Annual Report and Financial Statements

For the year ended 31 December 2015

OneFamily

Contents

The merger with Engage Mutual on 1 April 2015 has strengthened our Group retained earnings by

£104m

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Chairman
Christina McComb

Chairman's review

I am delighted to introduce the 2015 Annual Report & Accounts of OneFamily, the first report since the merger of Family Investments and Engage Mutual. Having been Chairman of Engage Mutual since April 2014, I had the honour to be appointed to lead the Board of the new modern mutual in April 2015.

A strong, modern mutual

OneFamily has combined the strategic and operating experiences of two first-class friendly societies – Family Investments and Engage Mutual. The new Society is a product of the 40 years of development and growth forged by its predecessors, of which our members, employees and directors can all be justly proud.

Now serving around two million members and with over £7 billion in funds under management, our organisation has the strength and expertise to bring to the market a new proposition, providing high quality, value for money financial services underpinned by the principles of the modern mutual.

The Executive Group, led by our Chief Executive Simon Markey, managed the merger process extremely successfully, ensuring a smooth transition from two societies to one. The integration process is now substantially complete and the Society will be fully operating from our Brighton headquarters by the middle of 2016. Already the benefits of creating OneFamily are apparent, with a significantly improved capital position and an increasingly efficient operational cost base, providing more financial capacity to ensure the future success of the organisation.

Unlike those organisations which have to please shareholders with dividend pay-outs through short-term profit-maximisation, we return value to our members in the form of better products, excellent customer service, the OneFamily Foundation and investment in the future success of the business, whilst protecting the value of our existing policyholders.

Our Board

I would like to take this opportunity to thank Norman Riddell for his hard work and dedication both to Family Investments, which he served as a board member continuously since 2006, and now to OneFamily. As Vice-Chairman, he provided me and the whole Board with the benefit of his experience. His chairmanship of Family Investments during the merger period was instrumental in ensuring that the process was a success and for that alone I am very grateful.

The Board has also benefitted from the advice and expertise of four other non-executive directors over the past year: Peter Box, Ian Buckley, Caroline Fawcett and Nigel Masters. Caroline has since stood down from the Board at the end of 2015 and I would like to thank her for her time as a non-executive director of both Engage Mutual and OneFamily.

Our Executive Group

My fellow non-executive directors and I work on behalf of our members and customers to provide support, challenge and oversight of the work done by our Executive Group, led by our Chief Executive Simon Markey.

We are committed to playing our role in helping the Executive Group to achieve the Board's collective ambition for the Society in terms of growth, product development and innovation. Foremost in our minds will be how to deliver value and build longer-term benefits for all our members.

Over the past year there have been a few changes among the Executive team. Peter Burrows, the former Chief Financial Officer (CFO), left in the summer of 2015. We were fortunate to engage Carol Ritchie as our interim CFO, who was previously interim FD at Engage Mutual, and we are currently recruiting a new permanent CFO.

Listening to members

As a mutual society, we prioritise delivering value for our members. As customers of the products and services we offer and in their role as owners of the business, we can only exist and grow through the support of our members.

That means that we are always interested in listening to the views of our members. Both Family Investments and Engage Mutual have enjoyed a long legacy of positive feedback. During 2015, members were asked for their opinions about the Society and I was particularly heartened to read that our members rated the business highly across all elements of our customer service.

In October 2015 we invited members to attend a Customer Forum held in London. The event was attended by 55 members who participated in group discussions about the products we offer and how we can improve our customer service. Attendees had the chance to meet members from our Executive Group, as well as some of the OneFamily Foundation Community Award winners.

Last year's Forum helped us, in particular, to shape the way we operate the OneFamily Foundation – a commitment to our members that goes beyond simply providing products. I am particularly pleased that the Foundation has been embraced by members of both the former Engage Mutual and Family Investments. This demonstrates to me the strong cultural affinity across our combined membership.

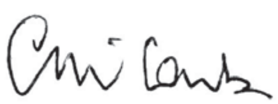
In 2015 we introduced new categories for Community Awards. We have also considered ways in which we can improve our member communications to increase awareness of the OneFamily Foundation and the support it can provide to deserving causes selected by our members.

Challenging times

Whilst 2015 was a year of considerable achievement for our Society, the prevailing economic and political climate meant that there were a number of challenges for any business to grapple with. According to most commentators, this situation is not likely to alleviate during 2016. Regulatory burdens, a continuing lower-for-longer interest rate environment and uncertainty over the UK's membership of the European Union, culminating in the referendum in June, all add up to pose continuing issues for our business.

As you will all be aware, the financial burdens on families have not abated in recent years either. A combination of demographics, increasingly constrained public sector budgets and fragile conditions in world economies all increase the pressures on families in the UK seeking to address their financial needs – whether that be saving for their children's future and education, helping them to get on the housing ladder, supporting the needs of their own parents or providing for their own future.

In this environment, finding an organisation that puts the needs of families first is essential. As a mutual organisation, our sole focus is to look after the interests of our current and future members, which you will read about further in our Chief Executive's report. With this commitment, alongside new products, an excellent Executive Group and a committed and hard-working staff, I am confident that we can succeed in meeting our objectives over the coming year.



Chairman
Christina McComb

Chief Executive
Simon Markey

Chief Executive's report

I am delighted to be reporting to members for the first time in OneFamily's Annual Report and Accounts on what has proved to be a transformational year.

Merger to create OneFamily

This time last year, as Chief Executive of Family Investments, I was advocating the benefits of the proposed merger with Engage Mutual. Following the overwhelming mandate received from members of both Societies, the two businesses have come together to create a uniquely family-focused financial services provider.

A stronger future

Now with around two million members across savings, investments and protection policies and over £7 billion of funds under management, OneFamily is firmly established amongst the top tier of financial mutuals.

We have developed a clear vision, based upon responding to the ever changing needs of families in the 21st century, and turning personal finance into family finance. We know that many families feel let down by the high street banks and so our strategic response is to create a 'modern mutual' that allows the generations to work together to plan ahead, put some money aside and protect their loved ones. The successful merger has provided the key building blocks for the creation of a modern mutual, based on five key principles:

- The Society will operate with a clear strategy and vision;
- We will seek to provide our customers and members with relevant offerings;
- We will operate as efficiently as possible, for the benefit of members;
- Our aim is to give back a proportion of any profits to the wider society in a way that engages with our membership; and
- Success is only achievable with good governance and management.

Providing Relevant Offerings

Increasingly families are turning to each other more and more to plan for and manage life's milestone moments. We understand the aspirations of families alongside the financial pressures they face; whether that's helping children get on the property ladder or trying to fund a secure retirement.

To further demonstrate our commitment to existing and future members and in line with the 2nd principle of our strategy, we anticipate announcements during 2016 about new and innovative products.

External markets and returns

The world equities markets closed 2015 on a positive note, having continued the trend of recent years, providing varied levels of return for investors and our members. At this point, it is relevant to examine the performance of two key funds in which the majority of our members are invested. Our core Child Trust Fund unit trust returned 1.5% after charges in 2015, whilst the Family Balanced International Fund, where most Bond customers have their money, returned 1.3% after charges. Both represent a modest return relative to market conditions and have outperformed cash. Entering 2016 has not felt as positive, given the headwinds faced by international markets, but we remain confident in the performance of equities over the long term.

Financial Position

Our financial strength has improved significantly primarily as a result of the merger with Engage Mutual. Our surplus regulatory

Retained earnings rose by over

£100m

a more than threefold increase
from £46m to £151m during the year

capital including our With Profits funds increased to £105m. Furthermore, our financial strength, measured by retained earnings, rose by over £100m, a more than threefold increase from £46m to £151m during the year.

On these important measures, we have shown the benefits of the merger in terms of providing a more secure footing for current and future members. These accounts also reflect though, not only the transformational effects of the merger, but also the positive effects on our financial results of another successful trading year. Funds under management grew largely as a result of a successful year for new business, as highlighted below under Sales Performance.

We have also worked hard to control the costs of running the business; with underlying operating costs standing at £26.8m, generating an enhanced operating efficiency ratio (operating expenses as a percentage of members' funds under management) of 0.36%, compared with 0.38% in 2014. We expect this ratio to improve further in future years.

The net effect of these two factors is that despite a substantial investment in integration costs and business development, income exceeded expenditure by £1.6m after tax, as can be seen from the Non-Technical Account on page 47, reflecting a very positive financial result for your Society.

Having ended 2015 with our integration ahead of plan, we will continue to strive to improve profitability and efficiency; enabling us to maintain our strong capital position which is a crucial platform for developing new products and improving the services we offer.

Sales Performance

It is pleasing to note that we have achieved a significant growth in sales during 2015 and have not been distracted by the merger. Looking at the totality of sales volume, we achieved almost 182,000 sales of new products in 2015. By way of a like-for-like comparison, that represents a significant 60% increase on the level of sales achieved by the two pre-merged Societies in 2014.

Customer Services

It has been a very busy year and despite all the challenges, particularly in relation to the merger, the OneFamily team continued to deliver consistently high levels of customer service. We achieved an overall 93% satisfaction rating, with 94% of all enquiries to our contact centre being resolved in the first phone call. The OneFamily Customer Service team were also rated at 98% for having shown real understanding of the calls they received and a 95% score for their knowledge.

Awards and Partnerships

I am delighted that we won the Moneyfacts Junior ISA provider of the year award for 2015, which is judged by personal finance journalists and other leading industry figures.

OneFamily is ISA Manager for the Bank of Ireland UK's Post Office ISA product, which has enjoyed another successful year. We are also very pleased to have extended our relationship with Bank of Ireland UK during 2015, with the launch of the AA ISA, which has also been recognised by Moneynet, awarding the prize for the Best Cash ISA Provider to AA Financial Services.

The OneFamily Foundation

The OneFamily Foundation was set up to benefit our members, their families and the communities in which they live and work, supporting the 4th principle of our strategy. As a financial mutual, owned by our members, we do not need to pursue a policy of profit-maximisation to reward shareholders and as such we use some of our profits to fund the OneFamily Foundation. OneFamily aspires to make £5 million available through the OneFamily Foundation over five years. Last year over half a million pounds was committed through Personal Grants and Community Awards. I have visited a number of the projects myself and can attest to the real impact that Foundation awards are making to the lives of recipients.

Personal Grants

OneFamily members can apply for a £500 Personal Grant to help them or someone they care about. From specially adapted glasses to a respite break for a carer, in 2015 our Personal Grants gave 467 people the equipment, time or knowledge they need to improve their lives.

Community Awards

Our members can also nominate a project close to their heart for a Community Award of £5,000 or £25,000. Members can nominate projects twice a year and the Awards have helped communities to fund things like the renovation of swimming pools and local children's parks.

Final words

This year's Annual Report and Accounts shows how our commitment to delivering on the strategy of building a modern mutual is now starting to bear fruit.

We have successfully managed the acceleration of our merger integration, alongside careful underlying cost control and our trading position included in retained earnings, has made a £2.6 million positive contribution to the results for the year arising from ordinary trading activities of £1.6m and property revaluation of £1.0m.

Going forward, and fully aligned with our strategy, we will continue to capture all of the benefits of integration, whilst focusing on broadening our product line for the benefit of our members.

I would like to thank Norman Riddell, who took on the responsibilities of chairmanship of Family Investments in 2014 and for providing invaluable expert oversight and challenge during the merger period. Norman also took on additional responsibilities to support the merged business, becoming its first Vice-Chairman in April 2015. Further thanks must go to Christina McComb, who was appointed as the first Chairman of OneFamily. Having been appointed to the Board of Engage Mutual in 2005 and its Chairman from April 2014, Chris brings a great deal of experience and skill to the Society. I would also like to thank all employees for their dedication during 2015. Not only have they worked hard to deliver the merger so efficiently, but their efforts over the past year have been the driving force in the creation of a new and exciting force in the financial services space.

The mutual difference is increasingly well demonstrated at OneFamily, in terms of what we do and how we do it. That is why I am looking forward to 2016 with confidence.

Chief Executive
Simon Markey

"I am delighted that OneFamily won the Moneyfacts Junior ISA provider of the year award for 2015."

Simon Markey
Chief Executive

Strategic report

OneFamily's vision is to help families help each other meet the financial demands of modern life. We aim to provide good value products and excellent service. We judge our performance against these objectives through customer research and monitoring the performance of our products. We also believe that our members expect us to thrive and grow in order to achieve economies of scale whilst maintaining prudent control over costs, maintaining adequate financial resources and complying with all relevant legislation and regulation.

The merger of Family Investments and Engage Mutual has created a modern mutual based upon the five key principles that we consider to be the building blocks of the Society. Our performance against these principles plays an important role in the determination of future success and is monitored on an ongoing basis.

OneFamily strategic principles	How we have performed in 2015
The Society will operate with a clear strategy and vision.	We have created a new vision for OneFamily and we have both re-affirmed and made significant progress in implementing our strategy in 2015.
We will seek to provide our customers and members with relevant offerings.	In combining the product range of the two merged businesses, we have broadened our offer to customers. We will announce in 2016 that OneFamily is to enter the lifetime mortgages market and we continue to work on further products and services that will support families.
We will operate as efficiently as possible, for the benefit of members.	We have worked hard to control the costs of running the business; with underlying operating costs standing at £26.8m, generating an enhanced operating efficiency ratio (operating expenses as a percentage of members' funds under management) of 0.36%, compared with 0.38% in 2014. We expect this ratio to improve further in future years.
Our aim is to give back a proportion of any profits to the wider society in a way that engages with our membership.	As a financial mutual, owned by our members, we pursue a strategy of profit-optimisation and we use a percentage of our profits to fund the OneFamily Foundation. We aspire to make £5 million available through the OneFamily Foundation over five years, with over half a million pounds committed to customers, their families and communities in 2015.
Success is only achievable with good governance and management.	In compliance with the UK Corporate Governance Code (as annotated for Mutual Insurers), 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. The Executive Group, led by our Chief Executive Simon Markey, managed the merger process extremely successfully, ensuring a smooth transition from two societies to one.

The principal risks and uncertainties faced by the Group, as well as the actions in place to mitigate those risk exposures, are further discussed in the Directors' report on pages 21 to 27. As we continue to execute our strategy, we expect to achieve a financially stronger business, efficiencies through scale, increased value for our members and the potential to launch a wider range of financial services products in the future.

Historically the pre-merged Societies had focused on the children's savings market, successfully achieving significant market share in the CTF and Junior ISA markets as well as the life and protection area. We will continue to service these core savings and protection sectors, whilst the enlarged business will deliver against strategy by further broadening its product range.

OneFamily has an important agreement with Bank of Ireland UK to administer Post Office ISAs and AA ISAs and partnerships of this nature remain an important strand of our ongoing strategy.

In 2016, we believe it will be appropriate, following the merger in 2015, to undertake a strategic review utilising expertise from a consulting firm in order to further enhance our plans. We will update members in next year's Report and Accounts with any material changes to our current strategy.

Financial review

In 2015 our focus has been to maintain and enhance the financial stability and capital strength of the Society whilst ensuring that the merger with Engage Mutual was successfully integrated into our operating model in a controlled manner. The merged entity provides a platform to develop a stronger reputation, increase our market share by developing a broader product offering, and deliver genuine benefits to customers from belonging to a mutual. Our financial results are described in more detail below.

As always in managing your business we have endeavoured to strike the right balance between maintaining the Society's long term financial and capital strength and maximising the immediate financial benefits for customers, demonstrated by the returns to investors achieved highlighted in the Investment report on pages 14 to 15, and also the insurance benefits available to policyholders.

During 2015 the merger of Family Investments with Engage Mutual to create OneFamily has significantly strengthened the financial position of the Society.

2015 has seen significant positive progress for the Society financially:

- Primarily the merger and a successful year of trading activity have generated an increase in Group retained earnings of £104.4m during the year from £46.5m to £150.9m.
- Our surplus regulatory capital including With Profits has increased to £105m as detailed in note 1 to the accounts.
- Customers' funds under management have grown by 39% to £7.4bn, including an increase of £0.8bn due to the merger with Engage Mutual.
- We have had a very successful year in terms of generating income from new business, with total sales of 182,000 policies mainly across the Post Office Money ISA, Over 50s Life Cover and Junior ISA products.
- Two major business lines have contributed in particular to this result: Bank of Ireland ISA sales have grown by 48% and Over 50s Life Cover by 15%.
- We took the decision to expand the business where appropriate and we now offer cash ISAs where deposits are held by Bank of Ireland not only through Post Office but also through the AA. We have also enhanced the offerings made through these partners by introducing an online ISA facility.
- Accordingly, our product range has become significantly more diversified and we now have a range of products that:
  - span all age groups;
  - include both cash and equity-based investment opportunities; and

  - offer savings, investments and insurance-based protection products.

- As part of the integration of Engage Mutual we have taken the opportunity to rationalise the business where we considered it appropriate. We took the decision to dispose of the health book of business and so sold Engage Mutual Health on 30 October 2015, which generated a profit on disposal for the Group of £0.3m and for the Society of £2.9m.

Accounting changes in 2015

- The results of the merged entity incorporated in the accounts reflect a full year of Family Investments and nine months of Engage Mutual following our business combination on 1 April 2015.

- For 2015 the organisation has adopted two new accounting standards, Financial Reporting Standard 102 (FRS 102) and Financial Reporting Standard 103 (FRS 103), the impact of which is detailed in note 31 to the accounts.

- FRS 102 and FRS 103 establish the current view of UK GAAP requirements. The main impact for the OneFamily Group is presentational, requiring that all premiums and claims that relate to investment business are removed from the Insurance Long Term Technical Account and are recorded on the balance sheet as customer deposits and withdrawals. There are also a range of additional disclosures in the accounts. Details of the accounting for the combining of the two Societies are set out in note 2 to the accounts.

Capital position

- Our capital position continues to be strong and customers can be confident that the Society is well capitalised and adequately funded to meet its financial commitments. As a result of the business combination during the year our members will be pleased to note that our capital strength, represented by our surplus Non-profit capital in excess of regulatory requirements, has increased to £72.9m (2014: £40.2m).

- The capital growth is due to a combination of primarily the merger with Engage Mutual and positive trading results in the year.

- Capital requirements are analysed further in note 1 to the accounts which show that at 31 December 2015 the Society held:

  - £72.9m of excess capital over its regulatory requirements for the Non-profit fund (2014: £40.2m), as noted above, representing 5.3 times the minimum capital requirement;

  - £18.6m of excess capital over its regulatory requirements for the open With Profits Fund I (2014: £nil, 1 April 2015 on merger with Engage Mutual: £22.3m), representing 4.3 times the minimum capital requirement; and

  - £13.1m of excess capital over its regulatory requirements for the closed With Profits Fund II (2014: £nil, 1 April 2015 on merger with Engage Mutual: £12.7m), representing 4.7 times the minimum capital requirement.

With profits

The Society operates two with profits funds, acquired as part of the merger with Engage Mutual in 2015. Each fund is separately ring fenced for the exclusive benefit of its own members.

OneFamily (EM) With Profits Fund (With Profits Fund I)

At 31 December 2015 the fund held assets of £77.4m and made an overall return of 0.8% during the year. As part of the fund's bonus declaration, regular bonus rates were unchanged in the period. Final bonus rates were set so that pay-outs continue to be consistent with the target ranges set out in the fund's Principles and Practices of Financial Management (PPFM). Currently no market value reduction factors are being applied.

The fund is open for new business. Owing to the strong financial position of the fund, the Board has agreed to continue to use a proportion of the surplus assets in the fund to improve pay-outs. For policies commencing before 2015, claims arising on policies not already benefitting from guarantees received a typical uplift of 11.5% during 2015.

OneFamily (ELL) With Profits Fund (With Profits Fund II)

At 31 December 2015 the fund held assets of £67.1m and made an overall return of 3.3% during the year. As part of the fund's bonus declaration, regular bonus rates were unchanged in the period. Final bonus rates and market value reduction factors were set so that pay-outs continue to be consistent with the target ranges set out in the fund's PPFM.

The fund is closed to new business and in October 2011 a formal run-off plan was agreed with the Financial Services Authority (now the Prudential Regulation Authority and Financial Conduct Authority). This governs how, over time, the excess assets in the fund will progressively be distributed to customers via enhanced claims pay-outs. The precise level of enhancement depends on both individual customer circumstances and the ongoing investment performance of the fund. The current level of enhancement is 9.5%.

Solvency II

Preparation for the new Solvency II regulatory and reporting regime has been a key focus for the business in 2015 with the Solvency II regime coming into effect on 1 January 2016.

Our strong Solvency I capital position detailed above at 31 December 2015 is materially maintained under the new Solvency II regime. We will report our capital position under Solvency II in our 2016 Annual Report and Accounts.

Operating expenses

Net operating expenses of £37.4m, excluding expenses from discontinued operations, incorporate those operating expenses of the Engage Mutual business. Other operating costs of £25.3m are included in Net operating expenses in the Non-technical account in respect of certain subsidiary company costs. More detail is included within note 8 to the accounts. Excluding costs associated with the development of the business (research and development costs, investment in mergers and acquisition costs and costs of sales) and other exceptional or discretionary costs (pension deficit costs, staff bonus), the underlying operating expenses are £26.8m, generating an enhanced operating efficiency ratio of 0.36% compared with 0.38% in 2014.

We expect further efficiency benefits to arise in 2016 as a result of the completion of the integration process as staff costs reduce, enabling us to invest in new products and distribution to further enhance the Society's offerings to its members. Currently we expect in our corporate planning, that the cost of integration will be recovered within three years and substantial integration synergy savings already emerging in 2015 will then continue on an annualised basis into the future.

The future

Our focus is to ensure we grow our product range in target markets whilst improving our efficiency both in administering acquired businesses and in simplifying our existing processes.

In our ongoing commitment to build a thriving business for the benefit of members, we will continue to look at both developing new products and considering further acquisition or merger opportunities.

Investment report

In general our managed funds had a positive year in 2015, with all but three of our funds, Charities Ethical, Family Asset Trust, and Santander Stock Market Trust, showing unit price increases, as shown in Table 1 below.

Our two largest funds, in which most of our members are invested, showed positive returns. The Family Investments Child Trust Fund, which invests in UK, US, European and Far East Equities, grew by 1.5% in the year, whilst the Family Balanced International Fund (FIBI), in which many of our Family and Junior Bond policies are invested and which also invests in emerging market equities, property and bonds, in addition to the global equities referred to above, grew by 1.3%. This follows a good year in 2014 in which the CTF grew by 1.8% and FIBI by more than 4% and is against a background of much greater market volatility in 2015.

Market Background

2015 began with a flurry of divergent central bank policy moves in response to an uneven global growth outlook, rapidly declining global inflation and a major anticipated expansion of quantitative easing by the European Central Bank (ECB).

Markets in June were unsettled by a steady stream of worrying headlines from Europe as a result of the Greek debt crisis. The protracted negotiations, during which Greece failed to make scheduled International Monetary Fund (IMF) loan repayments and called a referendum on new austerity proposals, led to market uncertainty with fears of Greek exit from the Eurozone. Although a new bailout agreement resolved this position, investors were also worried by economic news from China and the volatility in the Chinese equity markets. This led to a broad sell-off of global equities in August and September. By the end of the third

Table 1

Unit price growth			
Funds*	**One Year %**	**Three Year %**	**Five Year %**
Family Balanced International Fund (FIBI) (share class A)	1.3	18.5	22.5
Family Investments Child Trust Fund	1.5	21.9	24.6
Family Asset Trust	-0.5	18.0	25.5
Family Charities Ethical Trust	-3.2	13.7	18.6
Family Sovereign Fund	2.2	20.7	24.4
Santander Stockmarket 100 Tracker Growth Unit Trust	-2.6	10.2	17.2
Indices			
FTSE 350 Ex Investment Trusts	0.5	21.9	32.9
US Index	4.6	56.2	67.5
Euro Index	6.0	34.1	34.6
Far East Index	-2.8	2.1	6.3
Japan Index	17.6	50.9	35.8
Barclays UK Gilt 1 to 5 TR Val	0.9	3.5	10.6
Barclays UK Gilt 15+ TR Value	0.4	13.3	41.8

* The table above provides the performance of the Group's six largest unit-linked funds.

quarter, investors in global equity markets experienced the worst three month performance of the last four years as measured by the MSCI World Index and many country level markets posting double digit gains through the first half of 2015 were now posting losses.

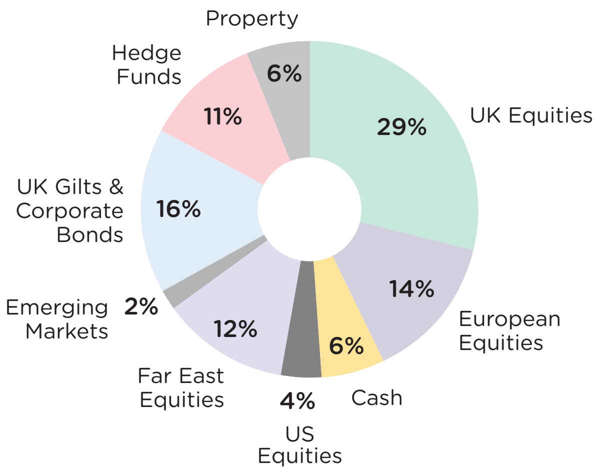
Global equities rebounded smartly in October, though with little further upside in November and December to close out the fourth quarter.

Outlook

Looking forward to 2016, in contrast to the beginning of 2015, the outlook for global growth is generally more subdued. This reflects concern over growth rates in key world markets. The IMF forecasts Chinese Gross Domestic Product (GDP) will fall to 6.3% in 2016 following an estimated growth rate of 6.9% for 2015, itself a disappointment relative to expectations at the beginning of the year. The IMF is also forecasting 2016 growth rates for both the US and Global economy to be 0.3% softer than they were at the same point a year ago. Not surprisingly, with the outcome in 2015, forecasts for emerging markets growth outside China are also challenged; Brazil and Russia, the second and fourth largest emerging markets by output, are still forecast to be in recession for 2016.

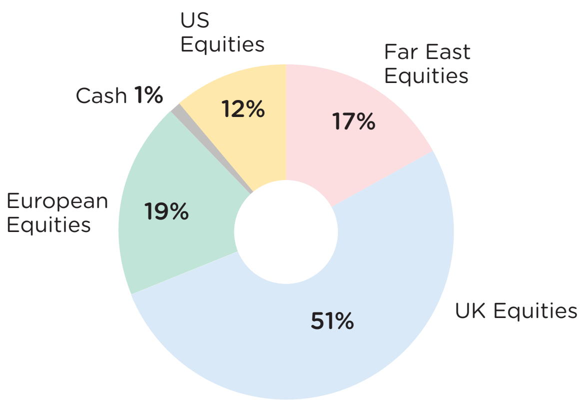
In the UK, the announcement of the referendum on the UK's continued membership of the EU has put some pressure on sterling and the impact of the referendum result on markets will only be known later in the year. In the meantime there may be some market volatility. The UK market has shown continued growth throughout the year albeit at a lower rate than previous periods.

Sovereign Fund



The top ten holdings in the Sovereign Fund, via the Family Balanced International Fund, represent 33.95% of the fund.

Family Investments Child Trust Fund

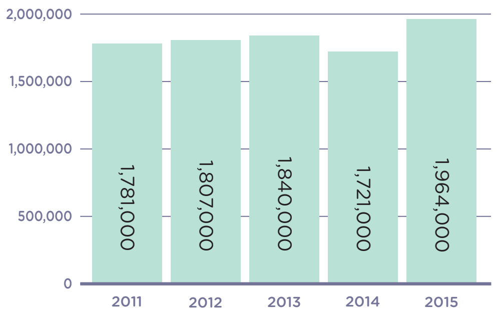


The top ten holdings in the Family Investments Child Trust Fund represent 17.37% of the fund.

More information about where our funds invest can be found on our website at www.onefamily.com/connect-with-us/fund-information

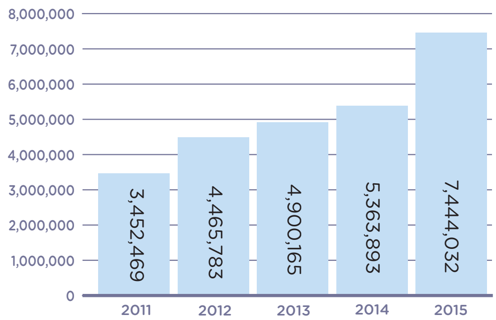
Group performance highlights

Membership



Membership increased by 243,000 in 2015. This reflects the addition of over 195,000 members from Engage Mutual along with new members from sales activity.

Members' Funds Under Management (£'000)



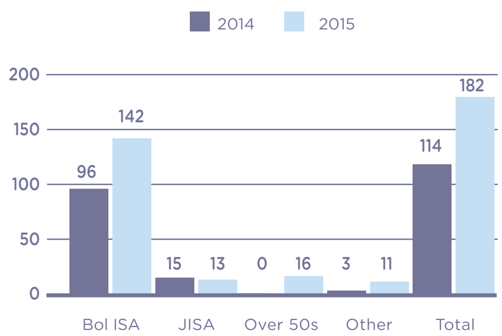
There was an increase in funds under management of £2.1bn in 2015. This reflects the transfer of £0.8bn from Engage Mutual and the growth in contributions from members.

Members Funds Under Management[1]	Group 2015 £'000	Group 2014 £'000
Opening balance at 1 January	**5,363,893**	4,900,165
Amounts paid in by members	**2,591,786**	1,279,826
Amounts withdrawn by members	**(1,258,784)**	(870,301)
Investment income, gains & losses	**(34,913)**	152,979
Management charges paid to the Society	**(34,284)**	(31,309)
Transfer of business[2]	**816,334**	(67,467)
Closing balance at 31 December	**7,444,032**	5,363,893

Note 1: Members' funds under management include all the funds under management held by Group subsidiary companies in addition to those funds shown on the face of the group Balance Sheet.

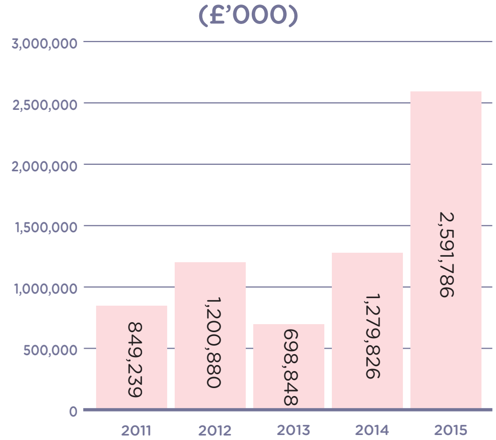
Note 2: Transfer of business is the disposal of Post Office Insurance Services in 2014 and the addition of Engage Mutual in 2015.

Sales Volumes ('000)



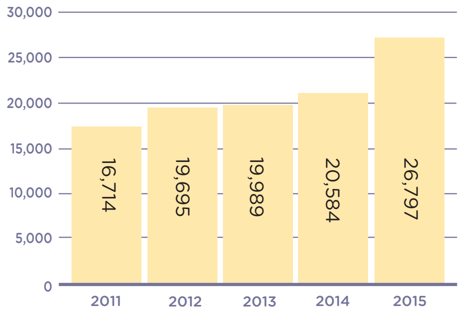
The increase in sales volumes of 60% from 2014 reflects the increase in activity on the Bank of Ireland ISA sales and the impact of the new product lines as a result of the merger with Engage Mutual.

Group Customer Contributions (£'000)



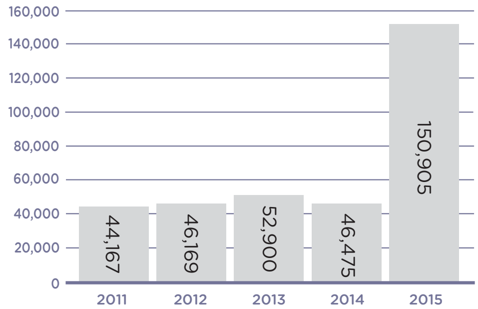
Customer contributions increased by £1.3bn reflecting the high volume of cash ISA sales and £37.6m from Engage Mutual business from April 2015.

Underlying Group Operating Expenses (£'000)



Following the merger, underlying operating expenses of the Group now incorporate the expenses of Engage Mutual which represents the Group expenses adjusted for certain items as described in more detail within the Financial Review.

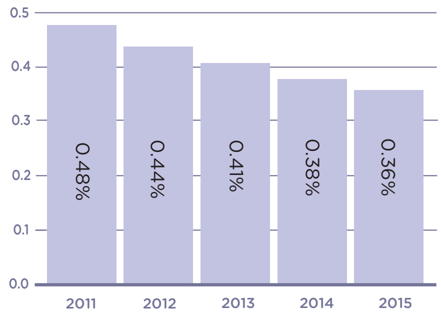
Retained Earnings (£'000)



Retained earnings have increased by £104m. This reflects the impact of combining the retained earnings of the two businesses post-merger and the improved operating result.

Net operating expenses summary	Group 2015 £'000	Group 2014 £'000
Net operating expenses (note 8)	**63,596**	37,261
Acquisition costs and Cost of sales	**(10,158)**	(3,696)
Non-recurring business development costs	**(28,449)**	(14,290)
Investment expenses	**2,316**	1,864
Less: Linked fund investment expenses	**(508)**	(555)
Total	**26,797**	20,584
Members' Funds under Management	7,444,032	5,363,893
Operating efficiency %	**0.36**	0.38

Operating Efficiency



Operating efficiency measures the underlying costs of running the business (excluding costs associated with the development of the business (research and development costs, investment in mergers and acquisitions, integration costs and cost of sales)) as a percentage of funds under management. This shows an improvement in the ratio from 0.38% to 0.36%

Key Statistics

Sales
up **60%**
(**182k,** 2014: 114k)

Membership
up **14%**
(**1.964m,** 2014: 1.721m)

Member Contributions
up **100%**
(**£2.6bn,** 2014: £1.3bn)

Retained Earnings
up **224%**
(**£150.9m,** 2014: £46.5m)

Member Funds
up **39%**
(**£7.444bn,** 2014: £5.364bn)

Payments to Members
up **45%**
(**£1.259bn,** 2014: £870m)

Operating Efficiency
improved by **5%**
(**0.36%,** 2014: 0.38%)

Board of Directors

Christina McComb
Chairman

Christina is the Chairman of OneFamily and was previously Chair of Engage Mutual Assurance.

Christina joined the Engage Mutual Assurance Board in May 2005 and was appointed Chairman in April 2014. Prior to this she was Vice Chairman from 2009. Christina has wide ranging experience of advising and investing in smaller companies, having spent 14 years at leading venture capital group, 3i Group plc. Christina is currently Senior Independent Director of the British Business Bank, Senior Independent Director at Standard Life European Private Equity Trust plc and a non-executive director of Baronsmead VCT2 plc and Nexeon Limited.

Christina is the Chairman of the Nominations Committee and a member of the Investment and Product Committee.

Ian Buckley
Vice Chairman and Senior Independent Director

Ian joined Family Investments in 2009 and was appointed Vice Chairman and Senior Independent Director of OneFamily in 2016. He is a consultant to the Rathbones Trust Company, having previously served as a Special Adviser to Rathbone Brothers Plc, and a director and a member of the Group Executive Committee for 11 years. Prior to this, he was Chief Executive of Smith & Williamson from 1985 to 1995. He was subsequently Chief Executive of EFG Private Bank Limited and in February 2000 set up Tenon Group Plc. Ian is also a non-executive director of Vision Independent Financial Planning and Miller Insurance Services LLP.

Ian is the Chairman of the Remuneration Committee and a member of the Risk, With Profits, Investment and Product and Nominations Committees.

Nigel Masters
Non-Executive Director

Nigel is a non-executive director, having previously served on the Engage Mutual Assurance Board.

Nigel joined the Engage Mutual Assurance Board in June 2012 as a non-executive director. He is a Fellow of the Institute and Faculty of Actuaries with over 35 years of experience in financial services. Nigel has held a number of senior actuarial positions, including Group Chief Life Actuary for Zurich Financial Services and partner in the actuarial consulting practice at PricewaterhouseCoopers. Previously President of the UK actuarial profession, he is currently a non-executive director of Wesleyan Assurance Society and a non-executive director of JP Morgan Life.

Nigel is Chairman of the Risk and With Profits Committees, and a member of the Audit and Nominations Committees.

Peter Box
Non-Executive Director

Peter joined Family Investments in 2009 and was an audit and business advisory partner at PricewaterhouseCoopers, to a broad range of companies from large international businesses to specialist national firms in his 39-year career. In particular, through his focus on the insurance industry, he has developed a deep understanding of the major issues affecting the sector and has significant experience of regulatory and governance matters. He also serves as Vice Chairman and non-executive director of Marsh Limited, a non-executive director of Pool Reinsurance Company Limited and Cardif Pinnacle Insurance Holdings plc.

Peter is the Chairman of the Audit Committee, and a member of the Risk, With Profits and Nominations Committees.

Norman Riddell
Non-Executive Director

Norman joined Family Investments' Board in 2006 and has chaired the Investment Committee since 2010. He was Vice Chairman from May 2010 and appointed Chairman of Family Investments in May 2014.

Having trained and qualified as a commercial banker in Scotland, he moved into investment management and held the position of Chief Executive Officer in three different investment management companies, including the INVESCO Group, over a period of some 20 years. Norman has served in the capacity of non-executive director in a number of financial companies, including Life Assurance Holding Corporation, and is a non-executive director of Invesco UK Limited.

Norman is the Chairman of the Investment and Product Committee and a member of the Audit, Remuneration and Nominations Committees.

Board of Directors

Simon Markey
Chief Executive

Simon joined Family Investments in November 2012 as Chief Executive.

Simon started his career at Lloyds Bank in 1984 where he remained for over 20 years and held numerous positions including Head of Savings and Director of Customer and Sales. Following Lloyds, Simon became Managing Director of Lifestyle Services Group Ltd and CEO of Consumer at Marsh Ltd, before joining NBNK Investments PLC in 2011.

Karl Elliott
Marketing Director

Karl became Marketing Director of Engage Mutual Assurance in October 2004 and was appointed to the Board in December 2007.

Karl has over 20 years' experience of working with financial mutuals and joined Engage Mutual Assurance in 1999, carrying out a number of product, marketing and distribution roles within the marketing team including the development and launch of the Engage Mutual Assurance brand.

John Adams
Commercial Director

John is a Certified Accountant and has been a full-time executive of Family Investments since 1986 when he was appointed Financial Controller. He was promoted to Finance Director and appointed to the Board in 1993, and became Commercial Director in April 2015. John previously worked for American Express for 7 years in a variety of finance roles.

Keith Meeres
Governance and Risk Director

Keith joined Family Investments in 1993 as Compliance Officer having previously worked for a large insurer and a building society. He became Secretary in 1996. He was appointed to the Board in 1997. He is a director and former Chairman of the Investment and Life Assurance Group (ILAG) and a member of their Regulations Practitioner Group Committee.

Directors' report including statement of directors' responsibilities

The Annual Report and Accounts including the Strategic report have been prepared in accordance with The Friendly Societies (Accounts and Related Provisions) Regulations 1994 ('the Regulations'). A Board of Directors comprising the Chairman, four other independent non-executive directors and four executive directors governs the Society. The Board is led by the Chairman whose role, along with that of the Chief Executive, has been set out and approved by the Board.

The Board delegates management of the business to the executive directors, who meet as a group at least monthly. 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.

Directors' biographies and details of length of service can be found on pages 18 to 20.

Board of Directors

Prior to the merger with Engage Mutual Assurance on 1 April 2015, the Board comprised:

Non-executives
Norman Riddell (Chairman)
Ian Buckley (Vice Chairman)
Peter Box
Veronica Oak (resigned 31 March 2015)

Executives
Simon Markey (Chief Executive)
John Adams (Finance Director)
Keith Meeres (Secretary and Corporate Services Director)

Following the merger on 1 April 2015 the new Board of Directors was:

Non-executives
Christina McComb (appointed Chairman on 1 April 2015)
Norman Riddell (resigned as Chairman on 31 March 2015 and appointed Vice Chairman on 1 April 2015)
Peter Box
Ian Buckley
Caroline Fawcett (appointed on 1 April 2015 and resigned 23 December 2015)
Nigel Masters (appointed on 1 April 2015)

Executives
Simon Markey (Chief Executive)
Peter Burrows (appointed Chief Financial Officer and Deputy CEO on 1 April 2015 and resigned on 30 June 2015)
John Adams (Commercial Director)
Keith Meeres (Secretary and Governance and Risk Director)
Karl Elliott (appointed Marketing Director on 1 April 2015)

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 executive 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 has been agreed by the Board and documented. The Vice Chairman undertakes the role of Senior Independent Director.

Statement of responsibilities of the Board of Directors

The Friendly Societies Act 1992 ('the Act') requires the Board of Directors to prepare accounts 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 financial statements in accordance with UK Accounting Standards and applicable law (UK generally Accepted Practice) including FRS 102 (the Financial reporting standard applicable in the UK and Republic of Ireland).

In preparing those accounts, 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; and
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Society 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 provides the information necessary for the members to assess the Society and Group's performance, business model and strategy.

As at 31 December 2015 the Society'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 is no material shortcoming (see the Risk Sub-Committee and Audit Sub-Committee reports on page 30).

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 Society is effectively managed and controlled.

Going concern

Accounting standards require that directors satisfy themselves that it is reasonable for them to conclude whether it is appropriate to prepare statements on a going concern basis. The Society's business activities, together with the factors that are likely to affect its future development and position are set out in the Strategic report on page 10. The financial position can be found in the Financial review section on page 11.

As a result of the Board's consideration of its long term viability as set out on page 35, the directors are confident that the Society has adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Principal risks and uncertainties

OneFamily's risk management framework is designed to ensure that management is aware of all material risks OneFamily is taking, the actions in place to mitigate those risk exposures and the impacts on capital management requirements. The Board is responsible for overseeing and approving the framework, in addition to ensuring there is an appropriate risk reporting and control framework to manage and develop the business. The Board receives regular risk reports which track the status of current and emerging risks and the mitigating effect of management actions.

Management control is exercised through a number of committees which report into the Executive Group. These sub-committees manage business performance and risk within agreed terms of reference. In this way, they provide a clear and visible internal management framework to ensure that we monitor and manage our risks, operate efficiently and effectively, comply with regulation and treat our customers fairly.

At each Risk Sub-Committee meeting, the risks and mitigations identified through the monitoring and controlling processes are analysed. The control framework is overseen by the Audit Sub-Committee.

The current principal risks and uncertainties, with their corresponding actions to manage and mitigate these risks, are summarised in the table below:

Principal risks and uncertainties	Risk mitigation and management
Strategy risk	
The risks associated with developing and delivering the strategy, including merger, acquisition and disposal activity.	Defined criteria and sign off requirements exist for strategic developments. All major strategic developments are considered by the Board. Upon approval, planned and controlled projects are implemented.
Market and credit risk	
The risk of adverse value change of the financial assets, financial liabilities, reinsurance assets and policyholder liabilities.	OneFamily seeks to manage its financial exposures prudently and will therefore look to actively match or limit liabilities, manage credit exposures and manage its with profits business. OneFamily has negligible appetite for failing to meet customer or financial obligations as they fall due. It will maintain assets of appropriate quality and accessibility to meet obligations.
Lapse risk	
The loss of income that would result from a deterioration in business retention (includes lapse and maturity continuations).	Regular reviews of experience against assumptions are conducted. A focused customer approach operates to improve retention experience.
Insurance risk	
A key exposure is through fluctuations in factors such as mortality, longevity and morbidity.	OneFamily will accept risks which are well understood and can be modelled with an appropriate degree of confidence. OneFamily will consider managing exposure through the use of reinsurance arrangements to maintain an appropriate balance of risk and reward. Regular reviews of experience against assumptions are conducted.
Conduct risk	
The risk of customers suffering poor outcomes.	OneFamily is committed to the fair treatment of customers. Regular reporting and monitoring is conducted.
Expense risk	
The risk of expenses being higher than expected.	Controls on expenditure exist through the expense authorisation process. Regular reviews of experience against assumptions are conducted with results reported to the Audit Sub-Committee.
Operational risk	
The risk arising from inadequate or failed internal processes, personnel or systems, or from external events. This includes risks relating to IT security and outsourcing.	OneFamily has a minimal appetite for any operational risks, particularly where policyholders and members' data might be compromised. Frequent top-down and bottom-up risk reviews are completed and monitored by the Risk Sub-Committee.

Number of members

As at 31 December 2015, OneFamily had 1,964,131 members (2014: 1,721,421 Family Investments members).

Appointment of auditor

A resolution to re-appoint the auditor to the Society will be proposed at the 2016 AGM.

Following a review of our external audit arrangements, including a competitive tender process, KPMG LLP was appointed as auditor to the Society.

Complaints

It is OneFamily's policy to investigate and resolve all complaints promptly and fairly, but in the event that members are not satisfied with the response the Financial Ombudsman Service provides a complaints resolution service. Full details can be obtained from the Secretary or from OneFamily's website at www.onefamily.com. In 2015 we resolved 98% of complaints within four weeks.

Health and safety report

OneFamily has developed a health and safety framework to ensure compliance with applicable laws and regulations including a Health and Safety Committee that comprises senior management and employee representatives.

Financial crime

OneFamily continuously reviews its exposure to financial crime, including cyber security, and takes appropriate measures, including anti-fraud and anti-money laundering training of its employees, to mitigate these risks. Regular fraud and money laundering risk assessment occurs within OneFamily with this activity underpinned by the respective corporate anti-fraud, anti-money laundering, anti-bribery and whistle-blowing policies.

OneFamily is a member of the Investment Association Fraud Alert Scheme, whose main objectives are to protect member assets and work with the industry in reducing financial crime.

Performance monitoring and evaluation

Each year the Board sets key business objectives for the Society for that year and as part of its rolling three year plan, which are based on the objectives outlined in the Strategic report on page 10. The Board uses a 'Balanced Scorecard' approach to monitor performance against these objectives at regular intervals.

In compliance with the UK Corporate Governance Code (as annotated for Mutual Insurers), 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 2015 the evaluation was conducted internally. The key areas arising from the review were the continued development of the new Board including establishing appropriate relationships within the new Board and between directors and management, and the need to attract and maintain appropriate individuals with the relevant skills and experience to deliver OneFamily's strategic objectives.

The Board intends to conduct a detailed review externally facilitated every three years. In addition the Chairman holds periodic meetings with each executive director and formal meetings with the non-executive directors to evaluate the performance and development needs of the individual directors.

Member relations

The Board is committed to maintaining good communications with members and is keen to develop its understanding of members' views and provide 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 OneFamily measure, and where necessary improve, its services. We hope that members will continue to participate in our surveys. Details of the Society's Member Relations strategy are available on our website at www.onefamily.com or from the Secretary.

Employees

OneFamily employed an average of 477 employees during 2015 at a total cost of £21.5m. 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.

Employee engagement

OneFamily communicates with its employees on a regular basis to ensure that they are fully aware of OneFamily's core values and business strategy and the part which they play in achieving a successful outcome. Employees are consulted, either directly, or via the Talking Family Staff forum, on any decisions that are likely to affect their interests.

These channels were used to good effect throughout the merger where employees were continually engaged in respect to redundancies arising from the merger activity. Updates were provided using an internal internet, newsletters, cascades of information from key influencers and face to face communication. Most importantly, all employees directly impacted had regular consultation meetings where they could raise any questions or concerns with their manager. Independent staff forums also played an important role in ensuring key messages were communicated. Employees remained focused, engaged and professional throughout the transition period with the prime intent of maintaining a good level of service to members.

Actuarial Function Holder

OneFamily outsourced its actuarial function in January 2016. The actuarial function holder transferred under the provisions of Transfer of Undertakings (Protection of Employment) Regulations 2006 to our service provider, Willis Towers Watson.

Charitable and political donations

During the year the Society made charitable donations of £3,451 (2014: nil), primarily through matching donations raised by staff for charities of their choice. No political donations were made (2014: nil).

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 Society's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

Directors' Interests

None of the directors had any interests in the Society 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 Society and those interests specifically disclosed in note 30 to the accounts.

Equal opportunities and diversity

It is OneFamily's policy to treat job applicants and employees equally, regardless of their sex, race, ethnic origin, religion, age, sexual orientation, marital or parental status, or disability. OneFamily is committed to recruiting, developing, progressing and training employees on the basis of their individual aptitude, competencies and performance.

As at 31 December 2015 the gender mix at management levels is:

	Male	Female
Board of Directors	89%	11%
Senior Managers	63%	37%

Our role as an institutional investor

The UK Stewardship Code was first published in July 2010, and a revision to the Code came into effect in October 2012. Its aim is to enhance the quality of engagement between institutional investors and the companies in which they invest. The purpose of this is to help improve long term returns to shareholders and effective governance by setting out good practice on engagement with investee companies. OneFamily provides a range of passive and actively managed funds investing on behalf of its members in companies on a medium to longer term basis. Investment management of our funds has been outsourced to external investment managers, who take seriously and support the responsibilities of institutional shareholders outlined within the Stewardship Code, and we monitor the adherence of our fund managers to the Code. You can find out more about this in the 'Our Story / Company Information' section of our website www.onefamily.com.

Our environment

OneFamily recognises that its day-to-day operation will impact on the environment in a number of ways and wishes to minimise the potentially harmful effects of such activity wherever possible. OneFamily's environmental policy can be found in the 'Our Story / Company Information' section of our website www.onefamily.com.

Keith Meeres
Director
31 March 2016

Corporate governance report

OneFamily is committed to high standards of corporate governance and has adopted The Annotated Corporate Governance Code for Mutual Insurers (dated April 2015) ('the Code'). The Code applies to these Report and Accounts.

Compliance with the Annotated Corporate Governance Code

OneFamily considers the Code to be closely aligned to the standards that it has set itself and has endeavoured to comply with the main principles for many years. The Board has set the values and standards for OneFamily and its employees, taking account of the principles 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 applied and complied with the relevant principles and provisions of the Code with the following exception:

- The Code recommends that all directors should stand for re-election annually. The Board has not followed this recommendation as it believes that retirement of directors at least every three years is appropriate, given that the Society's Rules provide other means for members to make directors accountable for their actions. The Board will keep this practice under review. Additionally, the Board will continue to require any non-executive director who has exceeded nine years' service to, if still considered independent by the Board, seek re-election on an annual basis rather than every three years. The Board has reviewed the length of service of the non-executive directors and considers that they all meet the criteria of independence.

The Board does not regard the exception as a material departure.

Sub-Committees

The Board of Directors operates the following Sub-Committees:

Nominations Sub-Committee

Christina McComb
(appointed Chairman on 1 April 2015)

Norman Riddell

Peter Box

Ian Buckley

Nigel Masters (appointed 1 April 2015)

Caroline Fawcett (appointed 1 April 2015 and resigned 23 December 2015)

Veronica Oak (resigned 31 March 2015)

Simon Markey

The Nominations Sub-Committee comprises all non-executive directors and the Chief Executive, and the Board appoints its Chairman. It may obtain such outside legal or other independent professional advice as it deems necessary.

When assessing the current and future composition of the Board, the Nominations Sub-Committee considers the balance of skills, experience, independence, knowledge, diversity and effectiveness of the directors. In line with the Diversity Policy, the Nominations Sub-Committee recognises the benefits of having a diverse senior management team and views increasing diversity at senior levels as an essential element in maintaining an effective Board.

The Nominations Sub-Committee also satisfies itself 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 and Investment and Product Sub-Committees.

Investment and Product Sub-Committee

Norman Riddell (Chairman)

Ian Buckley

Christina McComb (appointed 1 April 2015)

Simon Markey

The Investment and Product Sub-Committee is responsible for monitoring the Society's investment and product performance as well as assessing the effectiveness of the investment strategy. This includes 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 agrees and regularly reviews the investment guidelines, objectives, 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 Actuarial Function Holder at least once a year to review and approve recommendations regarding the Non Linked funds, and to review the investment strategy of other funds.

The Sub-Committee reviews overall performance of OneFamily's existing products. It also reviews all new product development proposals and makes recommendations to the Board. The Sub-Committee reviews product maintenance and pricing proposals, and will monitor the performance of new products within an appropriate period following launch. It will also review risks to customers in relation to the products.

Remuneration Sub-Committee

Ian Buckley
(appointed Chairman on 1 April 2015)

Norman Riddell

Caroline Fawcett
(appointed 1 April 2015 and resigned 23 December 2015)

Simon Markey

Veronica Oak
(Chairman, resigned 31 March 2015)

The purpose of the Remuneration Sub-Committee is to set and oversee the implementation of the remuneration policy.

The Sub-Committee meets at least twice each year to review remuneration policy and determines the remuneration packages of the Chairman, executive directors (excluding the Chief Executive) and senior management. In doing so, the Sub-Committee will take 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'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 the 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.

Details of the directors' remuneration can be found in the Remuneration report on pages 36 to 40. The Chief Risk Officer has appropriate input into the setting of the remuneration policy and remuneration decisions other than his own.

Further details of these duties are contained in the Terms of Reference which can be viewed in the 'Our Story / Company Information' section of our website www.onefamily.com.

Risk Sub-Committee

Nigel Masters
(appointed Chairman on 1 April 2015)

Peter Box

Ian Buckley

Veronica Oak (resigned 31 March 2015)

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, Chief Financial Officer, the Governance and Risk Director, the Actuarial Function Holder and the Chief Compliance Officer.

The key duties of the Risk Sub-Committee are:

- review and approve the Society's Risk Management Framework (including the review of significant capital investments);
- recommend to the Board the Society's overall risk appetite and strategy;
- set and manage the capital management policy;
- develop and report on the Own Risk and Solvency Assessment (ORSA) process;
- oversee the development, management and monitoring of Conduct Risk policies; and
- consider and approve the remit of the Risk Management Function, its resourcing and its independence.

Further details of these duties are contained in the Terms of Reference which can be viewed in the 'Our Story / Company Information' section of our website www.onefamily.com.

The key activities of the Sub-Committee in 2015 have been focused on:

- the implementation of Solvency II, monitoring the Society's progress in preparing for the new European Solvency II directive that introduces from 2016 new governance and capital requirements;
- the development of the 2015 ORSA report;
- the continuing development of the Society's response to IT security;
- the assessment of the impact of new legislation and regulation on conduct risk and policyholder outcomes;
- the integration of the business following the merger of Engage Mutual and Family Investments, which necessitated changes to governance and risk frameworks and integration of operational areas; and
- the establishment of the capital management policy of the combined business.

The Sub-Committee continually reviews its activities in the light of changes to OneFamily's strategy, the expansion of its activities and changing domestic and European regulation.

The Sub-Committee met privately with the Chief Risk Officer during the year. The Sub-Committee approved the Risk Management Work Plan for 2015 and for the coming year.

Audit Sub-Committee

Peter Box
(appointed Chairman on 1 April 2015)

Nigel Masters

Norman Riddell

Veronica Oak (resigned 31 March 2015)

The members of the Audit Sub-Committee have been selected with the aim of providing a wide range of financial and commercial expertise.

The duties and responsibilities of the Sub-Committee are contained in the Terms of Reference which can be viewed in the 'Our Story / Company Information' section of our website www.onefamily.com.

Sub-Committee meetings

The Sub-Committee meets at least four times a year. The Sub-Committee comprises three independent non-executive directors named above and meetings are attended also, by invitation, by the Chief Executive, Chief Financial Officer, Governance and Risk Director and Head of Internal Audit. Other relevant managers from the business attend meetings to provide greater insight into current issues.

The Society's Actuarial Function Holder and external auditors are also invited to meetings as required.

Internal Control Environment

The Sub-Committee:

- reviews and approves the annual compliance monitoring plan and monitors the activities of the compliance department;
- ensures adequacy of resource within the compliance and internal audit departments;
- monitors and reviews the effectiveness of the internal audit function including the annual internal audit plan and considers the major findings of the internal audit work; and
- reviews the integrity of the annual financial statements.

The key activities of the Sub-Committee have been focused on the assessment of the outputs from the work of the compliance and internal audit functions, external assurance providers and external auditors. The work of the Sub-Committee in 2015 required particular focus on the merger of Family Investments and Engage Mutual. This work included commissioning and reviewing the external assessment of the integration programme and reviews of certain aspects of the control environment.

Compliance

The Sub-Committee assessed the effectiveness of the Compliance Department throughout the year. It approved the Compliance Charter which sets out the authority and scope of the department as regards its role in securing adherence to financial services regulation.

The Sub-Committee received reports on the progress and results of the Compliance plan. The Sub-Committee approved the Compliance plan and budget for the coming year.

Internal Audit

The Sub-Committee assessed the effectiveness of the Internal Audit Department throughout the year. It approved the Internal Audit Charter, setting out the authority and scope of Internal Audit and the annual Internal Audit plan, received reports on the progress of the audit plan and results of their audit activity. The Sub-Committee met privately with the Head of Internal Audit during the year and provided input to the annual performance appraisal. The Sub-Committee approved the audit plan and Internal Audit budget for the coming year.

Financial and Regulatory Reporting

The Sub-Committee reviews, with management and external auditors, the appropriateness of the Annual Financial Statements including:

- changes to regulatory requirements;
- whether the Annual Report and Accounts taken as a whole are fair, balanced and understandable so that members can assess OneFamily's performance, business model and strategy;
- consideration of material issues in which significant judgement has been applied or where there has been discussion with the external auditor;
- quality and appropriateness of accounting policies and practices;
- quality of disclosures and compliance with the relevant financial reporting standards and governance requirements;
- major judgemental areas, the viability statement and the "going concern" assumption;
- significant adjustments resulting from the audit; and
- the actuarial methodology and assumptions.

The primary areas of judgement and risk considered by the Sub-Committee in relation to the 2015 accounts were as follows, see next page:

Area of Focus	How the Sub-Committee dealt with the risk
Judgement is needed in the determination of assumptions underlying the long term insurance technical provisions. The key assumptions are investment return and associated discount rates, future expenses, mortality and persistency. There is a risk that actuarial reserves may be insufficient or calculated incorrectly.	The Actuarial Function Holder reports upon regular reviews of the key assumptions associated with the computation. The Sub-Committee challenges and approves any change to assumptions and also methodology changes. The work of the Actuarial Function Holder is peer reviewed. We have regard for observations from the external auditors in finalising our position.
Investments and other assets or liabilities, where there is a risk of misstatement of values or inappropriate values. The long term insurance technical provisions, the adoption of acquisition accounting, and including recognition of intangibles, are each a significant part of the balance sheet and hence an incorrect value is a risk.	Consideration of the various processes and controls associated with the reporting. The vast majority of assets are valued with reference to externally available market information.
Risk associated with changing legislation and various events including appropriate accounting practices for the merger transaction with Engage Mutual, including the valuation of assets and liabilities acquired and the 'imputed consideration' relating to the perceived exchange/transfer of member benefits/entitlements.	Changes in the accounting policy are approved by the Sub-Committee. In particular the Sub-Committee discussed and approved the basis of accounting for the acquisition of Engage Mutual. We identified accounting policy differences and made adjustments for alignment where necessary. We had the input of external expert valuers in arriving at the value of intangible assets acquired in the acquisition. The valuation of policies in force at the date of the acquisition followed traditional valuation methods for these assets.
Management override of controls to prevent inaccurate records.	Consideration of the various processes and controls associated with the reporting, to ensure in particular that any override of controls does not enable fraudulent accounting records.
Going concern requirements and the risk of insufficient capital to cover the ability to continue to trade and the requirement for a longer term statement on viability.	Regular business projections are produced to check sufficiency of liquidity and capital to enable continued trading for at least 12 months. As part of the ORSA process, we also prepare forward plans for a three year period which align with the strategy approved by the Board. We test the key assumptions of investment return, expenses, persistency, new business and mortality against various scenarios and sensitivities. We also review the ORSA process and resulting reports.

Overall, the Sub-Committee is satisfied that, taken as a whole, the accounts are fair, balanced and understandable within the constraints of legal requirements.

External Audit

The Sub-Committee is responsible for safeguarding auditor objectivity, independence and the effectiveness of the external audit. It considers the appointment of, and fees for, the external auditor and meets regularly with the audit partner and audit manager. The criteria against which the external auditor's performance is assessed includes independence, expertise, resource, timeliness and accuracy of reporting, and fee levels.

The Sub-Committee held a private meeting with the external auditor during the year. Discussions with the external auditors include their assessment of business risks and confirmation that there has been no restriction placed on them by management.

The Sub-Committee considers the reappointment of the external auditor including the rotation of the audit partner and also assesses their independence on an on-going basis. KPMG LLP was appointed in 2015, following a full tender process. Their maximum tenure before the audit is subject to re-tender is 10 years.

Non Audit Services

The Sub-Committee regularly reviews the nature and extent of non-audit work and related fees. The Board has developed a policy setting out the terms and conditions for engaging OneFamily's external audit to supply non-audit services. The policy is designed to protect the auditor's objectivity and independence.

With Profits Sub-Committee

Nigel Masters (Chairman)

Peter Box

Ian Buckley

Sub-Committee meetings

The Sub-Committee meets at least three times a year. The Sub-Committee comprises three independent non-executive directors named above and meetings are attended also, by invitation, by the Chief Executive, the Chief Financial Officer, the Governance and Risk Director, and the With Profits Actuary.

The key activities of the Sub-Committee have been focused on overseeing OneFamily's with-profits business in accordance with the relevant Principles and Practices of Financial Management (PPFMs), as well as PRA rules, in particular the PPFMs published for each with-profits fund. 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 With-Profits 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.

Detailed duties and responsibilities of the Sub-Committee are contained in the Terms of Reference which can be viewed in the 'Our Story / Company Information' section of our website www.onefamily.com.

Attendance at meetings in 2015

The Chairman and non-executive directors meet independently of the executive directors at least four times a year. Details of the activities of each individual Sub-Committee are summarised above and the terms of reference for each Sub-Committee can be found in the 'Our Story / Company Information' section of our website www.onefamily.com.

The attendance of directors at scheduled Board meetings and attendance of those who are also members of the Sub-Committees at Sub-Committee meetings during the year is set out below. The number of meetings that each director or sub-committee member could have attended is shown in brackets.

Attendance at meetings in the period 1 January 2015 to 31 March 2015 prior to the merger with Engage Mutual:

	Board of Directors	Risk and Audit Sub-Committee [1]	Investment Sub-Committee [2]	Remuneration Sub-Committee
Norman Riddell (Chairman)	3 (3)		1 (2)	2 (2)
Peter Box	3 (3)	2 (2)		2 (2)
Ian Buckley	2 (3)	2 (2)	1 (2)	
Veronica Oak (resigned 31/3/15)	3 (3)	2 (2)		2 (2)
Simon Markey	3 (3)		1 (2)	
John Adams	3 (3)			
Keith Meeres	3 (3)			

Attendance at meetings in the period 1 April 2015 to 31 December 2015 following the merger with Engage Mutual:

	Board of Directors	Nominations Sub-Committee	Risk Sub-Committee	With Profits Sub-Committee [3]	Audit Sub-Committee	Investment and Product Sub-Committee	Remuneration Sub-Committee
Christina McComb (Chairman)	10 (10)	1 (1)				4 (4)	
Norman Riddell	8 (10)	1 (1)		3 (3)	4 (5)	4 (4)	5 (5)
Nigel Masters	9 (10)	1 (1)	5 (5)	3 (3)	5 (5)		
Peter Box	10 (10)	1 (1)	5 (5)	3 (3)	5 (5)		
Ian Buckley	10 (10)	1 (1)	5 (5)	2 (3)		4 (4)	5 (5)
Caroline Fawcett (resigned 23/12/15)	8 (10)	1 (1)					5 (5)
Simon Markey	10 (10)	1 (1)				4 (4)	5 (5)
John Adams	9 (10)						
Keith Meeres	8 (10)						
Karl Elliott	7 (10)						

Note 1: Following the merger, the Risk and Audit Sub-Committee was split into two separate sub-committees, namely, the Risk Sub-Committee and the Audit Sub-Committee.

Note 2: Following the merger, the Investment Sub-Committee was renamed the Investment and Product Sub-Committee.

Note 3: The With Profits Sub-Committee was formed subsequent to the merger.

Peter Burrows joined the Board on 1 April 2015 following the merger with Engage Mutual Assurance and resigned on 30 June 2015. During this period he was unable to attend any meetings.

Viability Statement

In accordance with provision C2.2 of the Annotated Corporate Governance Code for Mutual Insurers, the directors have assessed the prospects of the Society and Group until the end of 2018. The directors have determined that the period represents an appropriate amount of time over which to provide the viability statement based on the Group's three year planning period. This assessment has been made by taking into account the full range of planning and forecasting information available.

As part of the annual risk management and business planning cycle the Society also produces an Own Risk and Solvency Assessment (ORSA), which takes account of the planning period 2016-18. One of the key inputs into the ORSA is the annual Business Plan which comprises a strategic plan with a financial forecast for the next three years, the risks to which it is exposed and contains a range of stress and scenario tests. Whilst a one year planning period has a greater level of certainty and is used to set budgetary targets, a three year period provides a robust planning tool against which strategic decisions can be made.

On the basis of the ORSA and the three year Business Plan, the Board is confident that the Society will be able to continue in operation and meet its liabilities as they fall due over the planning period. This assessment was made recognising the principal risks that could have an impact on the future performance of the Society as detailed on page 23.

Keith Meeres
Director
31 March 2016

Remuneration report

This report sets out the Society's policy in relation to the remuneration of directors. The report, which will be submitted to the 2016 Annual General Meeting for approval, explains how the Society has applied the UK Corporate Governance Code as annotated for Mutual Insurers (the Annotated Code) requirements and the changes that have been made to directors' bonus schemes.

Remuneration Sub-Committee

The role of the Remuneration Sub-Committee is outlined on page 29.

Remuneration policy

The Society's remuneration policy is set and overseen by the Remuneration Sub-Committee, and complies with the requirements of the Annotated Code and the Remuneration Code (the latter governed by the Financial Conduct Authority). The policy is designed to attract, motivate and retain key executives (indeed all employees) with the relevant skills to help achieve the Society's objectives and to ensure that employees are rewarded for enhancing the level of service that we provide to our members. It is also designed to achieve an effective link between pay and performance whilst not encouraging undue risk taking.

The Society believes it is important that its mutual status is reflected in its remuneration policy. Bonus schemes are designed to be aligned to our members' interests by rewarding performance against key criteria that are important to our members, for example customer service, product performance and financial strength. This means that our bonus schemes reward performance that is of benefit to our members and are clear and measurable.

There was 33% more in bonus payments overall for 2015 which means the average bonus is higher than it's ever been. All employees were able to participate in a bonus scheme and 89% received a pro-rata bonus in 2015.

No director is involved in the determination of, or votes on, any matter relating to their own remuneration.

Service contracts

It is the Society'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. Fees for non-executive directors are reviewed each year.

Remuneration components comprise:

Base salary

Base salaries are determined by the scope and responsibilities of each role, individual performance and by reference to market salary levels obtained from external sources such as Willis Towers Watson. This is the only element of remuneration which is pensionable.

Bonus schemes

The Remuneration Sub-Committee has designed the 2015 bonus schemes so as to motivate and reward the implementation and delivery of the new strategy through the achievement of short term and longer term objectives. The bonus schemes are outlined below. They were designed in 2014 in consultation with external expert consultants EY and the scheme rules have been defined to ensure compliance with the relevant remuneration codes. In 2016 the Remuneration Sub-Committee will seek independent advice as to how the current bonus schemes might be further aligned to market practice and regulatory standards.

The Homeowners Friendly Society long term incentive scheme was closed from 31 December 2014. Deferred payments were retained for one executive who has now joined the OneFamily bonus scheme.

In 2016, the key principles that underpin each scheme include:

- reward linked to individual and business performance (using balanced scorecard measurement against key criteria including customer service, financial and operational performance, risk control). There is an appropriate balance between fixed and performance-related, immediate and deferred remuneration. Performance related elements include non-financial metrics where appropriate and are relevant, stretching and designed to promote the long term success of the Society for the benefit of its members.
- deployment of appropriate moderators to discourage excessive risk-taking, including the requirement for deferral of payment of a proportion of bonus and provisions to enable reduction, claw-back or forfeiture of bonus under certain defined scenarios.
- reward of between 25-50% of maximum bonus potential for achievement of budgeted targets and up to 100% for achievement of stretch targets. Ultimately, any payment under the bonus schemes is at the discretion of the Remuneration Sub-Committee.

a) Short term Incentive Scheme

The 2014 scheme was open to three executive directors and three non-board executives. Following the merger with Engage Mutual, the scheme was extended and the 2015 scheme was open to four executive directors and four non-board executives.

The key threshold targets are to generate specified minimum levels of income and profit. The scheme rules require that 60% of all bonus entitlements are paid following completion of the financial year. The remaining 40% must be deferred and are payable in equal parts on the first and second anniversary of the initial payment.

b) Long term Incentive Scheme

The 2014 scheme was open to three executive directors. Following the merger with Engage Mutual, the scheme was extended and the 2015 scheme was open to four executive directors. The key threshold targets are to achieve specific Embedded Value growth targets. The scheme rules provide that payment of 50% of any bonus award shall be made only upon the third anniversary of the completion of the financial year on which the bonus award is made. The remaining 50% must be deferred and is payable in equal parts on the first and second anniversary of the initial payment. An accounting provision has been made for potential awards under this scheme.

Pension

The Society participates in a Stakeholder pension scheme managed by Legal & General. Both the employer and the employee can make payments into this scheme. The Society previously operated a defined benefits pension scheme. The Family Assurance Staff Pension Scheme closed to future accrual of benefit from 31 December 2009 and the Homeowners Friendly Society Pension Scheme closed to future accrual of benefit from 31 December 2012.

Other benefits

The Society provides other benefits to the executive directors including life assurance and private medical insurance.

Board of Directors remuneration

	Salary		Bonuses[1]		Other Benefits[2]		Sub-total		Deferred Bonuses[1]		Total remuneration	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Executives												
Simon Markey	388	350	403	203	51	71	842	624	327	136	1,169	760
John Adams	196	184	113	53	26	27	335	264	91	36	426	300
Keith Meeres	164	161	94	46	22	24	280	231	69	29	349	260
Karl Elliott[3]	126	–	42	–	20	–	188	–	28	–	216	–
Peter Burrows[4&8]	355	–	–	–	–	–	355	–	–	–	355	–
Miles Bingham[5]	–	22	–	–	–	3	–	25	–	–	–	25
Non-executives												
Christina McComb[6]	79	–	–	–	–	–	79	–	–	–	79	–
Robert Weir[7]	–	32	–	–	–	–	–	32	–	–	–	32
Norman Riddell	86	67	–	–	–	–	86	67	–	–	86	67
Peter Box	45	36	–	–	–	–	45	36	–	–	45	36
Ian Buckley	45	41	–	–	–	–	45	41	–	–	45	41
Nigel Masters[8]	34	–	–	–	–	–	34	–	–	–	34	–
Caroline Fawcett[8&9]	34	–	–	–	–	–	34	–	–	–	34	–
Veronica Oak[10]	9	36	–	–	–	–	9	36	–	–	9	36
Total	**1,561**	**929**	**652**	**302**	**119**	**125**	**2,332**	**1,356**	**515**	**201**	**2,847**	**1,557**

Note 1 – Bonuses include amounts added to, and movement in, the value of the previous and current long term incentive schemes and the short term incentive scheme.

Note 2 – Other benefits include pension contributions and cash payments in lieu of pension due to fixed protection into the Stakeholder Pension Scheme.

Note 3 – Mr Elliott joined the Society on 1 April 2015. Salary reflects nine months remuneration.

Note 4 – Mr Burrows left the Society on 30 June 2015. A total cash payment of £474k was made to Mr Burrows in 2015 comprising salary £68k, compensation for loss of office net of employee taxes of £287k and accrued performance award £119k.

Note 5 – Mr Bingham left the Society on 28 February 2014.

Note 6 – Ms McComb joined the Society as Chairman on 1 April 2015.

Note 7 – Mr Weir left the Society on 22 May 2014.

Note 8 – Mr Masters, Ms Fawcett and Mr Burrows joined the Society on 1 April 2015.

Note 9 – Ms Fawcett left the Society on 23 December 2015.

Note 10 – Mrs Oak left the Society on 31 March 2015.

Previous Long term incentive scheme

	Value at 01.01.2015 £'000	Bonus paid during 2015 £'000	Movement on accrued value during 2015 £'000	Value at 31.12.2015 £'000
Executives				
Keith Meeres	28	39	11	–
Total	**28**	**39**	**11**	**–**

Current Long term incentive scheme

	Value at 01.01.2015 £'000	Bonus paid during 2015 £'000	Bonus added to be paid 2016 £'000	Deferred bonus added to be paid after 2016 £'000	Value at 31.12.2015 £'000
Executives					
Simon Markey	–	–	175	175	350
John Adams	–	–	48	48	96
Keith Meeres	–	–	41	41	82
Total	**–**	**–**	**264**	**264**	**528**

Short term incentive scheme

	Value at 01.01.2015 £'000	Bonus paid during 2015 £'000	Movement on accrued value during 2015 £'000	Bonus added to be paid 2016 £'000	Deferred bonus added to be paid after 2016 £'000	Value at 31.12.2015 £'000
Executives						
Simon Markey	453	260	4	228	152	577
John Adams	122	70	1	65	43	161
Keith Meeres	101	59	1	42	28	113
Karl Elliott[1]	79	–	–	42	28	149
Peter Burrows[1]	119	119	–	–	–	–
Total	**874**	**508**	**6**	**377**	**251**	**1,000**

Note 1 – Mr Elliott and Mr Burrows joined the Society on 1 April 2015. The figures in the column 01.01.2015 above include £79k (Karl Elliott) and £119k (Peter Burrows) brought forward deferred bonus from the Engage Mutual short term incentive scheme.

Pension entitlements

Three executive directors have retirement benefits accruing under the Society's defined benefit pension schemes. The Family Assurance Staff Pension Scheme closed to future accrual of benefits from 31 December 2009, the Homeowners Friendly Society Pension Scheme closed to future accrual of benefits from 31 December 2012. Four executive directors receive either benefits under the Society's defined contribution pension scheme or a payment in lieu of these benefits where lifetime allowances have been reached. The table below sets out these benefits:

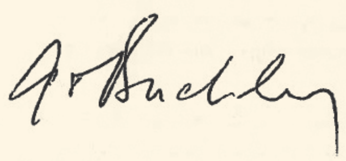
	Age at 31.12.2015	Normal retirement age	Total deferred DB pension at date of Scheme closure[1] £'000	Single pension figure for 2015[2] £'000	Comparator single pension figure for 2014 £'000
Executives					
Simon Markey	50	65	–	–	13
John Adams	60	65	58	–	7
Keith Meeres	58	65	56	–	6
Karl Elliott	43	60	32	19	–

The main terms applying to the Family Assurance final salary pension of John Adams and Keith Meeres are that their pension is payable from normal retirement age of 65 and that a spouse's pension is payable on death at 50% of that executive director's pension.

The main terms applying to the Homeowners Friendly Society final salary pension of Karl Elliott is that his pension is payable from normal retirement date of 60 and that a spouse's pension is payable on death at 2/3rds of his pension.

Note 1 – The total deferred pension is the annual pension amount accrued by the executive director as at 31 December 2009 under the Family Assurance Staff Pension Scheme and 31 December 2012 under the Homeowners Friendly Society Pension Scheme, the dates the Schemes closed to all future accrual. Deferred defined benefit pensions receive statutory revaluation up to Normal Retirement Age and inflationary increases in payment as specified in the Scheme rules.

Note 2 – This single figure is equal to the contributions to the directors' stakeholder pension scheme paid by the Society during 2015. Contributions into the defined benefit scheme were £nil.



Ian Buckley
Chairman of the Remuneration Committee
31 March 2016

Independent auditor's report

To the members of Family Assurance Friendly Society Limited Only.

Opinions and conclusions arising from our audit

Our opinion on the financial statements is unmodified

We have audited the financial statements of Family Assurance Friendly Society Limited for the year ended 31 December 2015 set out on pages 46 to 109. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Society's affairs as at 31 December 2015 and of the income and expenditure of the Group and of the Society for the year then ended;
- the financial statements have been properly prepared in accordance with UK Accounting Standards (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- the Society and Group financial statements have been properly prepared in accordance with the requirements of the Friendly Societies Act 1992 and the regulations made under it.

Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit were as follows:

Long term business provision (£255m);

Refer to page 32 (Audit Sub-Committee Report), page 54 (Statement of accounting policies) and pages 64,65,67 and 71 (note 1: Management of financial and insurance risk) and pages 92 to 94 (note 22: Technical provisions).

The risk:

The Society has significant insurance liabilities representing 15% of the Society's and Group's total liabilities. Estimating the amount of the long term business provision is an area that involves significant judgment as there is usually a significant period over which policies are in force, during which time premiums will be paid in and, subsequently, benefits may be paid out at an indeterminable time in the future.

Economic assumptions such as investment return and associated discount rate and credit risk, and non-economic assumptions, such as future expenses, mortality and persistency are key inputs into estimating the long term business provision and are inherently uncertain.

The Society's Actuarial Function Holder makes recommendations to the Directors based on significant judgments. Due to the subjective and complex nature of the judgments supporting the recommendations that need to be considered and adopted by the Directors, there is an inherent risk that long term business provision may not be sufficient to cover future cost of claims, or is calculated incorrectly, and hence be materially misstated.

Our response:

We were assisted by our own actuarial specialists to understand and challenge the Society's reserving practices and valuation of provisions established throughout our audit procedures in this area.

Our audit procedures in this area included evaluating and testing the effectiveness of controls around the reserving process, including the controls of critical reviews and challenges by the Executive Reserving Committee of the appropriateness of assumptions, and controls over the completeness and accuracy of the data that supports key reserving calculations.

In considering the appropriateness of the key non-economic assumptions we assessed the Society's historical experience and evaluated those assumptions compared to industry data. In respect of economic assumptions we evaluated the Society's assumptions by reference to Society-specific factors and based on our own knowledge of industry data.

We assessed the reserving assumptions and methodology for prudence and consistency with prior years, and benchmarked those against peer companies where appropriate. In particular we looked to identify any material bias arising from the reserving policy.

We also assessed whether the Society's disclosures in relation to the assumptions used in the calculation of the long term business provision, in particular the sensitivities of these assumptions to alternative scenarios or inputs, are compliant with relevant accounting requirements.

Identification and valuation of intangible assets recognised on acquisition, including goodwill (£57m, including £52m of acquired PVIF);

Refer to page 32 (Audit Sub-Committee Report), pages 52 and 57 (Statement of accounting policies), pages 72 to 75 (note 2: Merger of Family Assurance Friendly Society Limited and Homeowners Friendly Society Limited), page 84 (note 15: Goodwill and intangible assets) and pages 92 to 94 (note 22: Technical provisions).

The risk:

The merger of former Homeowners Friendly Society Limited ('HFSL', trading name Engage Mutual Assurance) and Family Assurance Friendly Society Limited ('FAFSL', trading name Family Investments) on 1 April 2015 created a combined Society, under the legal name Family Assurance Friendly Society Limited (trading name of 'OneFamily').

Current UK and International accounting standards prescribe that in the above situation where two organisations combine, acquisition accounting must be adopted. Under acquisition accounting a 'deemed acquirer' and a 'deemed acquiree' are identified. As the assets and liabilities of HFSL were transferred into FAFSL and HFSL ceased to exist, the convention of defining FAFSL as 'the deemed acquirer' and HSFL as the 'deemed acquiree' has been adopted.

Through the application of acquisition accounting, including the calculation of an 'imputed consideration' in the absence of a cash consideration, previously unrecorded intangible assets in HFSL have been identified, valued and now recognised in FAFSL's balance sheet.

The valuation of intangible assets acquired in a business combination is complex and typically requires a high level of judgement, as there is typically not a readily available market for those assets. The key intangible assets which have been identified as part of the acquisition are HFSL's Present Value of In-force Business ('PVIF'), trade name and software, with any excess of imputed consideration over the value of net assets (including intangible assets) acquired being classified as goodwill.

Our response:

Our audit procedures in this area included assessment of the Group's process and methodology for identifying and valuing the unrecorded acquired intangible assets by reference to the requirements of FRS102 T*he Financial Reporting Standard applicable in the UK and Republic of Ireland.*

The identified intangible assets can be split into two separate groups, the first calculated out of actuarial models namely HFSL's Present Value of In-force Business (PVIF), and the other group being intangible assets that are not actuarially derived, such as brand and software.

We used our own actuarial specialists to assist in our assessment of the valuation assumptions underpinning the PVIF calculation by reference to valuation techniques commonly used in the wider industry and our own knowledge of the business.

We used our own valuations experts to assist in our evaluation of the completeness of other intangible assets identified and of the valuation assumptions underpinning those assets. These included assumptions of discount rates, inflation rates and other economic rates, by reference to our own knowledge of industry practice and the Group's specific circumstances. We also assessed the appropriateness of the useful economic lives of each intangible asset.

We assessed management's valuation of the imputed consideration by comparing the methodology used to calculate the imputed consideration to established techniques for valuing insurance business, reviewing HFSL's future business plan for consistency with our understanding of the Society's strategy, and benchmarking the adjustment applied to bring the overall valuation of the consideration in line with market comparable transactions.

We also assessed the adequacy of the Group's disclosures in respect of acquired intangible assets and sensitivity of valuations to key assumptions.

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

The materiality for the Group financial statements as a whole was set at £3.1m, determined with reference to the Group's retained earnings and funds for future appropriations, of £193.5m, of which it represents approximately 1.6%.

Retained earnings and the fund for future appropriations ('FFA') are the measure of accumulated surplus and we have determined, in our professional judgment, they are two of the principal benchmarks within the financial statements relevant to members in assessing financial position and financial performance. As all profit in the mutual is reinvested, it is retained earnings and FFA which represent the security of the policyholders' interests and capital to develop their business.

We report to the Audit Sub-Committee any corrected or uncorrected identified misstatements exceeding £0.2m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's 11 reporting components, we subjected 11 to audits for group reporting purposes. Audits of the components were performed by the group audit team as if it was a single aggregated set of financial information. These audits covered 100% of the Group's income, 100% of surplus of technical income over technical charges before taxation and 100% of total assets.

The audits of the components were undertaken using materiality levels that were applicable to each component and which individually were lower than the materiality set for the group financial statements as a whole. These materiality levels ranged from £0.001m to £3.1m.

Our opinion on other matters prescribed by the Friendly Societies Act 1992 and under the terms of our engagement is unmodified

In our opinion the information given in the Strategic Report and Directors' Report have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the accounting records and the financial statements for the financial year.

We have nothing to report in respect of the matters on which we are required to report by exception

Under International Standards for Auditors (UK and Ireland) ('ISAs') we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; or
- the Audit Sub-Committee Report does not appropriately address matters communicated by us to the Audit Sub-Committee.

Under the Friendly Societies Act 1992 we are required to report to you if, in our opinion:

- proper accounting records have not been kept;
- the financial statements to be audited 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.

The directors have chosen to voluntarily comply with the UK Corporate Governance Code – An Annotated Version for Mutual Insurers ('the Code') issued by the Association of Financial Mutuals, as if the Society were a premium listed company. Under the terms of our engagement we are required to review:

- the directors' statements, set out on pages 22 and 35, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on pages 28 to 35 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

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, in respect of the separate opinion in relation to the reporting on corporate governance, on terms that have been agreed. 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, in respect of the separate opinion in relation to the reporting on corporate governance, those matters that we have agreed to state to them in our report, 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.

Respective responsibilities of the directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 21 and 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Society's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Jonathan Holt (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
One St Peter's Square
Manchester
M2 3AE

31 March 2016

Group and Society statement of income and expenditure accounts
for the year ended 31 December 2015

Technical Account Long-Term Business	Notes	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Earned premiums, net of reinsurance					
Gross premiums written	4	**26,870**	–	**26,870**	–
Outward reinsurance premiums	4	**(7,825)**	–	**(7,825)**	–
Investment income	5	**69,294**	36,266	**80,543**	36,266
Unrealised (losses)/gains on investments	5	**(45,365)**	28,984	**(45,365)**	30,496
Other technical income	12	**4,876**	–	**7,080**	1,232
Claims incurred, net of reinsurance					
Gross claims incurred	6	**(21,104)**	–	**(21,104)**	–
Reinsurers' share	6	**5,851**	–	**5,851**	–
Change in technical provisions, net of reinsurance		**15,416**	1,842	**15,416**	1,842
Change in gross liability for investment contracts		**(14,410)**	(50,721)	**(14,410)**	(50,721)
Other technical charges		**(4,230)**	(900)	**(4,231)**	–
Goodwill and intangibles amortisation	15, 22	**(4,644)**	–	**(4,644)**	–
Net operating expenses	8	**(37,412)**	(14,366)	**(37,412)**	(14,366)
Investment expenses and charges	5	**(2,316)**	(883)	**(2,316)**	(883)
Profit on disposal of subsidiary	3	**-**	374	**-**	374
Taxation credit/(charge)	14	**2,175**	(1,242)	**2,175**	777
Transfer from the fund for future appropriations	26	**3,359**	116	**3,359**	116
Balance on the long-term business technical account		**(9,465)**	(530)	**3,987**	5,133

The notes to the financial statements on pages 52 to 109 are an integral part of these financial statements. The Group and Society income and expenditure accounts for the year ended 31 December 2014 have been restated for the adoption of FRS 102 'The Financial Reporting Standard applicable in UK and Republic of Ireland' and accounting policy changes. (See note 31).

Group and Society statement of income and expenditure accounts
for the year ended 31 December 2015

Technical Account General Business **Discontinued operations**	Notes	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Earned premiums					
Gross premiums written		**2,601**	–	**–**	–
Change in unearned premiums		**494**	–	**–**	–
Claims incurred					
Claims paid		**(2,952)**	–	**–**	–
Change in provision for claims		**531**	–	**–**	–
Other technical charges		**(134)**	–	**–**	–
Net operating expenses	8	**(934)**	–	**–**	–
Balance on the general business technical account		**(394)**	**–**	**–**	**–**

The Technical Account – General Business contains the results of Engage Mutual Health that became part of the Group as a result of the merger with Homeowners Friendly Society Group (see note 2). Subsequently, Engage Mutual Health was sold on 30 October 2015 and hence the operations are disclosed as discontinued (see note 3).

Non-Technical Account **Continuing operations**	Notes	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Balance on the long-term business technical account		**(9,465)**	(530)	**3,987**	5,133
Balance on the general business technical account		**(394)**	–	**–**	–
Other income	13	**36,124**	28,558	**–**	–
Net operating expenses	8	**(25,250)**	(22,895)	**–**	–
Profit on disposal of subsidiary	3	**300**	–	**–**	–
Excess of income over expenditure on ordinary activities before tax		**1,315**	5,133	**3,987**	5,133
Tax on excess of income over expenditure on ordinary activities		**285**	–	**–**	–
Excess of income over expenditure after tax		**1,600**	5,133	**3,987**	5,133

The notes to the financial statements on pages 52 to 109 are an integral part of these financial statements.

Group and Society statement of other comprehensive income
for the year ended 31 December 2015

	Notes	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Excess of income over expenditure after tax		**1,600**	5,133	**3,987**	5,133
Remeasurement of defined benefit scheme	28	**(2,534)**	(2,013)	**(2,000)**	(2,013)
Unrealised gain on property revaluation		**1,000**	–	**1,000**	–
Total recognised profit in the year		**66**	3,120	**2,987**	3,120

Group and Society statement of changes in equity
for the year ended 31 December 2015

	Notes	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2015 £'000
Retained earnings					
As previously reported at 1 January 2014		–	–	–	–
Reported under FRS 102 at 1 January		**46,475**	43,355	**46,475**	43,355
Increase in equity due to business combination (note 2)		**104,364**	–	**101,586**	–
Total recognised gains in the year		**66**	3,120	**2,987**	3,120
As at 31 December		**150,905**	46,475	**151,048**	46,475

The notes to the financial statements on pages 52 to 109 are an integral part of these financial statements.

Group and Society statement of financial position
as at 31 December 2015

Assets	Notes	Group 2015 £'000	Group 2014 £'000	Society 2015 £'000	Society 2014 £'000
Intangible assets					
Goodwill	15	**1,061**	–	**1,061**	–
Other intangible assets	15	**4,069**	–	**4,069**	–
Investments					
Investment in land and buildings	16	**9,350**	2,037	**9,350**	2,037
Investment in group undertakings	17	**-**	–	**6,035**	19,364
Assets held to cover linked liabilities	18	**1,305,993**	1,036,314	**1,305,993**	1,036,314
Non-linked financial investments	18	**273,215**	45,439	**266,219**	34,871
Debtors	19	**11,978**	8,002	**13,449**	5,282
Reinsurers' share of technical provisions					
Long-term business provision	22	**76,028**	33	**76,028**	33
Other assets					
Tangible assets	20	**154**	–	**-**	–
Cash at bank		**54,663**	10,507	**51,524**	3,557
Deferred taxation	14	**1,378**	–	**-**	–
Prepayments and accrued income					
Accrued interest and rent		**3,056**	866	**1,408**	–
Deferred acquisition costs	21	**104**	–	**104**	–
Other prepayments and accrued income		**1,701**	386	**1,324**	386
Total assets		**1,742,750**	**1,103,584**	**1,736,564**	**1,101,844**
Net pension asset	28	**-**	**-**	**-**	**-**
Total assets including the pension asset		**1,742,750**	**1,103,584**	**1,736,564**	**1,101,844**

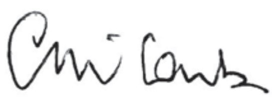
The notes to the financial statements on pages 52 to 109 are an integral part of these financial statements. The Group and Society balance sheets have been restated for the adoption of FRS 102 'The Financial Reporting Standard applicable in UK and Republic of Ireland' and accounting policy changes (see note 31).

Group and Society statement of financial position
as at 31 December 2015

Liabilities	Notes	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Retained earnings	27	**150,905**	46,475	**151,048**	46,475
Fund for future appropriations (FFA)	26	**42,561**	–	**42,561**	–
Technical provisions					
Long-term business provision	22	**203,281**	1,770	**203,281**	1,770
Claims outstanding	22	**8,635**	510	**8,635**	510
Technical provision for linked liabilities	23	**1,304,487**	1,036,314	**1,304,487**	1,036,314
Deposits from reinsurers		**6,337**	–	**6,337**	–
Creditors					
Creditors arising out of insurance operations	24	**776**	–	**1,390**	–
Other creditors including taxation and social security	25	**5,893**	5,117	**6,346**	7,278
Accruals and deferred income		**19,875**	13,398	**12,479**	9,497
Total liabilities		**1,742,750**	1,103,584	**1,736,564**	1,101,844

The notes to the financial statements on pages 52 to 109 are an integral part of these financial statements. Approved at a meeting of the Board of Directors on 31 March 2016 and signed on its behalf by:

Simon Markey
Chief Executive



Christina McComb
Chairman

Keith Meeres
Secretary

Statement of accounting policies

General information

Family Assurance Friendly Society Limited (FAFSL or the Society) is incorporated under the Friendly Societies Act 1992. The address of the registered office is 16-17 West Street, Brighton, BN1 2RL.

A. Basis of accounting

The Group financial statements 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. Further, the 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.

These financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and FRS 103 Insurance Contracts (FRS 103) as issued in August 2014 and March 2014, respectively. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

In the transition to FRS 102 and FRS 103 from old UK GAAP, the Society has made a number of measurement and recognition adjustments. An explanation of how the transition to FRS 102 and FRS 103 has affected the financial position and financial performance of the Society is provided in note 31.

On 1 April 2015, FAFSL merged with Homeowners Friendly Society Limited (HFSL). The terms of the merger of the two entities set out in the instrument of transfer are such that the property, rights and liabilities of HFSL were transferred under paragraph 86 (5) (a) of the Friendly Societies Act 1992 into FAFSL.

The instrument of transfer, and all relevant business combination documentation, clearly state that the combination was a merger, however under FRS 102 merger accounting is only permitted in a limited number of specific circumstances. Further, FRS 102 provides very limited guidance for the application of acquisition accounting to the situation of two mutuals merging. In the situation of limited accounting guidance under FRS 102 it is common to look to the analogous international accounting standard, in this case, International Financial Reporting Standard 3 Business Combinations IFRS 3. IFRS 3 not only provides greater guidance in respect of business combinations where there is no consideration, it also provides specific application guidance to the situation of two mutuals merging. As such, the merger of FAFSL and HFSL has been accounted for following the requirements of IFRS 3. Further information regarding the merger and associated accounting treatment are provided in note 2 to these financial statements.

B. 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. The results of HFSL have been consolidated from 1 April 2015, the date of the merger with FAFSL.

The General Insurance results of Engage Mutual Health (EMH) have been consolidated into the Technical Account – General Business from the date of merger and disclosed as discontinued reflecting the sale of this entity on 30 October 2015. See note 3 for further details.

The ongoing results of other subsidiary undertakings are included in the Non-Technical Account. Previously the results of the non-long-term subsidiaries were included within the Technical Account – Long Term Business. As described in note 31 to these financial statements the comparative figures for 2014 have been restated for consistency of presentation. This change in presentation had no financial impact on the results of the Group in either reporting period.

The Group has one non-profit fund and two with-profits funds referred to in our financial statements as follows:

- With-Profits Fund I (WP1) (acquired from United Kingdom Civil Service Benefit Society Limited in 2003); and
- With-Profits Fund II (WP2) (acquired from Ecclesiastical Life Limited in 2010).

C. Discontinued operations

On 30 October 2015, as already referred to, EMH was sold. The business joined the Group as part of the merger on 1 April 2015, as such the results of this business for the period from merger to disposal have been disclosed as discontinued within the Technical Account – General Insurance Business. The sale of the business is described further in note 3.

During 2014, the Group entered into an agreement to transfer its POIS business under a scheme of arrangement available under Part VII of the Financial Services and Markets Act 2000. The results of this discontinued business have been included in a single item included in the Technical Account.

D. Classification of contracts

During the year the Group has adopted FRS 103 Insurance Contracts. Under this reporting standard the Group is required to categorise the policies they issue as ‘investment’ contracts or ‘insurance’ contracts.

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

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 ‘Gross liability for investment contracts’.

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

Contracts under which the Group accepts significant insurance risk are classified as insurance contracts. Such contracts may also transfer financial risk. Contracts issued by the Group that do not transfer significant insurance risk are classified as investment contracts.

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 discretionary participation features are recognised and measured in the same way as insurance contracts with discretionary participation features.

This change in accounting policy is presentational in nature and does not affect the overall financial result or the financial position of the Society or Group. Note 31 provides a summary of the presentational change.

E. 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.

Policyholder liabilities

See accounting policy L – 'Valuation of insurance liabilities' and policy M – '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 based on 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 4, 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.

F. General business

Premiums

General business premiums comprise the total premiums due for the whole period of cover excluding insurance premium tax. Unearned premiums are calculated as the unexpired element of risk spread on a straight line basis across the period of the policy.

Claims

General business claims incurred comprise claims paid during the financial year together with the movement in the provision for outstanding claims, including an estimate of claims incurred but not reported (IBNR) at the year end. Claims outstanding comprise provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date whether reported or not.

Upon disposal of EMH, the only general insurance business held by the Group, all assets and liabilities of that business were transferred to the acquirer.

G. 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 (OEIC) 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 balance sheet date and their purchase price or their fair value at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

H. Investments

Land and buildings

Investment properties are initially measured at cost and subsequently at fair value with any change in fair value recognised in the Income and Expenditure Account.

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. 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 and the revaluation reserve in equity, except to the extent that the increase reverses a previous revaluation deficit on the same asset recognised in profit or loss. Any deficit on revaluation is recognised in profit or loss 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 and in the revaluation reserve.

Investments in Group undertakings and participating interests

The Group's subsidiaries are held at fair value with movements in fair value taken through profit and loss as permitted under FRS 102. The Group adopts this basis as a number of subsidiaries carry out significant volumes of investment business that is core to the Group's operations.

Recognition and derecognition of financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. 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.

Financial Investments

The Group classifies its financial investments as either financial assets at fair value – with adjustments through profit or loss – or loans and receivables.

Financial assets at fair value are initially recognised at the transaction price and subsequently measured at fair value in the balance sheet with transaction costs taken directly to the Income and Expenditure Account. All changes in fair value are recognised in profit or loss as described in accounting policy G – 'Investment income and unrealised gains and losses on investments'.

The methodology for determining the fair value for financial assets is as follows:

- listed and other quoted investments are carried at stock exchange bid values at the balance sheet date;
- linked investments, including redeemable debt and other fixed income securities, and listed and other quoted investments, are stated at bid prices; and
- unlisted investments are carried at fair value as determined by the Directors.

Loans and receivables, comprising mortgages and other loans, are recognised when cash is advanced to borrowers. These 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 account.

Note 18 to these financial statements provides an analysis of the method of valuation into three levels. The Group has adopted FRED 62 'Draft Amendments to FRS 102' *a financial reporting standard applicable in the UK and the Republic of Ireland* fair value hiearchy disclosures under which the basis of disclosure is the same as that from the prior year, but a different basis from that laid out in FRS 103.

Derivative financial instruments

Derivatives 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 balance sheet 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 balance sheet within cash and cash equivalents.

I. 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.

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.

J. 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). As a result of the business combination during the year a number of intangibles have been recognised. Goodwill arising on long term business is amortised over a period of 10 years, the UEL of other intangible assets recognised at acquisition are stated in note 2 to these financial statements.

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.

A review for impairment of intangible assets is performed at each balance sheet date.

K. Tangible assets

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

Fixtures, fittings and office equipment	5 years
Computer equipment	4 years
Motor vehicles	4 years

The above rates were adopted during the year as part of the harmonisation of accounting policies at the date of merger with HFSL. The financial impact of the change in useful economic lives and net book values was not material.

A review for impairment of tangible assets is performed at each balance sheet date.

L. Valuation of insurance liabilities

The Long Term Business Provision is determined by the Society's Actuarial Function Holder 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). This statutory solvency basis of valuation is then adjusted by eliminating certain reserves required under Friendly Society Regulations. This adjusted basis is referred to as the modified statutory solvency basis.

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.

M. 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).

In 2014 and 2015, linked financial investments include pension linked assets.

N. 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 balance sheet date.

Except as set out in FRS 102, deferred tax is provided on timing differences that have originated but not reversed by the balance sheet 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 balance sheet date.

O. Pension costs

The Group operates two defined benefit pension schemes (collectively 'the Schemes') following the merger with HFSL. All rights of the HFSL defined benefit scheme members were preserved under the instrument of transfer at merger.

The Family Assurance Staff Pension Scheme (the 'Family Scheme')

The Group operates 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 Society 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 future accruals on 31 December 2012.

A defined contribution scheme was introduced for staff whose employment commenced after 6 April 2001.

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 balance sheet 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 profit or loss.

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

P. Foreign currency

Assets and liabilities held in foreign currencies are translated to sterling at rates of exchange ruling at the end of the year. Income and expenditure denominated in foreign currencies are translated at the appropriate rates prevailing during the year.

Q. Operating leases

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

R. Cash flow statement

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

S. 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-profits fund surplus, which has previously been included within the FFA, is designated as retained earnings and all profits and losses of the Group and Society that do not relate to with-profits funds are reclassified within retained earnings within the balance sheet.

The Society includes two 100% ring-fenced with-profits funds, the surpluses on these have previously been included within the reported Funds for Future Appropriations (FFA). The surplus of each with-profits fund is for the benefit of the with-profits policy holders of each fund respectively, as such the surpluses have been deemed liabilities and referred to as ‘Fund for future appropriation – with-profits liabilities’. This balance represents all with-profits surpluses, the allocation to individual policies of which has not yet been determined by the end of the financial year.

T. 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 balance sheet date is included on the balance sheet as deposits from reinsurers.

U. 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 consolidated income statement, 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 2014, other than those arising from the business combination that was completed during the current year.

The significant accounting policies are described in the relevant notes.

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 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 Actuarial Function Holder. 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.

Further information is provided in Accounting Policy L and in note 22 to these financial statements.

Acquisition accounting for the business combination in the year

In accounting for the merger of FAFSL and HFSL during the year, the Directors have necessarily made judgements in the areas of:

- The application of acquisition accounting as required under FRS 102 to a transaction with no cash consideration and a combination that was of the form of a merger;
- Intangible assets – their valuation at fair value and their useful economic lives;
- Imputed consideration – the value of the equity interests of the Engage business at the point of merger; and
- The recognition of the Present Value of In-force (PVIF) business of the Engage business.

In making these judgements and estimates the Directors have utilised existing skills and experience within the business, third party experts and actuarial valuation techniques applied by appropriate skilled individuals.

Further information as to the basis of these calculations is provided in note 2 to these financial statements.

Notes to the financial statements

for the year ended 31 December 2015

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 ALM. 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 (OEIC) and Authorised Unit Trusts which in turn invest, partially and wholly, in equity securities. Exposure to individual companies is managed to ensure compliance with regulatory limits for solvency purposes.

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 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 assets and as such any changes in the value of assets impacts future income.

b. Market risk – credit

Credit risk is the risk that counterparties will be unable to pay amounts in full when they fall due. The Group is primarily exposed to credit risk in relation to its reinsurance arrangements, 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, and on corporate bonds and bank deposits.

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 on-going 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:

Market Risk – Credit	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Non linked financial investments	**273.2**	45.4	**266.3**	34.9
Debtors	**12.0**	8.0	**13.4**	5.3
Cash at bank	**54.7**	10.5	**51.5**	3.6
Total assets bearing credit risk	**339.9**	63.9	**331.2**	43.7
Debt and other assets rated as:				
UK government	**178.1**	29.6	**173.8**	22.8
A rated and above	**86.2**	15.8	**82.3**	7.6
B Rated – BBB	**23.6**	3.9	**23**	3
Below BBB or not rated	**52.0**	14.6	**52.1**	10.3
Total assets bearing credit risk	**339.9**	63.9	**331.2**	43.7

Credit risk on linked assets is borne by the policyholder, since policy benefits are linked directly to assets. These assets are therefore not disclosed in the above credit risk exposures.

Notes to the financial statements

for the year ended 31 December 2015

1. Management of financial and insurance risk (continued)

c. Liquidity risk

Liquidity risk is the risk that the Society 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 it may defer the payments until such time liquid assets can be realised.

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 discounted basis, net of reinsurance, is set out below:

Liquidity Risk	Total £m	Within 1 Year £m	1-5 Years £'m	5-15 Years £m	More than 15 Years £m
At 31 December 2015					
Long term business					
Non profit fund	83.6	2.9	15.1	30.8	34.8
With profit 1	51.6	4.2	21.3	22.5	3.6
With profit 2	50.6	5.7	21.3	16.7	6.9
Total	**185.8**	**12.8**	**57.7**	**70.0**	**45.3**
At 31 December 2014					
Long term business					
Non profit fund	1.7	0.4	1.0	0.3	-
With profit 1	-	-	-	-	-
With profit 2	-	-	-	-	-
Total	**1.7**	**0.4**	**1.0**	**0.3**	**-**

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 are classed as repayable on demand and there is considered to be sufficient liquidity to meet claims as they arise. The Society also 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.

d. Lapse risk

Lapse rate is a measure of the proportion of long-term policies that leave the Society over a period of time, excluding deaths and maturities. Lapse risk arises where the value of policies remaining in force is lower than anticipated.

The methodology for calculating the long-term business provision for the majority of whole of life business allows the utilisation of PRA Policy Statement 06/14 (PS06/14). Under PS06/14 negative reserves, which are assets sat within the overall long–term business provision, are permitted subject to an allowance for lapses. Higher lapses will lead to the negative reserves being lower.

e. 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 ongoing management and acquisition expenses remain within expected levels.

f. 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. An increase in longevity would expect to be offset, to an extent, by a decrease in mortality on the whole of life business, and vice versa.

Notes to the financial statements

for the year ended 31 December 2015

1. Management of financial and insurance risk (continued)

g. 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 interest, market or credit risk for the Group on these contracts.

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.

h. Capital management

The Society 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. As at 31 December 2015 the available capital resources consisted of the Fund for Future Appropriations (FFA) and the retained earnings. The FFA is the accumulated surplus that has not yet been allocated to policies in the with-profits funds. It forms the working capital of the Group and is available to meet risk and capital requirements, as well as any uncertain additional liabilities that may arise in the future.

The Group is subject to regulation by the Prudential Regulation Authority (PRA). In reporting financial strength, capital resources and solvency are measured following the regulations provided by the PRA.

Modified statutory solvency, as determined by the PRA rules, and reported in these financial statements sets liabilities on a prudent basis so that the margins of prudence are expected to be sufficient to withstand shocks or stresses. Stresses are also covered by the resilience component of the capital requirements as reported in the PRA Return. The resulting statutory reserves are tested to ensure that we do not breach our minimum capital requirements on a number of tests including one-off falls in the price of equities, change in yields on fixed income securities, as well as one-off reductions in income. Additional reserves are also held to ensure that the Group can be expected to discharge its responsibilities to policyholders at all times up until their policies mature.

The PRA requires companies to undertake capital tests using a number of market consistent approaches and to report privately to the PRA on the results. The PRA has developed a new set of capital requirement rules for insurers – Solvency II. The Solvency II rules apply from 1 January 2016. The Group (including the Society and its regulated subsidiaries) has been monitoring the development of the Solvency II requirements and a project to ensure it meets the requirements from 1 January 2016, has been undertaken and the Group will be reporting under the Solvency II during 2016. It is expected that the new requirements will show continuing financial strength.

Capital management objectives

The Group'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 Society;
- 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.

Sensitivities

The regulatory 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 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 immediate impact on the capital position.

In managing the capital position the Board has quantified the impacts of the principal risks faced. The tables below show the impact of the main sensitivities on the Group's long term liabilities in both the current and prior year.

Long-term Business Provision (LTBP) Sensitivities – £m – 2015

	Mortality		Lapse	Expenses		Fix Int Yield		Equities/Property	
Fund	**5%**	**-5%**	**10%**	**10%**	**-10%**	**20%**	**-20%**	**10%**	**-10%**
Non profit fund	1.0	1.9	(0.3)	4.0	(3.8)	(6.5)	8.2	n/a	n/a
With profits fund 1	–	–	n/a	0.3	(0.2)	(0.6)	0.9	–	–
With profits fund 2	(0.1)	0.1	n/a	n/a	n/a	(0.9)	1.0	–	–
Change in LTBP	**0.9**	**2.0**	**(0.3)**	**4.3**	**(4.0)**	**(8.0)**	**10.1**	**–**	**–**

Long-term Business Provision (LTBP) Sensitivities – £m – 2014

	Mortality		Lapse	Expenses		Fix Int Yield		Equities/Property	
Fund	**5%**	**-5%**	**10%**	**10%**	**-10%**	**20%**	**-20%**	**10%**	**-10%**
Non profit fund	–	–	–	–	–	–	–	–	–
With profits fund 1	–	–	–	–	–	–	–	–	–
With profits fund 2	–	–	–	–	–	–	–	–	–
Change in LTBP	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

The Non Profit mortality assumptions include the 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.

Notes to the financial statements

for the year ended 31 December 2015

1. Management of financial and insurance risk (continued)

Operational risk – key suppliers / business partners

As part of our risk and capital management we consider all aspects of the operational risks relating to our internal processes and business model. Within the evaluation we consider our resilience and protections against financial or operational failure of key suppliers.

Our strategic suppliers and the services they provide to us are as follows:

Strategic Supplier	Services provided
Munich Re	Risk transfer and financial reinsurance services
Hannover Re	Risk transfer and financial reinsurance services
National Australia Banking Group	Savings and protection distribution
Santander Asset Management	Investment management services
Insight Investments	Investment management services
Ecclesiastical Investment Managers	Investment management services
The Bank of New York Mellon	Custody services
The Bank of New York Mellon International Limited	Accounting and administration services
Oracle	Database management for policy administration
Microsoft	Software and operating systems for end user computing
Barclays	Principal banker/Investment management services
Bank of Ireland	Savings distribution
State Street Group	Investment management & custody trustee services
Willis Towers Watson	Actuarial services
KPMG	External auditors
Royal Bank of Scotland	Principal banker

Funding of subsidiary undertakings

All Group companies are wholly owned subsidiaries of Family Assurance Friendly Society Limited (the Society).

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 the PRA's minimum capital requirements. Account is also taken of the Individual Capital Assessment which considers some of the risks the business faces not covered by the statutory basis.

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 restrictions on the available capital held in the non-profit fund. As part of the merger of FAFSL and HFSL the valuation of all Group subsidiaries is on a net asset basis. Adopting this basis for the year in both our financial and regulatory reporting aligns our results more closely with the new Solvency II regulatory environment.

The Society's total available capital resources are £130.7m (2014: £42.4m) of which £40.8m (2014: £nil) is held in the with-profits funds and £89.9m (2014: £42.4m) is held in the non-profit fund.

Available Capital Resources	Non profit £'000	With profits 1 £'000	With profits 2 £'000	Total £'000
At 31 December 2015				
Fund for future appropriations and retained earnings	**151,049**	**25,981**	**16,579**	**193,609**
Adjustments to assets onto regulatory basis	177	–	–	177
Adjustments to inadmissible assets:				
– Goodwill arising on acquisition	(1,061)	–	–	(1,061)
– Intangible assets excluding acquired VIF	(4,388)	(104)	–	(4,492)
– Acquired VIF	(52,000)	–	–	(52,000)
Adjustments in respect of closure reserve	(3,835)	(1,690)	–	(5,525)
Total available capital resources	**89,942**	**24,187**	**16,579**	**130,708**
Society capital requirements	(11,878)	(5,590)	(3,494)	(20,962)
Subsidiary capital requirements	(5,153)	–	–	(5,153)
Excess capital over regulatory requirements	**72,911**	**18,597**	**13,085**	**104,593**
At 31 December 2014				
Fund for future appropriations	**46,475**	**–**	**–**	**46,475**
Adjustments to assets onto regulatory basis	(4,060)	–	–	(4,060)
Adjustments to inadmissible assets	–	–	–	–
Adjustments in respect of closure reserve	–	–	–	–
Total available capital resources	**42,415**	**–**	**–**	**42,415**
Society capital requirements	(2,176)	–	–	(2,176)
Subsidiary capital requirements	–	–	–	–
Excess capital over regulatory requirements	**40,239**	**–**	**–**	**40,239**

Notes to the financial statements

for the year ended 31 December 2015

1. Management of financial and insurance risk (continued)

At date of acquisition, excess Capital on With Profit 1 was £22.3m; and for With Profit 2 £12.7m.

Under the Solvency I regulatory capital regime the Group is required to report privately to the regulator the capital position under Pillar II, which requires the assets and liabilities at the balance sheet date to be stressed in line with a 1 in 200 year event over the following 12 month period. The Group has remained solvent under this basis and this is considered adequate for the purposes of assessing liability adequacy for the Group.

Analysis of movement of Excess Capital	Non profit 2015 £'000	With profits 1 2015 £'000	With profits 2 2015 £'000	Total 2015 £'000
Opening excess capital at 1 January	40,239	–	–	40,239
Additional surplus capital upon acquisition	29,854	22,349	12,654	64,857
Non-linked investment returns	14,283	–	–	14,283
Life assurance new business costs	(5,087)	–	–	(5,087)
Reinsurance commissions on new business	246	–	–	246
Solvency II reserve	1,791	–	–	1,791
Annuitant longevity assumption	1,500	–	–	1,500
Closure reserve	3,669	–	–	3,669
Valuation interest rates	4,058	–	–	4,058
Capital requirements	1,100	(400)	100	800
Asset restrictions	(6,637)	–	–	(6,637)
Asset movements	–	459	(4,206)	(3,747)
Policy reserves	–	(1,984)	5,449	3,465
Adjustments to net assets	(10,312)	–	–	(10,312)
Other	(1,793)	(1,827)	(912)	(4,532)
Closing excess capital at 31 December	**72,911**	**18,597**	**13,085**	**104,593**

The technical provisions as set out in the Society's regulatory returns and financial statements, which are used to determine capital resources, are analysed in the following table and comprise of the net LTBP, claims outstanding and gross liabilities for investment contracts which are detailed in the balance sheet.

Technical Provisions	2015 £'000	2014 £'000
Linked life	1,154,447	943,543
Linked pensions	150,149	92,771
Non linked life	625	10
Non linked pensions	3,376	–
With profits contracts	98,718	–
Non participating life insurance contracts	12,661	1,737
Non participating pensions contracts	76,138	–
Total technical provisions	**1,496,114**	**1,038,061**
Adjustment to regulatory basis at technical provisions	2,598	500
Total net technical provisions in the financial statements*	**1,498,712**	**1,038,561**

*Excluding acquired value of inforce business (see note 22)

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 payout 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, payouts 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 payouts on maturities; however, it can apply to a lesser extent on early surrender of certain policies.

The Society has with profits funds with policyholder liabilities of less than £500m. As such it is not within the PRA realistic external reporting regime which requires life insurers to measure liabilities on a market consistent basis, valuing options and guarantees at fair value. However, we use realistic techniques in our internal management reporting for the management of the with profits funds. Realistic reporting is based on management best estimates and fair value as evidenced by established market prices wherever possible. It therefore represents a better view of the economic risk faced by the Group, which may or may not be more prudent than the statutory solvency tests.

Notes to the financial statements

for the year ended 31 December 2015

2. Merger of Family Assurance Friendly Society Limited (FAFSL) and Homeowners Friendly Society Limited (HFSL)

On 1 April 2015, Family Assurance Friendly Society Limited (FAFSL) merged with Homeowners Friendly Society Limited (HFSL). The merger was effected under paragraph 86 (5)(a) of the Friendly Society Act 1992, transferring all of the assets and liabilities into FAFSL, trading as OneFamily.

Accounting treatment adopted under UK GAAP

As set out in accounting policy A 'Basis of Accounting', FRS 102 only permits merger accounting in a small number of specific situations and where not permitted acquisition accounting must be applied. Further, FRS 102 provides little guidance as to how to apply acquisition accounting to the merger of two mutuals. Under such circumstances guidance may be sought from the corresponding International Accounting Standards.

International Financial Reporting Standard 3 Business Combinations (IFRS 3), not only provides greater guidance in respect of business combinations where there is no consideration, it also provides specific application guidance to the situation of two mutuals merging. As such these financial statements have adopted the accounting treatment prescribed under IFRS 3.

Under this approach a 'deemed acquirer' and a 'deemed acquiree' are required to be identified. As the assets and liabilities of HFSL were transferred into FAFSL the convention of defining FAFSL as 'the deemed acquirer' and HSFL as the 'deemed acquiree' has been adopted.

Under the application of FRS 102 the identifiable assets and liabilities of HFSL are fair valued at the merger date in accordance with general acquisition accounting principles.

Under the merger there was no cash consideration, the assets and liabilities of both legacy groups were combined; all having equal rights in the enlarged Group.

IFRS 3 requires that for a merger of this type an 'imputed consideration' should be calculated to determine the amount of goodwill arising on the acquisition. In describing the basis of this imputed consideration, the Standard draws comparisons to the value that 'equity holders' would place on their interest in a proprietary business and draws comparisons to the total 'equity interests' that members would have in a mutual.

The assessment of the imputed consideration has been made by taking into account the value elements that would be included in an equity assessment made by the HFSL members. The principal items included the net assets being acquired, the value of the in-force business (VIF) and the capability to generate additional future new business of the business planning time horizon.

As part of recognising the acquired balance sheet at fair value, the accounting policies of the acquired assets and liabilities are harmonised with those of the Group. The accounting policy alignments summarised in the table on the following page are the impact of changing the valuation of subsidiary entities to be in line with the Group policy.

Nature and impact of merged business

The business of HFSL is that of insurance and investment business. The long term insurance business includes two with profits funds, which are ring fenced and any surpluses arising in those funds are for the benefit of the relevant with-profits policyholders only. As a result the with-profits Funds for Future Appropriations (FFA) have been determined as a liability in accordance with FRS 103. The remainder of the long-term business is written out of a non-profit fund.

The merged business included Engage Mutual Health (EMH), a general insurance business providing cover of the cost of health care. This business was disposed of on 30 October 2015, see note 3.

The investment business consists of unit linked and externally fund managed investment contracts and Child Trust Fund business similar to that of the Group prior to the business combination. The acquisition had the following effect on the Society's assets and liabilities.

Acquisition of HFSL	Book values £'000	Accounting policy alignments £'000	Fair value adjustments £'000	Recognised values on acquisition £'000
Acquiree's net assets at the acquisition date:				
Assets				
Goodwill	–	–	1,147	1,147
Other intangible assets	–	–	6,108	6,108
Investments	613,982	(13,494)	–	600,488
Reinsurers' share of technical provisions	80,309	–	–	80,309
Other assets including cash	36,281	–	–	36,281
Total	**730,572**	**(13,494)**	**7,255**	**724,333**
Liabilities				
FFA	–	–	45,920	45,920
Technical provisions for insurance business	279,579	–	(54,200)	225,379
Gross liability for investment contracts	338,952	–	–	338,952
Other creditors	15,678	(3,182)	–	12,496
Total	**634,209**	**(3,182)**	**(8,280)**	**622,747**
Net identifiable assets – Fund for Future appropriations and retained earnings	96,363	(10,312)	15,535	101,586
Total cost of business combination:				
Imputed consideration:	97,486			
Costs of merger incurred:	4,100			
Total consideration:	**101,586**			
Goodwill on acquisition	**1,147**			

Notes to the financial statements

for the year ended 31 December 2015

2. Merger of Family Assurance Friendly Society Limited (FAFSL) and Homeowners Friendly Society Limited (HFSL) (continued)

At Group level, upon consideration additional net assets of £2,778k were recognised principally in respect of EMH and a corresponding increase in imputed consideration was also recognised. The result of this was that £1,147k of Goodwill was also recognised at Group level.

The following table summarises the value and nature of the fair value adjustments included above.

Description of fair value adjustments	Note	£'000
Recognition of intangible assets upon acquisition	a	
– Brand and Foundation		2,878
– Beneficial contracts		1,757
– IT and systems		1,473
Recognition of Present Value of In Force (PVIF) business of the acquired entity	b	54,200
Categorise the FFA surpluses of the acquired with-profits funds as liabilities	c	(45,920)
Recognition of Goodwill on the business combination	d	1,147
Total fair value adjustments		**15,535**

Notes to the fair value adjustments:

a. In accordance with acquisition accounting under FRS 102 the deemed acquirer must identify and value at open market fair value any intangible assets that they believe exist in the aquiree, at the acquisition date.

   The intangible assets are amortised over the Useful Economic Lives, which have been determined as 2 years for Brand and Foundation, reflecting that the Engage brand is not being maintained and between 2 and 4 years for the IT and Systems and Beneficial Contracts.

b. The Present Value of the In-Force (PVIF) business, of the acquired business, has been appropriately recognised under acquisition accounting and has been offset against the long term business provisions of that business.

   The PVIF will amortise in line with the expected emergence of value from the underlying contracts.

c. The acquired business includes two with-profits funds. These funds are ring-fenced and the surplus is for the benefit of the with-profits policyholders in each of those funds. As such we have treated the surplus as liabilities and not as part of the equity or retained earnings being acquired.

d. The Goodwill is the excess amount of imputed consideration and transaction costs surplus over the fair value of the assets and liabilities acquired.

The accounting policy alignments are in respect of recognising the acquired subsidiaries in line with the Group's accounting policy for the valuation of subsidiary companies.

It is considered that the merger of the two business presents strategic and financial benefits over several future years. As such it has been concluded that any goodwill is to be amortised over a period of 10 years. The PVIF will emerge of the expected timings of the cash flows of the underlying valuation calculation. All intangible assets will be reviewed for impairment should there be a change in conditions that affect the fair value of these assets.

3. Disposal of business
- In the current period

Discontinued operations – Engage Mutual Health (EMH)

On 30 October 2015, Engage Mutual Health was sold. The disposal was by way of a sale of 100% of the equity shares held by an intermediary holding company, Engage Health Holdings Limited, of the business to a third party. The profit on disposal has been included in the non-technical account for the year. The profit on disposal within the Society was £2.9m reflecting that the investment in subsidiary at the point of disposal had been previously impaired to £nil. The profit at Group level was £0.3m reflecting the sale proceeds less the net assets transferred with the business.

The sale proceeds of £0.4m, included £0.1m of deferred consideration payable 12 months after the date of acquisition and £0.1m of contingent consideration based on the future persistency of the business. Given the limited post disposal period for any changes in persistency to emerge, the contingent sales proceeds have not been recognised at the year end.

The Technical Account – General Business relates solely to the profits and losses of EMH for the period from acquisition to the date of its disposal. An abridged balance sheet for that business is presented below.

Engage Mutual Health Limited – abridged balance sheet	**31 October 2015 £'000**
Assets	
Current assets	69
Cash at bank	3,074
Total Assets	**3,143**
Liabilities	
Called up share capital	5,000
Reserves	(2,463)
Total shareholders' funds	**2,537**
Technical provisions	405
Other creditors	201
Total liabilities	**3,143**

Notes to the financial statements

for the year ended 31 December 2015

3. Disposal of business (continued) – In the prior period

Discontinued operations – POIS book of business

On 26 September 2014, the Group entered into an agreement to sell its POIS business to Foresters Friendly Society. An abridged technical account and balance sheet for the period 1 January 2014 to the date of disposal is shown below.

Discontinued business

POIS business	2014 £'000
Technical account	
Net earned premiums	5,216
Investment income, realised gains and unrealised losses	838
Net claims incurred	(10,941)
Net change in technical provisions	5,821
Investment expenses and charges	(968)
Deficit of technical income over technical charges before taxation	(34)
Taxation	(78)
Gain on disposal	486
Gain on discontinued operations	**374**
Abridged balance sheet	**26 September 2014 £'000**
Assets	
Financial investments	34,380
Assets to cover linked liabilities	31,935
Other assets	2,100
Total assets	**68,415**
Liabilities	
Fund for future appropriations	9,429
Technical provisions	58,984
Other creditors	2
Total liabilities	**68,415**

4. Premium analysis

Premium received	Group 2015 £'000	Group 2014 Restated £'000	Society 2015 £'000	Society 2014 Restated £'000
Gross Premiums Written (GWP)	26,870	–	26,870	–
Less: Reinsurers' Share	(7,825)	–	(7,825)	–
Net earned premium – Insurance business	**19,045**	–	**19,045**	–
Gross Premiums received in respect of investment business	**2,591,786**	1,274,610	**1,279,826**	689,259

As set out in accounting policy D under FRS 103, the Technical Account – Long Term Business only includes premiums in respect of insurance business. Premiums in respect of investment contracts are treated as customer deposits and taken directly to the balance sheet (see note 31).

Both the Society and Group administer 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. The table above summarises the amounts received during the year in respect of this business.

5. Investment income

Investment income	Group 2015 £'000	Group 2014 £'000	Society 2015 £'000	Society 2014 £'000
Income from other investments	50,732	24,515	64,117	24,515
Realised gains on investments	18,562	11,751	16,426	11,751
Total investment income	**69,294**	36,266	**80,543**	36,266
Unrealised (losses)/gains on investments	(45,365)	28,984	(45,365)	30,496
Investment management expenses	(2,316)	(883)	(2,316)	(883)
Total net investment return	**21,613**	64,367	**32,862**	65,879

All of the gains and losses above are Fair Value through the Profit and Loss.

Notes to the financial statements

for the year ended 31 December 2015

6. Claims incurred, net of reinsurance

Society and Group – technical account – long term business	**2015 £'000**	2014 £'000
Gross claims paid	**23,145**	581
Change in provision for claims outstanding at year-end	**(2,041)**	(581)
Gross claims incurred	**21,104**	–
Outward claims reinsurance received	**(5,851)**	–
Total claims incurred, net of reinsurance	**15,253**	–

As described in Accounting Policy D – 'Classification of contracts', in accordance with FRS 103 policies defined as investment rather than insurance contracts are accounted for on a deposit basis. The claims analysis above excludes £87.5m (2014: £78.1m) which would otherwise be included.

7. Bonuses

The value of terminal bonuses paid to with profit policyholders in the year was £1,204k (2014: £Nil).

8. Net operating expenses

Net operating expenses	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Technical account – long-term business				
Acquisition costs	**5,202**	238	**5,202**	238
Change in deferred acquisition costs	**88**	–	**88**	–
Administrative expenses	**32,122**	14,128	**32,122**	14,128
Net operating expenses	**37,412**	14,366	**37,412**	14,366
Technical account – general business-discontinued				
Net operating expenses	**934**	–	**-**	–
Non-technical account				
Net operating expenses	**25,250**	22,895	**-**	–
Total operating expenses	**63,596**	37,261	**37,412**	14,366

Acquisition costs relate solely to insurance products and exclude the costs of generating investment business.

Total commission paid by the Group on new business was £6,681k (2014: £1,232k).

9. Auditor's remuneration

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

Auditor's remuneration	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Audit services				
Fees payable to the Society's auditor for the audit of the annual accounts;	**197**	143	**197**	143
Audit of the accounts of subsidiaries	**42**	48	**-**	–
Audit-related assurance services	**175**	29	**28**	11
Non-audit services	**-**	–	**-**	–
Tax compliance services	**-**	–	**-**	–
Other assurance services	**120**	192	**-**	192
Other non audit services	**160**	47	**-**	47
Total	**694**	459	**225**	393

Fees in the prior year were payable to Mazars LLP.

Notes to the financial statements

for the year ended 31 December 2015

10. Operating lease rentals

Operating lease amounts payable	2015 £'000	2014 £'000
Group and Society		
Operating leases which expire:		
– within one year	**96**	65
– between two and five years	**121**	178
Total	**217**	243
Payments made under operating leases		
Hire of fixtures and fittings – rental under operating leases	**113**	52
Hire of other assets – rental under operating leases	**17**	–
Total	**130**	52

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

The comparatives have been re-presented to be consistent with the disclosure requirement FRS 102. These changes are in disclosure only and have no impact on the financial statements.

11. Staff costs

Staff costs – Group and Society	2015 £'000	2014 £'000
Wages and salaries	**18,883**	13,686
Social security costs	**1,587**	1,068
Other pension costs	**993**	799
Total staff costs	**21,463**	15,553

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	2015 FTE	2014 FTE
Administration	**426**	313
Management	**15**	10
Marketing	**36**	29
Total FTE	**477**	352

All staff are employed and remunerated by Family Assurance Friendly Society Limited (FAFSL) or Engage Mutual Administration Limited (EMAL), the Group administration companies. No staff are employed directly by the Society. The Directors have been wholly remunerated by FAFSL or EMAL for their services to the Society and other group undertakings. The costs of the Directors are recovered through charges to the Group companies. During 2015 the total remuneration paid to the Directors was £2,847k (2014: £1,557k) and the total remuneration paid to the highest paid director was £1,169k (2014: £760k).

12. Other technical income, net of reinsurance

Technical income – long term business	Group 2015 £'000	Group 2014 £'000	Society 2015 £'000	Society 2014 £'000
Property rental	4	–	297	–
Annual management rebates	524	–	524	–
Mortgage interest receivable	114	–	114	–
Reassurance financing advances	4,234	–	4,234	–
Bank interest/commission	–	–	–	1,232
Other	–	–	1,911	–
Total other technical income	**4,876**	–	**7,080**	1,232

Other technical income in the Society includes rental charged to its subsidiary EMAL, for the use of Gardner House. It also includes interest on bank deposits, mortgages and reinsurance financing advances receivable in relation to the sale of new Over 50s life cover policies.

13. Other income

Other income comprises	Group 2015 £'000	Group 2014 £'000
Annual management charges from CTF business	2,547	–
Other operating income	33,577	28,558
Total other income	**36,124**	28,558

Other operating income principally relates to amounts receivable from third party insurance intermediary commissions.

Notes to the financial statements

for the year ended 31 December 2015

14. Taxation

(a) Analysis of the tax charge for the period is:	Group 2015 £'000	Group 2014 £'000	Society 2015 £'000	Society 2014 £'000
Corporation tax				
Policyholder tax charge/(credit)	**(2,175)**	(777)	**(2,175)**	(777)
Deferred tax				
Timing differences, origination and reversal	**(285)**	2,019	**-**	-
Total tax charge/(credit)	**(2,460)**	1,242	**(2,175)**	(777)

The tax credit for the Group is £2,460k (2014: charge of £1,242k).

Please note that all of the legacy Engage subsidiaries have been included using the 12 month period ended 31 December 2015 for tax purposes. In particular, this applies for Engage Mutual Funds Limited, which has a deferred tax credit in the period of £285k.

The weighted average applicable UK corporation tax rate is 20.25% for the subsidiaries (2014: 21.5%), due to the reduction of the UK corporation tax rate from 21% to 20%, which was effective from 1 April 2015.

The Finance No.2 Act 2015 substantively enacted on 26 October 2015, included legislation reducing the UK corporate tax rate from 20% to 19% with effect from 1 April 2017, and to 18% from 1 April 2020.

The UK rate of income tax is 20% for the Society (2014: 20%).

Many of the Society's products represent tax exempt business. The Society also writes taxable business, together with pensions business.

Deferred tax expected to reverse in the year ended 31 December 2016 has been remeasured using the effective rate of 20% that is expected to apply in the period.

(b) Reconciliation of current year tax charge	Group 2015 £'000	Group 2014 £'000	Society 2015 £'000	Society 2014 £'000
Profit/(Loss) on ordinary activities	**1,600**	5,133	**3,987**	5,133
Result for year	**1,600**	5,133	**3,987**	5,133
Tax on result	**324**	1,104	**807**	1,104
Factors affecting tax charge:				
Accounting profit not subject to policyholder tax	**1,917**	113	**(807)**	(1,104)
Items taxed on a different basis	**(2,175)**	(777)	**(2,175)**	(777)
Items disallowable in tax computation	**199**	–	**–**	–
Profit on disposal – not taxable	**(574)**	–	**–**	–
Group consolidation adjustments	**82**	98	**–**	–
Movement in unprovided deferred tax asset	**(2,233)**	704	**–**	–
Current corporation tax credit for the year	**(2,460)**	1,242	**(2,175)**	(777)

(c) Analysis of deferred tax asset	Group 2015 £'000	Group 2014 £'000	Society 2015 £'000	Society 2014 £'000
Timing differences	**–**	–	**–**	–
Deferred tax provision on unrealised gains	**–**	(400)	**–**	(400)
Losses recognised	**1,378**	400	**–**	400
Total recognised deferred tax asset/(provision)	**1,378**	–	**–**	–
Unrecognised deferred tax assets	**13,393**	2,916	**11,265**	410
Total	**14,771**	2,916	**11,265**	410

(d) Movement in recognised deferred tax asset/(provision)	Group 2015 £'000	Group 2014 £'000	Society 2015 £'000	Society 2014 £'000
Provision at start of the period	**–**	2,019	**–**	–
Deferred tax charge to Technical Account – Long-term business	**1,093**	(2,019)	**–**	–
Deferred tax charge to Non-Technical Account	**285**	–	**–**	–
Provision at end of the period	**1,378**	–	**–**	–

Notes to the financial statements

for the year ended 31 December 2015

15. Goodwill and intangible assets

Goodwill and intangible assets Group and Society	Goodwill £'000	Brand & foundation £'000	Beneficial contracts £'000	IT & systems £'000	Total £'000
Cost					
At 1 January 2015	–	–	–	–	–
Cost on acquisition	1,147	2,878	1,757	1,473	7,255
Capitalised during the year	–	–	–	319	319
At 31 December 2015	**1,147**	**2,878**	**1,757**	**1,792**	**7,574**
Amortisation					
At 1 January 2015	–	–	–	–	–
Amortisation during the year	86	1,075	792	491	2,444
At 31 December 2015	**86**	**1,075**	**792**	**491**	**2,444**
Net book value at 31 December 2015	**1,061**	**1,803**	**965**	**1,301**	**5,130**

There were no intangibles or goodwill for the year ended 31 December 2014 and hence all comparatives would be £nil.

16. Land and buildings

Land and buildings Group and Society	Current value		Historical cost	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
– Property occupied by the Group and Society	**5,000**	–	**8,147**	–
– Investment property	**4,350**	2,037	**2,442**	1,626
Balance at 31 December	**9,350**	2,037	**10,589**	1,626

Land and buildings are all freehold. The full external professional valuation of the property occupied by the Group was carried out by Sanderson Weatherall, Chartered Surveyors at 30 June 2015, and has been reviewed by the Directors at 31 December 2015.

The full external professional valuation of the investment property was carried out by W Hallett & Co., Chartered Surveyors at 29 April 2015, and has been reviewed by the Directors at 31 December 2015.

During the year the Gardner House property has been revalued upwards by £1.0m. The increase has been recognised in the other comprehensive income.

17. Investments in group undertakings

Society investments	Society 2015 £'000	Society 2014 £'000
The Society investment in subsidiaries can be analysed as follows:-		
Fair value at 1 January	**19,364**	17,751
Impact of business combination	**(362)**	-
Dividends paid to Society	**(14,098)**	-
Other fair value changes in the period	**1,131**	1,613
Fair value at 31 December	**6,035**	19,364

Included in the 'impact of business combination' are investments in subsidiaries from the merger with Homeowners Friendly Society Limited (being the 'Engage' subsidiaries named below), and the sale of Engage Mutual Health during the year. The write-down provided for the year represents a diminution in the value of certain 'Family' subsidiaries included below.

Set out below are the Society's investments in subsidiary undertakings as at 31 December 2015 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
Family Equity Plan Limited	Child Trust Fund Management
Family Investment Management Limited	Fund Management
Family Enterprise Limited	Administration Services
Family PEP Managers Limited	ISA fund management
Governor Finance Limited	Fund Management
Engage Mutual Funds Limited	Child Trust Fund management
Engage Mutual Administration Limited	Administration Services
Engage Mutual Services Limited	Insurance and non-regulated financial product intermediary
Engage Health Holdings Limited	Holding company for Engage Mutual Health
Engage Mutual Health	General insurance
OneFamily Foundation Limited	Funding for community projects

The subsidiaries are wholly owned by the Society, except for Engage Mutual Health which was wholly owned by Engage Health Holdings Limited, prior to its disposal on 30 October 2015.

Notes to the financial statements

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18. Financial instruments

FRS 102 Financial Reporting: Disclosures, requires disclosure of the fair value measurement basis for 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:	2015 £'000	2014 £'000
Land and buildings	**9,350**	2,037
Linked financial investments	**1,305,993**	1,036,314
Non-linked financial investments	**273,215**	45,439
Total financial investments	**1,588,558**	1,083,790

The above investments, excluding 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 2015 £'000	Fair value 2014 £'000	Cost 2015 £'000	Cost 2014 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,167,341**	966,307	**935,731**	819,227
Debt securities and other fixed income securities	**285,580**	52,282	**261,455**	20,330
Derivatives held at fair value through profit and loss	**199**	-	**-**	-
Financial assets held at fair value through profit and loss	**1,453,120**	1,018,589	**1,197,186**	839,557
Loans and receivables				
Loans secured by mortgage	**12,432**	10,163	**12,403**	11,107
Deposits with credit institutions	**107,285**	52,016	**107,285**	41,151
Accrued income and receivables	**6,371**	985	**6,371**	655
Loans and receivables	**126,088**	63,164	**126,059**	52,913
Total Group financial assets	**1,579,208**	1,081,753	**1,323,245**	892,470
Financial liabilities				
Financial liabilities held at fair value through profit and loss	**1,304,487**	1,036,314	**1,304,487**	1,036,314
Financial liabilities held at amortised cost	**2,658**	-	**2,658**	-
Total Group financial liabilities	**1,307,145**	1,036,314	**1,307,145**	1,036,314

Group analysis – linked and non-linked, excluding Land & Buildings

Group Financial assets held at fair value through profit and loss	**Linked Fair value 2015 £'000**	**Non-Linked Fair value 2015 £'000**	**Total Fair value 2015 £'000**	Linked Fair value 2014 £'000	Non-Linked Fair value 2014 £'000	Total Fair value 2014 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,136,281**	**31,060**	**1,167,341**	961,932	4,375	966,307
Debt securities and other fixed income securities	**52,000**	**233,580**	**285,580**	22,082	30,200	52,282
Derivatives held at fair value through profit and loss	**-**	**199**	**199**	-	-	-
Financial assets held at fair value through profit and loss	**1,188,281**	**264,839**	**1,453,120**	984,014	34,575	1,018,589
Loans and receivables						
Loans secured by mortgage	**10,725**	**1,707**	**12,432**	10,163	-	10,163
Deposits with credit institutions	**100,616**	**6,669**	**107,285**	41,152	10,864	52,016
Accrued income and receivables	**6,371**	**-**	**6,371**	985	-	985
Loans and receivables	**117,712**	**8,376**	**126,088**	52,300	10,864	63,164
Total Group financial assets	**1,305,993**	**273,215**	**1,579,208**	1,036,314	45,439	1,081,753
Financial liabilities						
Financial liabilities held at fair value through profit and loss	**1,304,487**	**-**	**1,304,487**	1,036,314	-	1,036,314
Financial liabilities held at amortised cost	**-**	**2,658**	**2,658**	-	-	-
Total Group financial liabilities	**1,304,487**	**2,658**	**1,307,145**	1,036,314	-	1,036,314

Notes to the financial statements

for the year ended 31 December 2015

18. Financial instruments (continued)

These can then be further analysed out into the following categories;

The financial investments held by the Society are valued as:	2015 £'000	2014 £'000
Land and buildings	**9,350**	2,037
Linked financial investments	**1,305,993**	1,036,314
Non-linked financial investments	**266,219**	34,871
Total financial investments	**1,581,562**	1,073,222

Society Financial assets held at fair value through profit and loss	Fair value 2015 £'000	Fair value 2014 £'000	Cost 2015 £'000	Cost 2014 £'000
Shares, other variable yield securities and holdings in collective investment schemes	**1,160,742**	955,739	**935,303**	799,863
Debt securities and other fixed income securities	**285,183**	52,282	**261,455**	20,330
Derivatives held at fair value through profit and loss	**199**	-	**-**	-
Financial assets held at fair value through profit and loss	**1,446,124**	1,008,021	**1,196,758**	820,193
Loans and receivables				
Loans secured by mortgage	**12,432**	10,163	**12,403**	11,107
Deposits with credit institutions	**107,285**	52,016	**107,285**	51,719
Accrued income and receivables	**6,371**	985	**6,371**	655
Loans and receivables	**126,088**	63,164	**126,059**	63,481
Total Society financial assets	**1,572,212**	1,071,185	**1,322,817**	883,674
Financial liabilities held at fair value through profit and loss	**1,304,487**	1,036,314	**1,304,487**	1,036,314
Financial liabilities held at amortised cost	**2,761**	-	**2,761**	-
Total Society financial liabilities	**1,307,248**	1,036,314	**1,307,248**	1,036,314

Society analysis – linked and non-linked, excluding Land & Buildings

Society financial assets held at fair value through profit and loss	Linked Fair value 2015 £'000	Non-Linked Fair value 2015 £'000	Total Fair value 2015 £'000	Linked Fair value 2014 £'000	Non-Linked Fair value 2014 £'000	Total Fair value 2014 £'000
Shares, other variable yield securities and holdings in collective investment schemes	1,129,710	31,032	1,160,742	961,932	(6,193)	955,739
Debt securities and other fixed income securities	52,000	233,183	285,183	22,082	30,200	52,282
Derivatives held at fair value through profit and loss	-	199	199	-	-	-
Financial assets held at fair value through profit and loss	1,181,710	264,414	1,446,124	984,014	24,007	1,008,021
Loans and receivables						
Loans secured by mortgage	10,725	1,707	12,432	10,163	-	10,163
Deposits with credit institutions	107,187	98	107,285	41,152	10,864	52,016
Accrued income and receivables	6,371	-	6,371	985	-	985
Loans and receivables	124,283	1,805	126,088	52,300	10,864	63,164
Total Society financial assets	1,305,993	266,219	1,572,212	1,036,314	34,871	1,071,185
Financial liabilities						
Financial liabilities held at fair value through profit and loss	1,304,487	-	1,304,487	1,036,314	-	1,036,314
Financial liabilities held at amortised cost	-	2,761	2,761	-	-	-
Total Society financial liabilities	1,304,487	2,761	1,307,248	1,036,314	-	1,036,314

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18. Financial instruments (continued)

Valuation methods – these are based on FRED 62 disclosure requirements on the three levels indicated **2015** **Group**	**Level 1** Active quoted prices **£'000**	**Level 2** Other observable inputs **£'000**	**Level 3** Other **£'000**	**Total** **£'000**
Total Group financial assets				
Shares, other variable yield securities and holdings in collective investment schemes	1,024,496	97,729	170,133	**1,292,358**
Debt securities and other fixed income securities	228,077	48,048	–	**276,125**
Land & buildings	–	–	10,725	**10,725**
Total Group financial assets	**1,252,573**	**145,777**	**180,858**	**1,579,208**
Financial liabilities held at fair value through profit and loss	**–**	**1,304,487**	**–**	**1,304,487**

Valuation methods – these are based on FRED 62 disclosure requirements on the three levels indicated **2015** **Society**	**Level 1** Active quoted prices **£'000**	**Level 2** Other observable inputs **£'000**	**Level 3** Other **£'000**	**Total** **£'000**
Total Society financial assets				
Shares, other variable yield securities and holdings in collective investment schemes	1,017,500	97,729	170,133	**1,285,362**
Debt securities and other fixed income securities	228,077	48,048	–	**276,125**
Land & buildings	–	–	10,725	**10,725**
Total Society financial assets	**1,245,577**	**145,777**	**180,858**	**1,572,212**
Financial liabilities held at fair value through profit and loss	**–**	**1,304,487**	**–**	**1,304,487**

19. Other debtors

Other debtors Group and Society	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Amounts owed from Group undertakings	**–**	–	**9,024**	–
Amounts owed from policyholders	**451**	–	**451**	–
Amounts owed from intermediaries	**694**	–	**694**	–
Debtors arising out of reinsurance operations	**620**	–	**620**	–
Other debtors	**10,213**	8,002	**2,660**	5,282
Total debtors	**11,978**	8,002	**13,449**	5,282

All amounts fall due to be paid within one year.

20. Tangible assets

Tangible assets Group	Motor vehicles £'000	Computer equipment £'000	Fixtures, fittings and office equipment £'000	Total £'000
Cost				
At 1 January 2015	–	5,309	639	**5,948**
Additions	–	1	1	**2**
Increase arising from business acquisition	7	1,172	1,033	**2,212**
Disposals	–	–	–	**–**
At 31 December 2015	**7**	**6,482**	**1,673**	**8,162**
Depreciation				
At 1 January 2015	–	5,309	639	**5,948**
Provided in the year	–	66	68	**134**
Increase arising from business acquisition	7	1,033	886	**1,926**
On disposals	–	–	–	**–**
At 31 December 2015	**7**	**6,408**	**1,593**	**8,008**
Net book value at 31 December 2015	**–**	**74**	**80**	**154**
Net book value at 31 December 2014	–	–	–	–

The charge for depreciation for the Group in the year ended 31 December 2015 was £135k. (2014: £Nil) The Group policy on depreciation of fixed assets is as described in accounting policy K – 'Tangible Assets'. Depreciation is included in operating expenses.

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for the year ended 31 December 2015

21. Deferred acquisition costs (DAC)

Deferred acquisition costs (DAC) **Group and Society**	**Group 2015 £'000**	Group 2014 £'000
At 1 January		
DAC acquired under business combination	**192**	–
Amortisation in period	**(88)**	–
At 31 December	**104**	–

The direct costs of acquiring certain policies are capitalised and are amortised in line with the expected life of the policies.

22. Technical provisions

Technical provisions **Group**	**Long-term business provision £'000**	**Acquired value of in force business £'000**	**Reinsurers share £'000**	**Provision for outstanding claims £'000**
At 1 January 2015	1,770	–	(33)	510
Increase arising on acquiring HFSL	273,242	(54,200)	(80,309)	10,431
Amortisation of PVIF	–	2,200	–	–
Movement in provision for outstanding claims	–	–	–	(2,038)
Change in long-term business provision	(19,731)	–	4,314	(268)
At 31 December 2015	**255,281**	**(52,000)**	**(76,028)**	**8,635**
Society				
At 1 January 2015	1,770	–	(33)	510
Acquisition of liabilities on acquiring HFSL	273,242	–	(80,309)	10,431
Recognition of acquired PVIF	–	(54,200)	–	–
Amortisation of PVIF	–	2,200	–	–
Movement in provision for outstanding claims	–	–	–	(2,038)
Change in long-term business provision	(19,731)	–	4,314	(268)
At 31 December 2015	**255,281**	**(52,000)**	**(76,028)**	**8,635**

At the date of acquisition of Homeowners Friendly Society Limited, the acquired Group balance sheet included a long term business provision of £511k and a claims provision of £508k, in respect of Engage Mutual Health Limited. Both provisions were ultimately released with the disposal during the year of the Engage Mutual Health business.

The acquired PVIF is being netted off against Long term business provision (LTBP).

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 (LTBP) 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 employed 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 current liabilities 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 is selected which is most appropriate for each type of contract taking into account rates charged to the Society 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 from the PRA.

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

The LTBP has been calculated on the basis of the following principal interest assumptions for 2015:

Class of business	Interest
Non-linked Annuities tax exempt/taxable	2.24% gross/2.42% net
Index-linked Annuities tax exempt/taxable	2.53% gross/2.53% net
Term Assurance / whole of life	2.36%
With Profits I unitised with profits tax exempt/taxable	2.34% gross/0.65% net
With Profits I conventional with profits tax exempt/taxable	1.32% gross/1.46% net
With Profits II with profits bond taxable	2.47% net
With Profits II conventional with profits tax exempt/taxable	1.80% gross/0.83% net

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

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22. Technical provisions (continued)

With profits bonuses

The LTBP includes £1.2m (2014: £0.3m) 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.

23. Gross liabilities for investment contracts

Gross liabilities for investment contracts Group and Society	**2015 £’000**	2014 £’000
At 1 January	**1,036,314**	1,068,996
Unit linked liabilities acquired under business combination	**338,952**	-
Transfer of liabilities under disposal of business	**-**	(32,721)
Deposits received from policyholders	**27,702**	27,592
Withdrawals made by policyholders	**(112,891)**	(78,274)
Annual management charges	**(13,011)**	(13,243)
Change in fair value of gross liabilities	**27,421**	63,964
At 31 December	**1,304,487**	**1,036,314**

As described in the Accounting Policy D – ‘Classification of Contracts’, in accordance with FRS 102, policies defined as investment, rather than insurance contracts are accounted for on a deposit basis.

24. Creditors arising out of insurance operations

At 1 April 2015, creditors related to reinsurance contracts and health insurance business, with £210k being an unexpired risk provision relating to certain classes of private medical insurance written by Engage Mutual Health (EMH). On 30 October 2015, EMH was sold (see note 3) and hence no credit balances in relation to that business were held at 31 December 2015. All creditors are payable within 5 years.

25. Other creditors, including social security and taxation

Other creditors Group and Society	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Amounts owed to group undertakings	**-**	–	**847**	2,556
Other taxes and social security costs	**855**	383	**539**	379
Other creditors	**5,038**	4,734	**4,960**	4,343
Total	**5,893**	5,117	**6,346**	7,278

All other creditors are payable within one year.

26. Fund for future appropriations

Fund for future appropriations Group and Society	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
As previously reported at 1 January 2014	**-**	52,900	**-**	52,900
Reported under FRS 102 at 1 January	**-**	9,541	**-**	9,541
FFA acquired under business combination (note 2)	**45,920**	–	**45,920**	–
Transfer of FFA to Long Term Business Technical Account	**(3,359)**	(116)	**(3,359)**	(116)
Transfer of FFA for disposed business (note 3)	**-**	(9,425)	**-**	(9,425)
As at 31 December	**42,561**	–	**42,561**	–

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27. Retained earnings

Retained earnings Group and Society	Group 2015 £'000	Group 2014 £'000	Society 2015 £'000	Society 2014 £'000
As previously reported at 1 January 2014	**-**	-	**-**	-
Reported under FRS 102 at 1 January	**46,475**	43,355	**46,475**	43,355
Increase due to business combination (note 2)	**104,364**	-	**101,586**	-
Total recognised gains in the year	**66**	3,120	**2,987**	3,120
As at 31 December	**150,905**	46,475	**151,048**	46,475

28. Pension commitments

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

Defined contribution schemes

The Family Assurance Friendly Society (Family) defined benefit scheme was closed to future benefit accrual with effect from 31 December 2009. In its place the Society 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 Homeowners Friendly Society (Engage) defined benefit scheme was closed to new members on 29 March 2001 and closed to future benefit accrual on 31 December 2012. In its place the Society 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 & General Assurance Society Limited.

Family Assurance Friendly Society defined benefit scheme (the Family Scheme)

The most recent valuation of the Family Scheme was carried out as at 31 December 2014 by an independent qualified actuary in accordance with FRS 17. Following the adoption of FRS 102 the following valuation of scheme liabilities have been measured in accordance with that standard as set out in Section 28 Employee Benefits. The latest funding review of the Family Scheme was at 31 December 2013 and took into account the closure of the scheme for future accrual. The review showed there to be a shortfall in funding to meet future benefits. As part of the actuarial valuation, it was agreed that the society would pay contributions of £166,667 per month until at least May 2015, and beyond if necessary, until the scheme actuary certifies that the deficit has been cleared.

The funding assumptions differ from the assumptions used to calculate the figures for these accounts, which have been prepared in line with FRS 102, section 28, employer benefits. For the purpose of these accounts, the projected unit credit method has been used to measure the schemes' defined benefit obligation and related expense for the year ended 31 December 2015.

The results of the formal actuarial valuation as at 31 December 2013 and 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.

The following table sets out the key FRS 102 assumptions used for the Scheme. The table also sets out, as at 31 December 2015 and 2014, 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 balance sheet to the extent that it is recoverable by the employer through reduced contributions for future pensionable service or refunds from the scheme. 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 balance sheet, profit and loss, and the actuarial gains and losses entries are shown in the following figures:

Family scheme assumptions	**2015**	2014
Retail Prices Index Inflation	**3.3%**	3.3%
Consumer Prices Index Inflation	**2.3%**	2.3%
Revaluation in deferment	**2.3%**	2.3%
Pension increases:		
- pre April 1997 pension	**0.0%**	0.0%
- post April 1997 pension	**3.2%/2.3%***	3.2%/2.3%*
- post April 2005 pension	**1.9%***	1.9%*
Salary growth	**N/A**	N/A
Discount rate	**3.8**	3.7
Life expectancy:		
– male aged 65 at the balance sheet date	**23.3 years**	23.2 years
– male aged 65 in 2040 (25 years from balance sheet date)	**26.1 years**	26.0 years

* assumptions for members who transferred in to the Scheme from the Family Assurance Friendly Society Limited Staff Pension Scheme.

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28. Pension commitments (continued)

Family scheme fair value of assets	2015 £'000	2014 £'000
Equities	16,249	24,996
Gilts	-	7,303
Corporate bonds	117	2,276
Diversified growth/absolute return on funds	13,852	4,957
LDI Portfolio (including liquidity fund)	10,618	-
Cash	8	(48)
Other net assets	311	307
Total fair value of assets	41,155	39,791
Present value of defined benefit obligations	(37,443)	(37,929)
Pension surplus	3,712	1,862
Adjustment for asset limit	(3,712)	(1,862)
Gross pension asset	-	-

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

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

Family scheme change in present value	2015 £'000	2014 £'000
Opening defined benefit obligation	37,929	32,604
Employers' part of the current service cost	-	-
Past service costs	-	-
Interest on obligation on funds	1,390	1,485
Contributions from Scheme members	-	-
Actuarial (gain)/loss	(1,172)	4,474
Benefits paid	(704)	(634)
Closing defined benefit obligation	**37,443**	37,929

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

Family scheme change in fair value	2015 £'000	2014 £'000
Opening value of scheme assets	**39,791**	35,198
Interest on scheme assets	**1,496**	1,650
Actuarial (gain)/loss	**(1,428)**	1,564
Contributions by the employer	**2,000**	2,013
Contributions by Scheme members	**-**	-
Benefits paid	**(704)**	(634)
Closing fair value of scheme assets	**41,155**	39,791

The actual return on the Schemes assets over the year was a gain of £68k (2014: £3,214k gain).

The value of the Scheme assets was restricted to £nil in both periods and therefore there is no impact on the profit and loss under FRS 102. The following amounts are recognised in the statement of other comprehensive income:

Family scheme change in comprehensive income	2015 £'000	2014 £'000
Experience (loss)/gain on Scheme assets	**(1,428)**	1,564
Experience (loss)/gain on Scheme liabilities	**628**	382
Actuarial (loss)/gain due to the changes in assumptions used under the DBO	**544**	(4,856)
Actuarial (losses)/gains	**(256)**	(2,910)
(Loss)/gain due to movement in the balance sheet limitation	**(1,744)**	897
(Loss)/gain recognised outside profit and loss	**(2,000)**	(2,013)

Homeowners Friendly Society defined benefit scheme (the Engage Scheme)

The merger of Homeowners Friendly Society with Family Assurance Friendly Society completed on 1 April 2015. The following items that relate to profits and losses are for the 9 month period ended 31 December 2015.

The latest independent actuarial funding review of the Engage Scheme was at 31 December 2013 and took into account the closure of the Scheme for future accrual.

The review showed there to be a funding shortfall to meet future benefits. It was agreed that additional contributions of £673k (including an expense allowance of £75k) will be payable in the year ending 31 December 2016.

As with the Family Scheme, the funding assumptions used by the actuary for the Engage Scheme differs from the assumptions used to calculate the figures for these accounts. For the purpose of these accounts the FRS 102, section 28 assessment has been updated for the year ended 31 December 2015.

Notes to the financial statements

for the year ended 31 December 2015

28. Pension commitments (continued)

The results of the formal actuarial valuation as at 31 December 2013 and 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.

The following table sets out the key FRS 102 assumptions used for the Scheme. The table also sets out, as at 31 December 2015 and 2014, 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	31 December 2015	31 March 2015
Retail Prices Index Inflation	3.15%	3.10%
Consumer Prices Index Inflation	2.05%	2.00%
Pension increases:		
– pre April 1997 pension (HFSL)	0.00%	0.00%
– post April 1997 pension (HFSL)	3.00%	3.00%
– pre April 2005 pension (UKCS)	3.00%	3.00%
– post April 2005 pension (UKCS)	3.60%	3.60%
Salary growth	N/A	N/A
Discount rate	3.85	3.05
Life expectancy:		
– male aged 60 at the balance sheet date	27.1 years	28.3 years
– female aged 60 at the balance sheet date	29.9 years	30.4 years
– male at 60 for male currently aged 40	29.4 years	30.7 years
– female at 60 for female currently aged 40	31.8 years	32.9 years

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

Engage scheme fair value of assets	9 months ended 31 December 2015 £'000
Equities	4,689
Gilts	12,197
Corporate bonds	10,325
Other	287
Total fair value of assets	27,498
Present value of liabilities	(21,020)
Pension surplus/(deficit)	6,478
Adjustment for asset limit	(6,478)
Gross pension asset	–

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

Engage scheme exchanges in personal value	9 months ended 31 December 2015 £'000
Opening defined benefit obligation	23,809
Employers' part of the current service cost	–
Past service costs	–
Interest on obligation on funds	540
Contribution from Scheme members	–
Actuarial loss	(2,948)
Benefits paid	(381)
Closing defined benefit obligation	21,020

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for the year ended 31 December 2015

28. Pension commitments (continued)

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

Engage scheme exchanges in fair value	9 months ended 31 December 2015 £'000
Opening value of scheme assets	29,028
Interest on scheme assets	665
Actuarial loss	(2,243)
Contributions by the employer	521
Contributions by Scheme members	–
Administration costs incurred	(92)
Benefits paid	(381)
Closing fair value of scheme assets	27,498

The actual return on the Scheme assets over the 9 month period ended 31 December 2015 was £1,578k.

The value of the Scheme assets was restricted to £nil in both periods. During the period, administration expenses of £92k were incurred.

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

Engage scheme movement through comprehensive income	9 months ended 31 December 2015 £'000
Experience loss on Scheme assets	(2,243)
Experience gain on Scheme liabilities	2,948
Actuarial gains	705
Loss due to movement in the balance sheet limitation	(1,134)
Loss recognised outside profit and loss	(429)

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

Group movement through comprehensive income	2015 £'000
Loss outside the profit and loss account for the Family Scheme	(2,000)
Loss outside the profit and loss account for the Engage Scheme	(429)
Engage Scheme administrative expenses	(92)
Other	(13)
Total	**(2,534)**

29. Statement of information relating to the Actuarial Function Holder

The Actuarial Function Holder of the Society is Mr S D Turland, an employee of the Society until 18 January 2016, when he transferred to Towers Watson & Co. The following information has been provided, in accordance with Section 77 of the Friendly Societies Act 1992:

- Mr S D Turland was not a member of the Society at any time during 2015;
- No other member of his family was a member of the Society during 2015;
- Mr S D Turland was awarded a salary of £103,500 for the year.

30. 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 company, directly or indirectly, including any Director (whether executive or otherwise) of the company, 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 Group and Society	**Group 2015 £'000**	Group 2014 £'000	**Society 2015 £'000**	Society 2014 £'000
Family Asset Trust	**35,439**	37,376	**35,439**	37,376
Family Charities Ethical Trust – Accumulation Units	**9,196**	9,389	**9,196**	9,389
Family Balanced International Fund – Share Class A	**782,919**	826,388	**782,919**	826,388
Family Balanced International Fund – Share Class C	**858**	321	**858**	321
Total	**828,412**	873,474	**828,412**	873,474

During 2015, the Society and the Group made the following investments of policyholders' funds. All purchases of units were made at arms length based on the buying price:

Purchase of investments Group and Society	**Group 2015 £'000**	**Group 2015 Units**	**Society 2015 £'000**	**Society 2015 Units**
Family Asset Trust	–	–	–	–
Family Charities Ethical Trust – Accumulation Units	225	35,000	225	35,000
Family Balanced International Fund – Share Class A	1,026	300,331	1,026	300,331
Family Balanced International Fund – Share Class C	619	427,406	619	427,406
Total	**1,870**		**1,870**	

Notes to the financial statements

for the year ended 31 December 2015

31. Explanation of transition to FRS 102 from UK GAAP

As stated in Accounting Policy A, these are the Group's first financial statements prepared in accordance with FRS 102.

The accounting policies set out on pages 52 to 61 have been applied in preparing the financial statements for the year ended 31 December 2015 and for the comparative information.

In preparing its FRS 102 balance sheet, the Society has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting UK GAAP. An explanation of how the transition from UK GAAP to FRS 102 has affected the Group's financial position and financial performance is set out in the financial statements below, along with the accompanying note.

Group Technical account – Long term business Reconciliation of profits and losses	Notes	**Group 2014 £'000**	**Presen-tational Change £'000 Note (a)**	**Impact of FRS 102 £'000**	**Group reported under FRS 102 £'000**
Technical account – Long term business					
Earned premiums, net of reinsurance					
Gross premiums written	(b)	27,592	–	(27,592)	–
Outward reinsurance premiums		–	–	–	–
Investment income		24,515	11,751	–	36,266
Unrealised gains on investments		28,984	–	–	28,984
Realised gains on investments		11,751	(11,751)	–	–
Other technical income		27,658	(28,558)	900	–
Claims incurred, net of reinsurance					
Gross claims incurred	(c)	(78,274)	–	78,274	–
Reinsurers' share		–	–	–	–
Change in provision for claims (gross and net)		177	–	(177)	–
Change in technical provisions, net of reinsurance		1,842	–	–	1,842
Change in unit linked liabilities	(d)	(216)	–	(50,505)	(50,721)
Other technical charges		(22,895)	22,895	(900)	(900)
Other charges		(14,366)	–	–	(14,366)
Investment expenses and charges		(883)	–	–	(883)
Surplus of technical income over technical charges before taxation		5,885	(5,663)	–	222
Taxation charge		(1,242)	–	–	(1,242)
Surplus of technical income over technical charges before taxation		4,643	(5,663)	–	(1,020)
Gain on discontinued operations		374	–	–	374
Surplus on technical account		**5,017**	**(5,663)**	**–**	**(646)**
Actuarial (loss) on pension scheme		(3,639)	3,639	–	–
Pension adjustment for asset limitation		1,626	(1,626)	–	–
Transfer (to)/from the fund for future appropriations	(e)	(3,004)	–	3,120	116
Balance on the technical account – long term business		**–**	**(3,650)**	**3,120**	**(530)**

Group Non-technical account and Statement of other comprehensive income **Continuing operations**	**Group 2014 £'000**	**Presen-tational Change £'000 Note (a)**	**Impact of FRS 102 £'000**	**Group reported under FRS 102 £'000**
Balance on the long term business technical account	–	(3,650)	3,120	(530)
Balance on the general business technical account	–	–	–	–
Profit on disposal of operations	–	–	–	–
Other income	–	28,558	–	28,558
Net operating expenses	–	(22,895)	–	(22,895)
Excess of income over expenditure on ordinary activities before tax	–	2,013	3,120	5,133
Tax on excess of income over expenditure on ordinary activities	–	–	–	–
Excess of income over expenditure after tax	**–**	**2,013**	**3,120**	**5,133**
Group statement of other comprehensive income				
Excess of income over expenditure after tax	–	2,013	3,120	5,133
Re-measurement of defined benefit scheme	–	(2,013)	–	(2,013)
Unrealised gain of property revaluation	–	–	–	–
Total recognised profit in the year	**–**	**–**	**3,120**	**3,120**

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31. Explanation of transition to FRS 102 from UK GAAP (continued)

Society Technical account – Long term business **Reconciliation of profits and losses**	Notes	**Society 2014 £'000**	**Presen-tational Change £'000** Note (a)	**Impact of FRS 102 £'000**	**Society reported under FRS 102 £'000**
Technical account – Long term business					
Earned premiums, net of reinsurance					
Gross premiums written	(b)	27,592	–	(27,592)	–
Outward reinsurance premiums		–	–	–	–
Investment income		24,515	11,751	–	36,266
Unrealised gains on investments		30,496	–	–	30,496
Realised gains on investments		11,751	(11,751)	–	–
Other technical income		1,232	–	–	1,232
Claims incurred, net of reinsurance					
Gross claims incurred	(c)	(78,274)	–	78,274	–
Reinsurers' share		–	–	–	–
Change in provision for claims (gross and net)		177	–	(177)	–
Change in technical provisions, net of reinsurance		1,842	–	–	1,842
Change in unit linked liabilities	(d)	(216)	–	(50,505)	(50,721)
Other technical charges		–	–	–	–
Other charges		(14,366)	–	–	(14,366)
Investment expenses and charges		(883)	–	–	(883)
Surplus of technical income over technical charges before taxation		3,866	–	–	3,866
Taxation credit/(charge)		777	–	–	777
Surplus of technical income over technical charges before taxation		4,643	–	–	4,643
Gain on discontinued operations		374	–	–	374
Surplus on technical account		**5,017**	**–**	**–**	**5,017**
Actuarial (loss) on pension scheme		(3,639)	3,639	–	–
Pension adjustment for asset limitation		1,626	(1,626)	–	–
Transfer to the fund for future appropriations	(e)	(3,004)	–	3,120	116
Balance on the technical account – long term business		–	2,013	3,120	5,133

Society Non-technical account and Statement of other comprehensive income Continuing operations	Society 2014 £'000	Presen-tational Change £'000 Note (a)	Impact of FRS 102 £'000	Society reported under FRS 102 £'000
Balance on the long term business technical account	–	2,013	3,120	5,133
Balance on the general business technical account	–	–	–	–
Profit on disposal of operations	–	–	–	–
Other income	–	–	–	–
Net operating expenses	–	–	–	–
Excess of income over expenditure on ordinary activities before tax	–	2,013	3,120	5,133
Tax on excess of income over expenditure on ordinary activities	–	–	–	–
Excess of income over expenditure after tax	**–**	**2,013**	**3,120**	**5,133**
Group statement of other comprehensive income				
Excess of income over expenditure after tax	–	2,013	3,120	5,133
Re-measurement of defined benefit scheme	–	(2,013)	–	(2,013)
Unrealised gain of property revaluation	–	–	–	–
Total recognised profit in the year	**–**	**–**	**3,120**	**3,120**

Notes to Society income and expenditure accounts:

(a) The income and expenditure account has been re-presented into the format that contains a technical account for long term business, a Non-technical account for shorter term business and a statement of Other comprehensive income. This re-presentation has no impact on the financial results of the Group or the balance sheet.

(b) All premiums received under former UKGAAP were reported within the technical account as at 31 December 2014. The adoption of FRS 102 from 1 January 2015 requires that only those premiums for Insurance business should continue to be reported through the technical account, with Investment based movements being treated as deposits and taken straight to the balance sheet within technical provisions for linked liabilities (see note (d)).

(c) All claims paid under former UKGAAP were reported within the technical account as at 31 December 2014. The adoption of FRS 102 from 1 January 2015 requires that only those claims payments for Insurance business should continue to be reported through the technical account, with Investment based movements being treated as deposits and taken straight to the balance sheet within technical provisions for linked liabilities (see note (d)).

(d) The change in unit linked liabilities the net amount of premiums received and claims paid in respect of investment business.

Notes to the financial statements

for the year ended 31 December 2015

31. Explanation of transition to FRS 102 from UK GAAP (continued)

(e) Under FRS 102 a clear distinction needs to be made for reserves as to whether they reflect equity of the organisation or a liability. It is the Directors' view that FFA reserves in with-profits funds that are completely ring-fenced are deemed liabilities and FFA surpluses in non-profits funds are deemed equity and hence have been classified as retained earnings.

Under this approach surpluses or deficits arising on the with-profits business within the technical account – Long term business continue to be transferred (from)/to the FFA but retained earnings flow through to the result on the technical account for inclusion in the non-technical account.

This determination of equity and liabilities can also be seen in the balance sheets as presented below.

		Group balance sheet at 1 January 2014			Society balance sheet at 1 January 2014		
Transition to FRS 102 Abridged balance sheet	Notes	**As previously reported £'000**	**Impact of FRS 102 £'000**	**Under FRS 102 £'000**	**As previously reported £'000**	**Impact of FRS 102 £'000**	**Under FRS 102 £'000**
Assets							
Investments							
Land and buildings		1,906	–	1,906	1,906	–	1,906
Investments in Group undertakings		–	–	–	17,751	–	17,751
Other financial investments		77,868	–	77,868	69,319	–	69,319
Assets held to cover linked liabilities		1,068,996	–	1,068,996	1,068,996	–	1,068,996
Reinsurers share of technical provisions		574	–	574	574	–	574
Other assets		23,492	–	23,492	12,174	–	12,174
Prepayments and accrued income		907	–	907	341	–	341
Total assets		**1,173,743**	**–**	**1,173,743**	**1,171,061**	**–**	**1,171,061**
Liabilities							
Retained earnings	(e)	–	43,359	43,359	–	43,359	43,359
Fund for future appropriation	(e)	52,900	(43,359)	9,541	52,900	(43,359)	9,541
Technical provisions		36,205	–	36,205	36,205	–	36,205
Technical provisions for linked liabilities		1,068,996	–	1,068,996	1,068,996	–	1,068,996
Creditors		4,170	–	4,170	6,261	–	6,261
Accruals and deferred income		11,472	–	11,472	6,699	–	6,699
Total liabilities		**1,173,743**	**–**	**1,173,743**	**1,171,061**	**–**	**1,171,061**

Transition to FRS 102 Abridged balance sheet	Notes	Group balance sheet at 31 December 2014 As previously reported £'000	Impact of FRS 102 £'000	Under FRS 102 £'000	Society balance sheet at 31 December 2014 As previously reported £'000	Impact of FRS 102 £'000	Under FRS 102 £'000
Assets							
Investments							
Land and buildings		2,037	–	2,037	2,037	–	2,037
Investments in Group undertakings		–	–	–	19,364	–	19,364
Other financial investments		45,439	–	45,439	34,871	–	34,871
Assets held to cover linked liabilities		1,036,314	–	1,036,314	1,036,314	–	1,036,314
Reinsurers share of technical provisions		33	–	33	33	–	33
Other assets		18,509	–	18,509	8,839	–	8,839
Prepayments and accrued income		1,252	–	1,252	386	–	386
Total assets		**1,103,584**	**–**	**1,103,584**	**1,101,844**	**–**	**1,101,844**
Liabilities							
Retained earnings	(e)	–	46,475	46,475	–	46,475	46,475
Fund for future appropriation	(e)	46,475	(46,475)	–	46,475	(46,475)	-
Technical provisions		2,280	-	2,280	2,280	–	2,280
Technical provisions for linked liabilities		1,036,314	–	1,036,314	1,036,314	–	1,036,314
Creditors		5,117	–	5,117	7,278	–	7,278
Accruals and deferred income		13,398	–	13,398	9,497	–	9,497
Total liabilities		**1,103,584**	**–**	**1,103,584**	**1,101,844**	**–**	**1,101,844**

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