onefamily
modern family finance

Principles and Practices of Financial Management (PPFM)

Applicable to the Ex Ecclesiastical Life Limited
With Profits Fund of Family Assurance Friendly Society (OneFamily)

Contents

1. Introduction

In April 2015, the engagements of Homeowners Friendly Society (HFS) were transferred to Family Assurance Friendly Society (OneFamily). As part of the transfer, the **OneFamily (ELL) With Profits Fund (' the Fund')** continues to be operated as a ring fenced sub-fund of the overall long term business fund and remains entitled to all of the surpluses arising within the Fund. The PPFM, capital framework, investment policy and expense agreements all remain materially unchanged as a result of the transfer.

The legal transfer is described within the "Instrument of Transfer" (IOT) and this includes the provisions that were agreed when the engagements of Ecclesiastical Life Limited (ELL) were transferred to HFS in 2010. These also include the provisions of the 2003 Scheme under which the long term business of Ecclesiastical Insurance Office plc was transferred to Allchurches Life Assurance Limited (and renamed Ecclesiastical Life Limited), also known as With-Profits Fund 2.

This PPFM is a document describing how OneFamily runs its **OneFamily (ELL) With Profits Fund.** It is split into Principles and Practices that OneFamily follows when managing **the Fund**. The Principles within the PPFM describe enduring statements of the overarching standards OneFamily adopts when managing **the Fund**, taking into consideration the business model used by OneFamily in meeting its duties to **with profits policyholders** and the longer-term changes in the business and economic environment.

The Practices are more specific statements of the current approach of managing the Fund taking into account the shorter-term changes in the business and economic environment, new rules and regulations, and new methods in the life insurance industry.

We will change our PPFM only if the change is justified by the need to respond to changes in the business, economic, or regulatory environment to protect the interest of **with profits policyholders**, or to change OneFamily's Practices to better achieve its Principles. Also, we will change our PPFM if it is necessary to correct an error or omission, or to improve the clarity or presentation of the PPFM without materially affecting its substance.

The Board of Directors at OneFamily will certify each year that the Fund has been managed in accordance with this PPFM.

You will find an explanation of the various expressions shown in bold in this document in the glossary in appendix a.

2. Overarching principles

2.1 OneFamily will at all times endeavour to:

- meet all guaranteed obligations in all reasonably foreseeable situations
- treat all policyholders fairly, taking into account any conflicting interests between them
- comply with the requirements of the **regulator**, including meeting appropriate tests of solvency and **capital adequacy**.

2.2 In the event of a conflict arising as a result of the application of any one or more of the Principles, these overarching Principles will take precedence.

2.3 In the event of a conflict arising between these overarching Principles the Board will decide the precedence at the time of the conflict.

3. Amount payable under a with profits policy

The guide to the amount payable under a with profits policy.

From 30 November 2010 the Fund was closed to new business, following which a run-off plan was produced describing how the inherited estate would be distributed to existing policyholders.

The principles and practices as to how the estate will be distributed are described in section 10.

This section describes the principles and practices to determine the amount payable before allowing for any distribution of the inherited estate.

Principles

3.1 OneFamily aims to provide **with profits policyholders** with a fair return that reflects the actual experience applicable to each generation and class of **with profits policy**, subject to the smoothing Principles described in section 6.

3.2 When applying the methods that OneFamily uses to determine the amount payable to **with profits policyholders** OneFamily may use approximations. Where appropriate experience data is not available OneFamily uses assumptions and parameters which in the opinion of the Actuary are broadly reflective of experience.

3.3 The Actuary regularly reviews the methods and assumptions including the parameters used. Any proposed material changes are referred to the Board for its approval.

3.4 OneFamily might change historical assumptions or parameters relevant to the methods if it can be shown that the changed assumptions or parameters are a more accurate reflection of the actual experience of the Fund or the applicable generation and class of **with profits policyholder**, and if changing the assumptions or parameters has a material impact on the results of applying the methods.

Practices

3.5 The guide to determining the **amounts payable** to **with profits policyholders** is currently defined to be the **asset share.**

3.6 The aim in the long term, in determining payouts for maturing with profit policies, is to return as a group, on average 100% of asset shares. The amounts payable on maturity in any year, or to any particular with profit policyholder may be more or less than 100%, due to the effects of smoothing, guarantees, and grouping of policies.

3.7 The aim in the long term, in determining **payouts** for surrendering **with profits policies**, is to return as a group, on average 100% of asset shares. The amounts payable on surrender in any year, or to any particular **with profits policyholder** may be more or less than 100%, due to the effects of smoothing, guarantees, the grouping of policies and any deductions necessary to protect the interests of remaining policyholders.

3.8 Current practice in determining final bonus rates and market value adjustments is to group policies together according to product type, year of commencement and year of claim, and then target an average payment on claim for each group, based on the average asset share for that group, subject to meeting any guaranteed benefits and the effect of smoothing.

For pension endowment and whole of life policies, subject to meeting any guaranteed benefits, the payout for an individual policy, when scaled up or down according to the average guaranteed benefits for the group of policies to which it is allocated, should fall in the range of 65% to 135% of the average asset shares for the group. The aim in the short term is to ensure that at least 90% of claims fall within this range.

For all other policies, subject to meeting any guaranteed benefits, the payout for an individual policy, when scaled up or down according to the average guaranteed benefits for the group of policies to which it is allocated, should fall in the range of 80% to 120% of the average asset shares for the group. The aim in the short term is to ensure that at least 90% of claims fall within this range.

3.9 The target payout range mentioned in the paragraph above applies to all our **with profits policies** except **Deposit Administration** business. For this product the maturity payout cannot reasonably be compared with a calculated **asset share** and therefore target ranges do not apply to the **payouts**. Sections 4, 5 and 6 provide more details on the payout approach for this group of policies.

3.10 The main assumptions or parameters in the **asset share** calculations are determined by regular investigations into the experience of **the Fund**, except for the expense deductions, which are based on those specified in the **2003 Scheme** (see paragraph 3.16). The approximations allowed when applying assumptions or parameters across generations and classes of policy are in line with the overall aim of sharing the experience of **the Fund** between **with profits policyholders**.

3.11 Currently **asset shares** are calculated using averaging across product class, policy sizes and across ages of **with profits policyholders**.

3.12 Where reliable data can be obtained that materially alters the results of the calculations the degree of approximations used is low.

3.13 Where methods or parameters used in the calculations are considered to require changes, the **Actuary** completes a comparison with current methods and parameters and if material reports on the reasons for changes and results to the **Board** for approval.

3.14 The **equity backing ratios** currently applied to former **ALA with profits policies**, With Profit Bond policies and **Deposit Administration** business are different from the **equity backing ratios** applied to other **with profits policies**. See paragraph 7.10 for further information on how these might vary.

3.15 The basis of the expenses chargeable to **the Fund** with effect from 31 July 2003 is set out in paragraph 19 and Schedule 2 of the **2003 Scheme** (see appendix b). The overall expense deductions in the **asset share** calculations, across all policies, reflect the total expenses chargeable to **the Fund**. The expense deductions in the **asset share** calculations for each **with profits policy** are applied as a proportion of either the premium or the benefit amount (**sum assured** plus current bonus) for that particular policy. These proportions are set to reflect a fair contribution to expenses from each **with profits policy** and may be either greater or smaller amount than the amount specified in the **2003 Scheme**.

3.16 A deduction in respect of tax is made from **the Fund** as if it were a separate mutual company in accordance with the **Scheme**. The tax deduction in the **asset share** calculations is consistent with this treatment.

3.17 The mortality charges deducted in the **asset share** calculations are based on a best estimate assessment of the **mortality cost** arising on the **asset shares** in question.

3.18 An annual deduction from **asset shares** may be made for use of OneFamily's capital.

3.19 When calculating **asset shares** OneFamily may make deductions for the assessed cost (determined on assumptions OneFamily considers appropriate) of providing guarantees on OneFamily's **with profits policies.** These deductions may vary by product type. Currently no such deduction is made. OneFamily may also acquire derivative instruments to manage the cost of guarantees in line with the Principles in paragraph 7.3. These instruments will form part of the pool of assets backing **asset shares**, and the change in the value of the instruments will be reflected in the investment return credited to **asset shares**. The instruments will typically be chosen to provide protection in adverse investment conditions; if such conditions do not arise, the instruments will expire and the effect will be to reduce the credited return.

3.20 Periodically the Board reviews the appropriateness of the level of the charges specified in paragraphs 3.16 to 3.20 and may, at its discretion, make additional deductions to asset shares to ensure that OneFamily maintains adequate financial strength. The consistency of these deductions with actual and intended investment policy is checked.

3.21 Partial withdrawals are permitted on With Profit Bond policies and these are guaranteed to be free from **market value adjustments** under certain conditions as set out in policy conditions. The calculation of **asset shares** takes account of withdrawals and **market value adjustment** guarantees where applicable.

3.22 **Miscellaneous profits** or **losses** that are generated from the normal day to day activities of **the Fund** are deemed to be allocated to the **inherited estate**. The principles and practices as to how the estate will be distributed are described in section 10.

3.23 Additions or deductions in the **asset share** calculations in respect of extraordinary **miscellaneous profits or losses** will only be made after specific **Board** agreement. This adjustment may be a percentage of **asset share** for groups of policies.

4. Approach to setting regular bonus rates

Principles

4.1 OneFamily's general aims in setting **regular bonus rates** for all classes of **with profits policy** except **Deposit Administration** are:

- to distribute a proportion of the investment income earned by the assets backing **the with profits policyholder statutory liabilities** in a smoothed manner
- to reflect the **surplus** generated by policies
- to target a substantial **final bonus** element in maturity payments.

4.2 OneFamily's general aim for **Deposit Administration** is to reflect the surplus generated by the group of **Deposit Administration** policies.

Practices

4.3 In the event of a significant difference in the bonus expectations between a range or generation of policies, and if OneFamily considers that a single **regular bonus** rate would violate the overarching Principles, consideration would be given to setting up a new **bonus series**.

4.4 **Regular bonus** rates are currently set by reference to a sustainable level based on expected investment income according to the future investment strategy, and the aim is to target a substantial **final bonus** element in maturity payments. This calculation is subject to the smoothing described below in section 6 and the overall **solvency of the Fund**.

4.5 Currently separate **regular bonus** rates are declared for Life policies, 55 series Pension policies, 56 series Pension policies, three series of **former ALA with profits policies**, With Profit Bond policies, Deposit Administration policies and other pension policies. Deposit Administration business receives a guaranteed **regular bonus** of such rate as is notified plus a discretionary regular bonus rate. The bonus rates for **Deposit Administration** business may be scheme specific. For With Profit Bond policies a single regular bonus rate is declared for bonus on **sum assured** and bonus on previously declared regular bonus. For all other classes of policy, separate rates of **regular bonus** are declared to apply to **sum assured** and previously declared **regular bonus**.

4.6 OneFamily expects to reset **regular bonus** rates once a year. The **regular bonus** rate for With Profit Bond policies may be reset more frequently if there is a significant change in economic circumstances.

4.7 There is no maximum amount by which **regular bonus** rates may be changed.

4.8 If no significant change in **regular bonus** rates is anticipated at the next declaration, **interim bonus** rates are normally set equal to the previously declared **regular bonus** rates applicable to policies in the same **bonus series**. If a significant change in **regular bonus** rates is anticipated at the next declaration, **interim bonus** rates may reflect partially or fully the anticipated change in **regular bonus** rates.

5. Approach to setting final bonus rates

Principles

5.1 **Final bonus** rates are set so that the **payouts** for **with profits policies** reflect the Principles set out in section 3, subject to the smoothing Principles set out in section 6 and any distribution of the **inherited estate** set out in section 10. In addition, the following Principles are followed in setting **final bonus** rates:

- separate scales of **final bonus** rates are declared for different classes of **with profits policy** where this is necessary to provide policyholders with a fair return
- within a particular class, **final bonus** rates may vary by duration since commencement of the policy, and any other factor considered necessary to maintain fairness between different groups of policyholders
- there is no restriction on the company paying **final bonus** on some categories of policies whilst at the same time not on others, or on the application of **market value adjustments.**

Practices

5.2 **Final bonus** rates are set by reference to the Practices set out in section 3, section 6 and section 10. Different **final bonus** rates are set according to class of business where the **asset share**, or the relationship between the **asset share** and the **accumulated guarantees**, gives rise to materially different results.

5.3 Where **final bonus** scales are currently shared between classes of policy this does not preclude a change at any time to separate scales.

5.4 For life policies and pension endowments **final bonus** on maturity or death is defined as a percentage of **sum assured** plus attaching **regular bonus**. The **final bonus** on 55 and 56 Series pension policies is expressed as a percentage of the annuity amount plus accrued **regular bonus**. No **final bonus** is paid to **Deposit Administration** policies.

5.5 **Final bonus** rates are reviewed and may be changed annually. If the **final bonus** rates no longer satisfy the Principles set out above as a result of changes in the economic environment, the **final bonus rates** would be reviewed and may be changed more frequently.

6. Approach to smoothing

This section describes the approach to smoothing the value of with profits policies, before allowing for any distribution of the inherited estate (see section 10).

Principles

6.1 OneFamily smoothes **final bonus** rates in order to reduce the impact of fluctuations in experience, taking into account **guaranteed benefits** and the need to maintain fairness between different groups of **with profits policyholders**.

6.2 OneFamily does not take a significantly different approach to smoothing depending on the type of claim arising from **with profits policies**.

6.3 OneFamily intends smoothing to be neutral over time.

6.4 In the shorter-term there is no total scale or **cost of smoothing** to **the Fund** that OneFamily believes should not be exceeded.

Practices

6.5 OneFamily aims for smoothing to be financially neutral over the course of an economic cycle.

6.6 OneFamily aims to ensure an accumulated **cost of smoothing** that does not threaten its ability to demonstrate an adequate **solvency** position or its ability to meet its contractual obligations to policyholders.

6.7 Currently OneFamily applies different smoothing strategies to different classes of **with profits policies**. The different classes are regular premium **conventional policies, conventional policies** where regular premiums are not being paid, **Deposit Administration** business, With Profit Bond policies, and three series of former ALA with profits policies.

6.8 The smoothing strategy currently applied for new entrants is the same as that for existing policies.

6.9 For regular premium **conventional policies** OneFamily aims to limit the differences between maturity payouts on similar policies. In the event of conflict arising between this aim and the aim for the target ranges described in paragraph 3.8, the aim for the target ranges takes precedence.

6.10 For **conventional policies market value adjustments** are applied on surrender to achieve the aims described in paragraph 3.8.

6.11 For **Deposit Administration** business smoothing is achieved by a discretionary **regular bonus** in addition to the guaranteed **regular bonus**. Smoothing is applied over the entire term of the contract. On surrender **market value adjustments** are applied to achieve the aims described in section 3. **Market value adjustments** are scheme specific.

6.12 For With Profit Bonds, **market value adjustments** are applied on surrender to achieve the aims described in paragraph 3.8. **Market value adjustments** are guaranteed not to apply under certain conditions as set out in policy documents.

6.13 For three series of former ALA **with profits policies** smoothing is achieved by basing payouts on smoothed **asset shares**. Smoothed **asset shares** are determined as for **asset shares**, except that investment returns earned over the previous two years are blended with a long-term investment return assumption. In the event of conflict arising between this approach and the aim for the target ranges described in paragraph 3.8, the aim for the target ranges takes precedence.

7. Investment strategy

Principles

7.1 The investment objectives of **the Fund** are to achieve a satisfactory investment return on **policyholder assets** subject to being able to meet **guaranteed benefits** with an appropriate level of certainty, taking into account the level of the **inherited estate**, expected changes in the **inherited estate** and past communications made to policyholders.

7.2 OneFamily does not normally rely on assets outside **the Fund** to maintain its investment strategy for **the Fund**. A proportion of capital in the **OneFamily Non Profit Fund** may be available to support the capital requirements of the **OneFamily (ELL) With Profits Fund;** for example, OneFamily's Non Profit Fund may provide temporary capital support as outlined in practice 7.7 or in extreme situations OneFamily's Non Profit Fund may transfer assets to the **OneFamily (ELL) With Profits Fund**.

7.3 **Derivative instruments** may be used either for the purpose of reduction of investment risk and/ or efficient portfolio management. For example **derivative instruments** may be used for reducing mismatches between liabilities and assets where this cannot be achieved by non-derivative assets or where **derivative instruments** may present a more efficient solution.

7.4 There are no constraints on OneFamily's investment strategy with respect to parts of **the Fund** or between different generations of **with profits policyholders**, subject to the other investment strategy Principles.

7.5 OneFamily's **exposure** to individual investment **counterparties** is monitored periodically. Limits on exposure to individual **counterparties** are set taking into account **the Fund's** overall risk appetite and taking into account any limits set by the **Regulator**.

7.6 OneFamily may have a number of Strategic Investments, being assets that would not normally be traded because of their importance to OneFamily. These Strategic Investments could include holdings in subsidiary companies and owner occupied properties. Explicit **Board** or **Board** committee approval is required for **the Fund** to trade these assets.

Practices

7.7 OneFamily may provide temporary capital support to meet the capital requirements of **the Fund**, for example, between valuations and during the time between the identification and implementation of approved management actions.

7.8 OneFamily's investment strategy is reviewed annually.

7.9 **The Fund** invests in assets appropriate to the nature of the **with profits policyholder liabilities**.

7.10 The investment portfolio consists of a range of fixed interest instruments, equities, property, variable interest deposits, cash and other investments.

The investment mix reflects the financial position of **the Fund**.

Asset allocations are established for the assets that are assumed to back policy **asset shares**. The asset allocations are reviewed on a regular basis, and will change depending on the position of **the Fund**, and as the **inherited estate** is distributed to existing policies.

The asset allocations may differ by product class.

The investment strategy for the **inherited estate** differs from the remainder of **the Fund** as outlined in practice 10.17.

7.11 New or novel investment instruments have to be approved by the **Board** or a committee of the **Board**, on advice from the **Actuary**. The risks and potential rewards of the instruments would be analysed in the context of **the Fund's** investment strategy, the existing assets held, efficient portfolio management principles and the **with profits policyholder** liabilities. It is envisaged that the Board or committee of the Board would approve the new or novel investment instruments if, after considering the above factors, they believe that the benefits associated with the new or novel investment instruments outweigh any increase in risk or cost.

7.12 **The Fund** currently has no Strategic Investments, being assets that would not normally be traded because of their importance to OneFamily.

8. Business risk

Principles

8.1 The assessment of business risks undertaken in **the Fund** is presented to the **Board** for consideration on a regular basis.

8.2 OneFamily decides if **the Fund** may undertake a particular business risk by comparing the risks and potential rewards from the business risk against alternative capital market investment opportunities, taking into account any possible benefits of diversification. A business risk may only be undertaken if it is expected to provide the same or higher potential rewards than a capital market investment of similar riskiness, or similar potential rewards as a capital market investment of the same or greater riskiness.

8.3 The arrangements for reviewing and setting limits on the extent of business risks for **the Fund** are undertaken along with the review of the investment strategy and **inherited estate** management strategy. Any limits on the scale of business risks take into account **the Fund's** appetite for risk and its ability to meet the **Regulator's solvency** requirements in the event of an extreme loss arising as a result of taking on that business risk.

8.4 Profits or losses are assessed periodically and are reflected in the guide to the amount appropriate to pay **with profits policyholders**.

8.5 The risk from all new business sold within **the Fund**, transacted subsequent to the **Effective Date** of the **2003 Scheme** (other than expense risk) is borne by **the Fund** (with the exception of any mis-selling risks or potential mis-selling risks which are dealt with by paragraph 8.6).

8.6 All risks, including any cost of investigation, relating to any mis-selling or potential mis-selling in respect of policies sold prior to 1 August 2009 or post the **Effective Date** of the Scheme will be met from the assets in **the Fund** except for any financial penalties which may be imposed (which will only be allocated to **the Fund** after agreement with the **Regulator**). Risks, including any cost of investigation, relating to any mis-selling or potential mis-selling in respect of policies sold between 1 August 2009 and the **Effective Date** of the **Scheme** will be met by the shareholder or without-profit fund of ELL.

8.7 **Former ALA with profits policies** are excluded from any guarantee or mis-selling costs arising from the **former EIO policies**.

8.8 With the exception of the new business risks and mis-selling risks mentioned above, compensation costs arising from other business risks, such as administration risks, are borne by either the **With Profits Fund** or the Non Profit Fund depending on which fund stood to benefit from the profits expected from exposure to the business risk.

Practices

8.9 OneFamily intends to set general limits for business risks such that they are proportionate to the sizes of the **inherited estate** and **policyholder assets.**

8.10 The **Scheme** has removed part of the expense risk from **the Fund** and removed most of the risk associated with the selling of **Non profit policies**.

8.11 The Board decides on a case by case basis whether and to what extent and for which policies profits or losses from business risks should be applied to **asset shares**.

9. Charges and expenses

Principles

9.1 OneFamily applies administration and investment management charges and apportions expenses to **the Fund** in accordance with the expense arrangements set out in paragraph 19 and Schedule 2 of the **2003 Scheme** (see appendix b).

9.2 Any difference in the aggregate expenses allowed for in the amounts used to guide payouts and the total aggregate expenses attributed to **the Fund** in accordance with the **2003 Scheme** will be charged to the **inherited estate** or included in **miscellaneous profits or losses** for the period.

9.3 The arrangements regarding administration charges may be reviewed if the level of administration expenses in OneFamily and in similar firms change by an exceptional amount.

Practices

9.4 The basis of the expense charges on **the Fund** is set out in paragraph 19 and Schedule 2 of the **2003 Scheme** (see appendix b). Industry levies or other similar costs will be borne by **the Fund** on a proportional basis similar to the method used to calculate the levy or costs or on another fair and equitable basis. The charging of these costs to **with profits policies** will be subject to approval by the **Board** on advice of the **Actuary**.

9.5 The charges and expenses applied to the **asset share** are consistent with the charges and expenses borne by **the Fund**.

9.6 Due to the nature of the predetermined expense arrangements relating to **the Fund**, expenses will be charged to **the Fund**, using the agreed formulae, at an amount other than the actual expenses incurred.

9.7 The administration of **Deposit Administration** business is outsourced. The outsourcing agreement is reviewable every five years and may be terminated either by mutual consent with six months' notice as a result of a breach of the agreement or as a result of the insolvency of the outsource provider. For **Deposit Administration** business the charges made to **the Fund** are as described in appendix b paragraph 4.

9.8 Flexible Investor Policies and Young Persons Investor Policies are structured in units of fixed amounts. For each policyholder the expense charges are based on those set out in paragraph 19 and Schedule 2 of the **2003 Scheme** (see appendix b) and spread over the policyholder's total number of units.

10. Management of the inherited estate

Principles

10.1 An **inherited** estate is maintained within **the Fund** to:

- enable the Fund to smooth benefit payments in line with the Principles outlined above
- meet the cost of **guaranteed benefits** arising on **with profits policies**
- enable greater investment freedom for **the Fund**
- meet the regulatory risk capital required to support the Fund
- bear any other costs, which are considered to be attributable to **with profits policyholders,** and where charging of the **inherited estate** is considered to be an equitable way of passing these costs to with profits policyholders.

10.2 **The Fund** was closed to new business from the **Effective Date** of the **Scheme** in 2010, excepting contractual policy options, increments and top ups. Following closure to new business a run off plan was produced describing how the **inherited estate** will be distributed to existing policyholders.

10.3 The **inherited estate** will be distributed fairly to existing with profits policyholders, by augmenting claim values by an appropriate amount, so that the **inherited estate** is distributed gradually, as existing with profits policies become claims.

10.4 If at any time the number of **with profits policies** allocated to **the Fund**, together with **with profits policies** not allocated to **the Fund** where the investment element of the policy is reassured to **the Fund,** is less than 1000, OneFamily may cease to maintain **the Fund** as a separate sub-fund in accordance with the Scheme. The assets and liabilities of **the Fund** shall then be transferred to the other sub-fund or sub-funds and future bonuses in relation to **with profits policies** allocated to **the Fund** will be guaranteed at levels determined by the **Actuary**.

10.5 There is no division of the **inherited estate** between with profits funds. No group or groups of **with profits policyholders** have an entitlement to the **inherited estate** (save for any entitlement conferred as a result of the implementation of the run off plan).

10.6 There are no constraints on OneFamily's freedom to deal with the **inherited estate** within the context of **the Fund** as a result of previous dealings.

10.7 An allowance can be made in the calculation of **asset shares** to finance the expected cost of the guaranteed benefits provided to **with profits policyholders** by the **inherited estate.**

10.8 All **surplus** arising in **the Fund** is attributable to **with profits policyholders** or the inherited estate.

Practices

10.9 All policyholders in-force as at 25 August 2010, plus any new policyholders entering subsequent to that date and prior to closure, are eligible for distribution of the **inherited estate**.

10.10 Except for **Deposit Administration** policies, the distribution of the **inherited estate** will be made at the date of claim, and based on the position of each policy at the date of claim.

10.11 Except for **Deposit Administration** policies, the distribution of the **inherited estate** will be based on an addition to policy asset shares, subject to a (lower) minimum rate of distribution based on guaranteed benefits.

10.12 For **Deposit Administration** business, the **inherited estate** will be distributed via a special annual bonus over a 6 year period from 30 November 2010, based on the **asset shares** at those dates.

10.13 There is no differentiation between different types of policies in relation to the distribution of the **inherited estate,** except for **Deposit Administration** business, and for policies where the payouts are based on guaranteed benefits.

10.14 Under normal market conditions, the rate of distribution of the **inherited estate** will be reviewed on an annual basis; more frequent reviews will be considered during periods of market volatility.

10.15 The rate of distribution of the **inherited estate** may change each year depending on the overall financial strength of **the Fund**. Smoothing may be applied in setting the distribution rate over time, with the objective of limiting the impact of market volatility on the rate of distribution.

10.16 The **inherited estate** is used to meet the costs as outlined in Principle 10.1 above.

10.17 OneFamily's investment strategy for the **inherited estate** differs from the remainder of **the Fund**. The current practice for the **inherited estate** is to invest in liquid and low risk fixed interest assets, but this may vary from time to time according to a combination of the Board's expectations of investment conditions and the relative size of the **inherited estate**.

Appendix A - glossary

Accumulated guarantees

Sum assured plus previously declared **regular bonus.**

Actuary

The person who from time to time is the Actuary appointed by OneFamily to perform the role of With Profit Actuary (WPA). The WPA's main duties include advising the board on key aspects of its exercise of discretion in relation to the **with profits policyholders**.

Amount payable

See the definition of **payouts**.

Annual premium equivalent

This is the result of converting new single premium and new annual premium sales into one equivalent figure. The calculation adds to the new annual premium one tenth of the new single premium sold in a particular period.

Asset share

In relation to a policy, the accumulated value of premiums paid with deductions for expenses, mortality charges, charges for the use of capital, **miscellaneous profits or losses** and tax, where the accumulation rate is the rate of return achieved by the assets assumed to back the **asset shares** in question.

Board

The Board of directors from time to time of OneFamily

Bonus recommendation

The process whereby the **Actuary** recommends **regular** and **final bonus** rates for approval by the **Board**.

Bonus series

A group of policies considered separately in the **bonus recommendation**.

Capital adequacy

The excess of OneFamily's capital resources over its capital resources requirement as defined by the rules of the **Regulator**.

Cost of guarantees

The amounts by which **payouts** of **guaranteed benefits** exceed the **asset shares**.

Cost of smoothing

The extent to which the **payout** under a **with profits policy** diverges from its asset share except where due to applicable **guaranteed benefits**.

Counterparty

An individual or company in which OneFamily has made investments or against which it has rights under a contract.

Conventional policy

Any **with profits policy** that is not a **Deposit Administration** policy or a With Profit Bond policy.

Deposit administration

Deposit Administration policies may also be known as Pension Accumulation Fund policies.

Derivative instruments

Include options, futures contracts and contracts for differences and includes contracts under which the amount payable by either **counterparty** is calculated by reference to the value of any other asset.

Effective Date

Date on which the relevant scheme became effective (31 July 2003 in respect of the 2003 Scheme, 30 November 2010 in respect of the scheme of transfer to HFS, and 1 April 2015 in respect of the scheme of transfer to Family Assurance Friendly Society).

OneFamily (ELL) with profits fund/theFund

A sub-fund of OneFamily's **Long Term Fund**, comprising the policies formerly included in the Ecclesiastical Life Limited with profits fund, where policyholders are entitled to a share of the profits of the sub-fund.

Equity backing ratio

The proportion of total assets by market value in **the Fund** invested in equity and property type assets.

Expected cost of guarantees

An assessment of the current value of the projected future **cost of guarantees**.

Exposure

The amount of assets that are at risk through the failure of an individual **counterparty** or collection of counterparties.

Final bonus

A method of distributing **surplus**, whereby the bonus is only declared when **payouts** are made.

FCA/ PRA

The Financial Conduct Authority and Prudential Regulation Authority regulate the financial services industry in the UK.

Former ALA policies

Policies sold in Allchurches Life Assurance Limited (now Ecclesiastical Life Limited) prior to the **Effective Date** of the **2003 Scheme**.

Former ALA with profits policies

With profits policies sold in Allchurches Life Assurance Limited (now Ecclesiastical Life Limited) prior to the **Effective Date** of the **2003 Scheme.**

Former EIO policies

Policies sold in Ecclesiastical Insurance Office plc prior to the **Effective Date** of the **Scheme**.

Guaranteed benefits

The amount specified under the policy as being payable on a particular event such as on death or on survival to the end of the term of the policy.

Inherited estate

The value of assets maintained within the Fund reduced by the value of **other liabilities**, less the aggregate of the amounts used to guide payouts.

Interim bonus

The bonus declared in respect of the period since the last declaration of **regular bonus** to the date of claim.

Long term fund

The long term fund of OneFamily comprising life assurance, pensions and other similar business within the definition of “long term insurance business” in the Glossary in the combined FCA and PRA Handbook.

Market value adjustments

A downward adjustment made to surrender values in order to meet the aims described in paragraph 3.8.

Miscellaneous profits orlosses

Profits or losses other than arising from investment returns, mortality cost, tax and expenses.

Mortality cost

Excess of benefits paid on death over asset shares.

Non profit fund

OneFamily’s **Long Term Fund** containing **non profit policies.**

Non profit policies

Policies that are not **with profits policies.**

Other liabilities

Statutory liabilities held in excess of basic policyholder liabilities, such as current liabilities and any provision for capital gains tax.

Payouts

The amounts payable at maturity, retirement, death or earlier surrender to policyholders. The payout on death is the total amount payable if the policyholder dies while the policy is still in force. The payout on maturity is the total amount payable at the date originally agreed as being the maturity date of the policy if it is still in force at that time. The payout on surrender is the total amount payable if the policyholder decides to cash in (or transfer in respect of a pension) the benefits at a date other than the originally agreed termination date.

Policyholder assets

The value of assets maintained within **the Fund** less the amount of any **inherited estate.**

Regular bonus

A method of distributing **surplus**. The bonus is declared each year but is only paid at the time that **payouts** are made.

Regulator

The FCA and PRA, or such other body as shall from time to time carry out such functions in relation to insurance business carried on in the United Kingdom.

Scheme

The scheme under which part of the long term insurance business of Ecclesiastical Life Limited was transferred to Homeowners Friendly Society Limited, and then superseded by the scheme of transfer to Family Assurance Friendly Society on 1st April 2015.

2003 Scheme

The scheme sanctioned by the High Court of Justice in England by Order on 28 July 2003 pursuant to section 111 of the Financial Services and Markets Act 2000, under which the long term insurance business of Ecclesiastical Insurance Office plc was transferred to Allchurches Life Assurance Limited (renamed Ecclesiastical Life Limited).

Solvency

The level of **surplus** in **the Fund**.

Statutory liabilities

The liabilities determined in accordance with the rules of the **Regulator**.

Sum assured

The amount specified under the policy as being payable, before any **regular bonus** or **final bonus** is added, on survival to the end of the term of the policy or death if applicable.

Surplus

In relation to **the Fund** the excess of the value of the funds assets over the amount of its **statutory** liabilities.

With profits policy

Any policy which at the relevant time confers on the holder a right to share in the profits of **the Fund**.

With profits policyholder

A person who holds a **with profits policy**.

Appendix B - summary of the expense agreement

Section 9 above covers the charges and expenses applied to **the Fund**. The following is a summary, included for ease of reference only, of the expense agreement between the **OneFamily (ELL) With Profits Fund** and the **Non Profit Fund** as detailed in paragraph 19 and Schedule 2 of the **2003 Scheme**. For the full wording a copy of the **2003 Scheme** can be obtained from OneFamily.

Summary of paragraph 19 and schedule 2 of the 2003 scheme

1. Amounts of expenses are debited to **the Fund** and credited to the Non Profit Fund in respect of acquisition, maintenance and investment expenses.

2. The expenses paid by **the Fund** are based on the numbers of policies in **the Fund,** the levels of new business in **the Fund** and the value of the total assets of **the Fund**.

2.1. The expense based on the number of policies in **the Fund** is a fixed amount detailed in a table in schedule 2 of the **2003 Scheme** increased each year by a percentage related to the increase in retail prices. The amounts vary according to differences in policy types.

2.2. The expense based on the level of new business is dependent on the numbers of policies sold and the level of premium corresponding to the new policies.

2.3. The expense based on the total assets of **the Fund** is calculated as 0.25% per annum of the total asset value of **the Fund**.

3. The **Scheme** allows the expenses to be changed under exceptional circumstances but only after independent verification that the changes are fair.

4. The expenses charged to **the Fund** in respect of **Deposit Administration** business includes both the actual charges made by the third party administrator and the charges referred to in 2.3 above.

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