37%.

- 4.10 For future years the uplift rate may vary depending on the financial strength of the Fund at the time.

Miscellaneous Surplus

- 4.11 The Board is responsible for ensuring that profits, or losses, arising from exposure to business risks are allocated fairly to all policyholders having regard to the source of the profit or loss. At the end of 2016, the amount of miscellaneous profits arising was small and this was added to the Free Assets in the fund.

Expenses

- 4.12 The expenses and tax charged to the Fund, and the way in which these are apportioned to products, are reviewed on a regular basis. During 2016, the amounts of expenses and tax charges made to the Fund were in accordance with the expense and other legal agreements in operation, and documented in the PPFM. These amounts were reviewed by the With Profits Actuary.

Business Risks

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

Equity between different groups of policyholders

- 4.14 Different groups of OneFamily (EM) With Profits policyholders have potentially competing interests due to :
- Different products
 - Policies of different size, or duration
 - Policies with different entry dates, claim dates or dates of birth
- 4.15 The main areas in which judgement is required in balancing the interests of different groups are with regards to the smoothing of policy benefits, and the way in which policies are grouped when determining payouts. The approach taken to smoothing and grouping is described in the PPFM and was applied in determining payouts in 2016

Section 5: Changes to the PPFM

- 5.1 The PPFM describes how the Fund is managed on an ongoing basis.
- 5.2 No changes were made to the PPFM during 2016 but some changes are required as a result of the closure of the Fund to new business. These will be communicated to you separately but in summary, the section of the PPFM which describes how the inherited estate will be distributed and used to uplift claim values will be updated and throughout the PPFM references to new business will be deleted.

Appendix A: Report from the With Profits Actuary

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

I have been 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 (EM) With Profits Fund

27 April 2017

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