Principles and Practices of Financial Management (PPFM)

January 2016

Version 3

The Oddfellows

SINCE 1810

making friends, helping people

Contents

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Introduction

1 What is the PPFM

This document (referred to as the PPFM) sets out the Principles and Practices of Financial Management adopted by the Independent Order of Oddfellows Manchester Unity Friendly Society Limited ("the Society") in managing the with-profits business within its Long Term Business ("LTB") fund.

It has been produced to comply with the standards required by the Financial Conduct Authority (FCA) in line with the relevant Rules and Guidance set out in the Conduct of Business ("COB") sourcebook. This has become a requirement as a result of the Society's change to Directive status with effect from 1st January 2013.

It aims to promote an understanding of how the Society conducts its with-profits business, particularly in relation to the Principles and Practices adopted around the governance of the with-profits business and where discretion is applied, ensuring with-profits policyholders are treated fairly.

The Principles are high-level statements of the standards the Society adopts in managing its' with-profit funds and are not expected to change often. The Practices explain the current approach taken in applying the Principles to the day-to-day management of the with-profit funds. The Practices take account of changes in the economic and regulatory environment in the short-term.

The Society has in place governance arrangements to ensure that the management of the with-profits business is in line with the Principles and Practices outlined in the PPFM. To meet FCA rules, the Society's Insurance Committee has been appointed by the Board as the with-profits advisory arrangement.

The PPFM has been reviewed and approved by the Board of the Society.

The PPFM will be reviewed on an annual basis and the results will be published in a report to the with-profits policyholders, including a formal report from the With-Profits Actuary. This report will be made available to policyholders on the Society's website.

Any material changes to the Principles within the PPFM will be approved by the Board and any affected with-profit policyholders will be notified of the changes at least three months in advance of the effective date.

Any material changes to the Practices will be approved by the Board and affected with-profits policyholders will be notified within 12 months of the change taking effect.

The Glossary contains a number of terms used in the PPFM.

2 The Long Term Business Fund

2.1 General

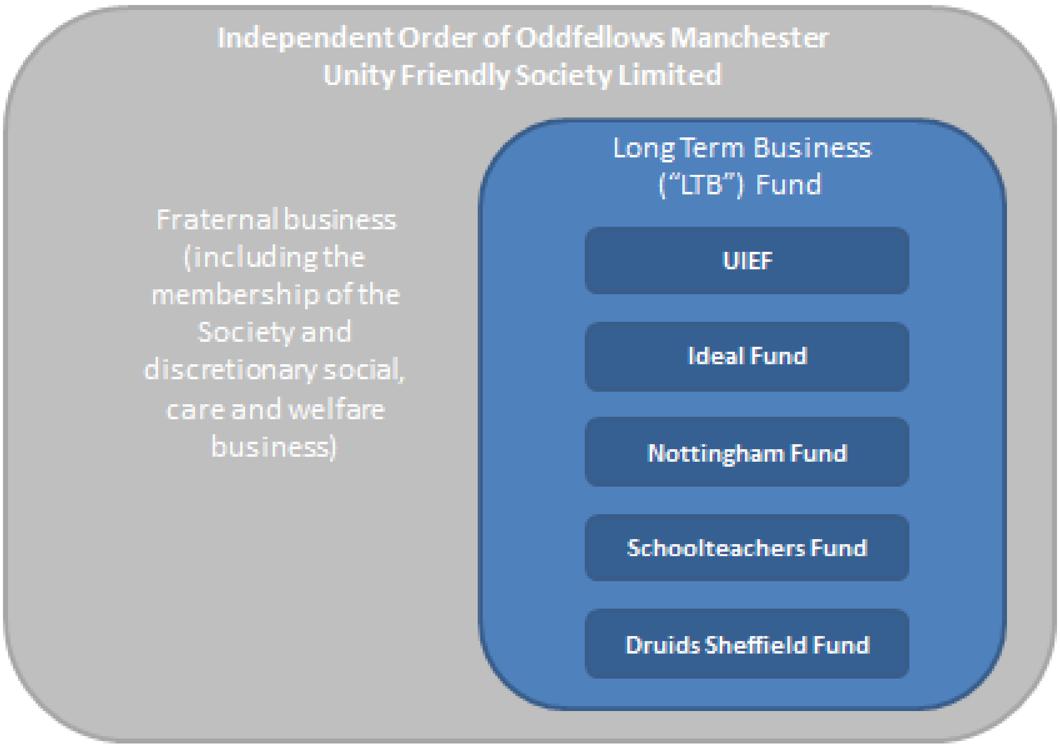
The Society is a friendly society that provides discretionary social, care and welfare benefits administered centrally and by its local branches. This is known as the Society's "Fraternal" business. The Society also writes and administers long term insurance business through its Long Term Business ("LTB") Fund.

The Society is a mutual organisation and, therefore, does not have any shareholder interests to consider. However, as the LTB Fund ultimately benefits from the availability of support from the Society's Fraternal assets (which form part of the total assets of the Society) the Fraternal business is considered to be a stakeholder with an interest in the running of the LTB Fund.

This PPFM and the descriptions of how the business is managed is related only to the LTB and is not relevant for describing or considering how the Society's Fraternal business is operated.

2.2 Structure of the LTB Fund

The following diagram is aimed at presenting the high level structure of the Society, and the structure of the LTB Fund.



In relation to the funds within the LTB, the following funds are covered by this PPFM as each includes with-profit business:

- **Unity Insurance and Endowment and Retirement Annuity Fund (UIEF)**: this relates to the Manchester Unity Insurance and Endowment and Retirement Fund which closed to new business in 2000. The Fund also includes contracts from other funds which were subsequently merged with the UIEF Fund.
- **The Ideal Fund**: encompassing the business of the Ideal Benefit Society which transferred into the Society on 31 July 2007. The fund also closed to new business prior to 2005.
- **The Nottingham Fund**: encompassing the business of the Nottingham Friendly Society (NFS) which transferred into the Society on 30 December 2009. The fund is open for new business for unit-linked Child Trust Fund (CTF) business.
- **The Schoolteachers Fund**: encompassing the business of the Schoolteachers Friendly Society (SFS) which transferred into the Society on 31 March 2011, and contains with-profit and Child Trust Fund unit linked business which are both open for new business.
- **The Druids Fund**: encompassing the business of the Druids Sheffield Friendly Society (DSFS) which transferred into the Society on 30 April 2015, and contains with-profit, non-profit and Child Trust Fund unit linked business. It is open to new business for tax-exempt policies and ISAs.

In relation to the Ideal, Nottingham, Schoolteachers and Druids funds, each is subject to certain terms (which may include restrictions in the way the business is managed or operated) that were specified when the business transferred to the Society. This PPFM is intended to be consistent with these terms but should there be any conflict then the terms set out in the Instrument of Transfer for each Fund will take precedence.

The following table is provided to give a general overview of the main policy types written within the various funds.

LTB Fund	**Conventional business**						**Other business**		**Unitised business**	
	Endowment		*Whole of Life*		*Annuities*		*Sickness*		*Unitised WP*	*Unit-linked*
	WP	NP	WP	NP	WP	NP	WP	NP		
UIEF	√	√	√	√	√	√		√		√
Ideal	√	√	√	√		√	√		√	√
NFS	√	√	√	√					√	√
SFS	√						√			√
DSFS	√	√	√			√		√	√	√

3 Overriding principles

The overriding principles in regard to the management of the overall LTB, and for each LTB fund, are:

- to fulfill contractual obligations to policyholders;
- to manage the business in a sound and prudent manner having regard to the requirement to treat policyholders fairly;
- to meet the regulatory capital requirements associated with the Society's long term business.

4 The amount payable under a with-profits policy

4.1 Principles

The overall aim is to deliver to with-profits policyholders payments that reflect a policy's fair share of the relevant LTB fund.

In assessing what is a policy's fair share of a fund the Society may use a number of approaches and methodologies, which may differ between the different LTB funds, and between different product types within funds. In applying such methods approximations may also be used where this is considered appropriate for the policies being considered.

One method used is to consider a policy's "asset share". The asset share reflects the accumulation, based on investment returns earned on the assets used to support the relevant business, of premiums paid, less deductions for expenses, costs of providing benefit cover, taxation, and other charges considered appropriate. In determining an asset share, historic information is needed regarding the experience of the business, and it may be necessary to make assumptions and approximations regarding such experience.

Where asset shares cannot be assessed on an individual basis it may be possible to determine a group asset share for a particular block of business (or a fund).

For some blocks of business asset shares cannot be determined (either on an individual policy or grouped basis). In such circumstances the Society has other ways in assessing the fair share of the fund for a policy (or groups of policies). This may involve a prospective reserve calculation, which considers the present value of benefits payable on a claim plus the expected expenses to be incurred in administering the policy, less future premiums. Even where asset shares can be assessed, this reserving type approach may be considered to be more preferable due to the assumptions and approximations that are needed for asset share calculations.

The Society allocates surplus to with-profits policies with the aim of delivering to policies their fair share of the fund when a claim arises. This surplus allocation may take different forms, and is allocated to policies based on decisions undertaken by the Society in a discretionary manner with the support and advice from the With-Profits Actuary. Surplus allocation is the mechanism by which the Society manages benefit payments to with-profit policyholders, and by which it allows for the smoothing of payments between different types of business, and between generations, and reflects the variation and fluctuation in experience.

Appropriate control mechanisms are in place should the Society wish to change in any way the methods it adopts in determining the amount payable under with-profits policies. Changes to the methods used to determine payouts would be made following approval from the Board on the advice of the With-Profits Actuary.

4.2 Practices

4.2.1 Conventional with-profit policies

Conventional with-profit policies have a guaranteed amount (the basic sum assured) which is payable on a specified event or date. Bonuses may be added to the policy in the form of regular or final bonuses.

Regular (or reversionary) bonuses are declared annually as a percentage of the guaranteed amount, and for some policies also as a percentage of previously declared bonuses with some of the Druid's products having guaranteed bonuses.

Final (or terminal) bonus rates are declared annually as a percentage of guaranteed amount and/or of previously declared bonuses based on duration in force to be added at the date of claim.

On maturity or death, and providing all premiums due have been paid, the amount guaranteed to be paid out is the sum assured plus any bonuses which have already been declared. Additional bonuses may also be added in the form of interim regular bonus or final bonus.

If a policy surrenders then the payment is generally determined by reference to a forward looking calculation, which assesses the present value of benefits that would be paid plus expected future expenses less future premiums. This method is implemented by a set of surrender factors. Depending on the line of business, and the volume of surrenders experienced, these factors may be reassessed periodically. A surrender penalty may also be applied, depending on the policy conditions, to ensure that the surrender payment only reflects what is considered to be the policy's fair share of the fund.

4.2.2 Unitised and Accumulating with-profit policies

Unitised with-profit policies invest in a with-profit fund by receiving "units" attaching to their policy as premiums are received.

The units allocated to a policy depend on the specific terms of the policy, and the unit price at the time premiums are paid.

Accumulating with-profits policies have a guaranteed amount which is payable on a specified event or date.

Depending on the policy type, annual bonuses may be added to the policy in different ways, such as via additional units being allocated, or by increasing the unit price. Final (or terminal) bonuses may also be allocated to a policy on a claim.

On death, or maturity, the amount paid under the contract reflects the number of units multiplied by the unit price, plus (where appropriate) a final bonus.

On surrender a similar process applies, however it may also be appropriate to apply a Market Value Adjustment (“MVA”). This is to ensure that the surrender payment only reflects what is considered to be the policy’s fair share of the fund. On surrender, the application of the MVA acts to reduce the policy value below the amount that would be guaranteed to be paid on maturity or death (i.e. the number of units multiplied by the unit price).

The terms of some policies may entitle them to what is known as MVA free dates. These tend to be policy anniversaries e.g. a 5th or 10th anniversary, and the MVA free date means that on surrender the Society would not apply an MVA.

4.2.3 With-profit Sickness policies

The Ideal and Schoolteachers funds contain some with-profit Holloway style sickness policies. In essence these policies grant the policyholder certain sickness benefits (normally expressed as a weekly amount) and policyholders share in surplus distributions of the fund by being allocated a bonus which accrues to an “account”, which can be taken on cessation of the policy. The terminology applying to bonus additions may differ between the funds e.g. it may be termed a “bonus” or “interest”. In addition, for some product types the bonus may also reflect a percentage of the premiums paid under the policy over a calendar year.

Throughout this document, where reference is made to the term “annual” or “regular” bonus, this is intended to cover the situations of applying surplus distribution to these with-profit sickness policies.

At maturity (i.e. the selected retirement age), or death, the amount paid out under the contract will reflect the accrued bonus or account. If a policy surrenders prior to maturity the policy benefits are assessed using a forward looking calculation in a similar manner to the approach described for conventional with-profit policies.

4.2.4 Target ranges for payouts under with-profit policies

Due to the limitations that exist within the Society to assess individual asset shares in an appropriate and accurate manner, the Society considers that setting a broad target range (expressed as a percentage of the asset share) within which with-profits payouts would be expected to fall, could be an inappropriate measure to use. Therefore, where asset shares do not exist target ranges are not used. Whilst asset shares (where they are available) are helpful in considering the levels of payouts, the Society may use other measures, such as the return (i.e. annual yield) on premiums paid, which may be appropriate for the nature and size of its with-profit business. These alternative measures may be considered for sample contracts within a fund, rather than applied on an individual policy basis.

5 Bonus policy

5.1 Principles

The bonus policy for each of the LTB funds shall be determined by the Society's Board, having taken account of the advice of the Insurance Committee and With-Profits Actuary and by reference to the solvency position of the relevant fund, and other factors, such as financial, economic and demographic outlooks.

Bonuses shall be declared in accordance with the following principles:

a) where appropriate for the fund, the surplus arising in each LTB fund is to be distributed in such a way that as the with-profits policies in the relevant fund reduce, the surplus assets of the fund will be progressively exhausted;
b) the bonus policy will seek to meet the reasonable expectation of policyholders and to maintain equity between different classes and generations of policies;
c) an appropriate level of free assets shall be maintained within each fund to allow each fund to meet its capital requirements, and to allow the fund to respond in a flexible manner to changes in experience; and
d) smoothing can be applied to bonus rates. There are no limitations on the extent to which bonuses can be changed, including regular and final bonuses.

5.1.1 Annual bonuses

The aim in setting annual bonus rates is to provide with-profits policyholders with additional guarantees above the levels currently attaching to their policies. The rates should be supportable in the long term, taking into account current and expected future economic and demographic experience, the investment policy and an appropriate margin for final bonus.

The Society also aims to set annual bonus rates that do not fluctuate widely on a year to year basis, and to give policyholders a reasonable expectation that similar bonuses can be declared in future years. However, bonuses can only be declared if there is a surplus in the fund and if the bonus rates are supportable over the long term. In the event of adverse experience, the Society may decide to declare a bonus rate that is significantly different to that in previous years or decide to declare no bonus at all.

5.1.2 Final bonuses

The aim of any final bonus is to increase the benefits payable under a policy to allow for the distribution of surplus in the fund that is appropriate to the policy concerned (to the extent that such profits have not already been distributed by way of regular bonuses).

5.2 Practices

Regular and final bonus rates are currently reviewed annually following the valuation of the LTB funds, although, if economic or other factors warrant it they can be reviewed more frequently.

Where asset shares are available for groups of policies these may be used in helping to determine the potential level of future supportable bonuses. However, in general the main approach used in setting bonuses is to consider the financial solvency of each fund and what bonus rates may be appropriate to maintain a suitable level of solvency, whilst aiming to distribute an appropriate amount of surplus.

There is no guarantee that future bonuses will be declared, as the decision relating to their use is at the discretion of the Board. Regular and final bonus rates may fall to zero depending on market conditions, the financial circumstances of the LTB and the Society as a whole.

5.2.1 Annual bonuses

Annual bonus rates are declared in arrears and represent an addition to the benefits guaranteed under a with-profits policy. These guarantees apply to the policy on death or maturity but not on early surrender.

Annual bonus rates are declared at the discretion of the Board. In the normal course of events the Society would not review annual bonus rates between declarations. However, in the event of a significant change in economic circumstances that could adversely affect the surplus expected to be available for distribution, the Board can use its discretion and alter the annual bonus rates.

Many of the Druids Fund's products contain a guaranteed bonus rate, and additional bonuses will only be paid if this is deemed sustainable, after consideration of asset shares relative to guaranteed benefits.

5.2.2 Final bonuses

The levels of final bonus rates are reviewed at regular intervals, not less frequently than annually, but more frequently when significant changes in the market require.

6 Smoothing policy

6.1 Principles

The mechanism by which the Society shares experience between generations of with-profit policyholders and between different product types is known as 'smoothing'. Where it is appropriate to do so, and subject to the financial resources within each LTB fund, the Society aims to smooth payouts to with-profit policyholders over the longer term for policies of the same class, and similar size and term. This is done, where possible, by reducing the extent to which bonus rates (and other surplus distribution mechanisms) change from one period to another, compared to the theoretical change that would arise from the analysis of underlying experience.

It is intended that the cost of smoothing in any one LTB fund will be neutral over time.

6.2 Practices

The Society does not operate a formal smoothing calculation methodology to determine how quickly amounts payable under a with-profits policy may change, and the associated costs (or surplus) arising from smoothing. Current practice is to consider the extent to which the amounts payable under a with-profits policy require material support from the free assets in the relevant fund. In circumstances that have an adverse impact on the solvency of any of the LTB funds the Board could adjust payments under a with-profits policy rapidly (e.g. by reducing or removing discretionary bonus additions).

The current smoothing approach does not differentiate between different types of with-profit policies or between generations of policyholders.

If a with-profits policy surrenders, the smoothing applied within the surrender scales used to determine the surrender value payable depends on the type of policy and the relevant with-profit fund. Such surrender factors tend to be reviewed fairly infrequently and, therefore, from time to time, may contain a level of smoothing. If this was considered to become material (e.g. such as the volume of surrenders became material) then such surrender scales could be reviewed more frequently.

7 Investment strategy

7.1 Principles

The investment strategy for each LTB fund shall be determined by the Society's Board, having taken account of the advice of the Insurance Committee and With-Profits Actuary and shall:

a) have regard to the nature and term of the liabilities of the fund, including the extent of the level of guaranteed liabilities;

b) recognize the need to safeguard the financial security of the fund and the need to demonstrate solvency;
c) consider the risk appetite of the Society in relation to its LTB and Fraternal business; and
d) aim to maximize the investment return earned on the assets of the fund whilst having regard to policyholders' reasonable expectations and previous policyholder communications.

In determining the investment strategy for a fund the Society has regard to the level of guarantees arising in the fund and the type of assets that could be appropriate to "match" such liabilities (in terms of the nature and term). To the extent that the fund has free assets (or surplus), and allowing for the support available from other funds and the Society's Fraternal business, the Society may adopt a strategy that is different to the matched position if it is considered that this would be expected to achieve more appropriate outcomes for the with-profit policyholders in the fund.

7.2 Practices

Each LTB fund has an investment strategy which is reviewed periodically to ensure it remains appropriate. This sets out the strategic asset allocation and allowed tactical ranges for different asset classes. Where appropriate it may also specify in more detail the duration of assets that are suitable to match the term of liabilities.

Whilst the Board is ultimately responsible for the investment strategy, this is delegated to the Insurance Committee to review and approve changes in the investment strategy. The Commercial Board (i.e. the Investment sub-committee) is responsible for implementing the investment strategy.

The types of assets used by the LTB Fund tend to be fairly standard investments in government bonds, corporate bonds, equity, property, collective vehicles and cash. However, the Society does not impose any restrictions on the types of assets that the LTB Fund may invest in, or on the amounts that can be invested in any one asset or group of similar assets. Where a new type of asset class is to be considered the Board would consider the appropriateness of this asset for the relevant LTB fund after taking advice from the Insurance Committee and With-Profits Actuary before any such investment is made.

8 Business risk

8.1 Principles

With-profits policyholders, as members of the Society, may bear costs incurred as a result of risks taken by any LTB fund. Any payouts which are not guaranteed could be impacted as a result of any business risks taken within the LTB fund.

There are no specific limits on the business risks that can be undertaken by the LTB funds. Instead any significant business risk an LTB fund intends to undertake will be subject to a cost benefit justification and risk assessment and will require Board approval, which would include seeking advice from the Insurance Committee and the With Profits Actuary.

The Board, following advice from the With-Profits Actuary, is responsible for ensuring that profits, or losses, arising from exposure to business risks, are allocated appropriately to with-profits policyholders having regard to the miscellaneous sources of profits or losses.

8.2 Practices

Any profit or loss arising from a business risk taken within the LTB funds is borne by the fund taking the risk. If such a fund cannot bear the full extent of the risk then other LTB funds may be used to provide support (where this is appropriate and allowable), and the Society's Fraternal funds could be called on to provide support.

The Society has risk assessment procedures and controls in place in order to manage and mitigate business risk.

Should a business risk arise resulting in miscellaneous profits or losses, these will be allocated in a fair and equitable manner by the Board, taking into account the different classes and generations of policies, the source of the miscellaneous profits or losses and the advice of the With-Profits Actuary.

9 Charges and expenses

9.1 Principles

The expenses and charges to be borne by each LTB fund in relation to the administration of the business shall be an appropriate level as determined by the Board, on the advice of the Insurance Committee and the With-Profits Actuary, having regard to the expenses incurred in managing the sub-funds.

In applying charges and apportioning expenses to each LTB fund the Society's aim is to ensure that charges and expenses are allocated in a fair manner.

Due to the terms on which certain transactions (i.e. transfers of business) have been undertaken, there are some restrictions and limits on the expenses that can be charged to the Druids Fund.

9.2 Practices

Expenses cover the acquisition of business, (including commission) and the administration of existing business as well as other infrastructure costs.

Each LTB fund is responsible for its own direct expenditure, and as such all expenses which can be identified as belonging to a specific fund are charged directly to that fund. In addition, indirect LTB expenses, such as those expenses that relate to the running of LTB but which cannot be directly attributed to any one fund, would be allocated across the LTB funds using an activity based analysis.

In addition, a proportion of other expenses are charged to the LTB funds through the allocation of a proportion of Society's "non-specific" expenditure. This is done in the same way as the indirect LTB expenses are allocated to LTB to reflect the LTB funds being part of the Society's infrastructure. This "non-specific" expenditure includes items that are relevant to the running of the Society as a whole, and its infrastructure. Up until 2014 there were some restrictions around the charging of expenses to the Nottingham Fund in line with the terms of the transfer of engagement. This charge cap ceased with effect from 2015.

There are at present some restrictions around the charging of expenses to the Druids Fund.

10 Management of the inherited estate

10.1 Principles

Each LTB fund is managed with the aim that it would be able to meet its own liabilities and regulatory capital requirements. As such each fund needs a certain amount of "free assets" (or "inherited estate") in order to be able to meet its liabilities and cover its capital requirements. The free assets are also used to support the smoothing of benefit payouts, and to allow for a degree of freedom in the investment strategy. They also provide a buffer (to an extent, depending on the level of free assets) against adverse experience.

The Society aims to manage the level of free assets in each fund at a level that is appropriate given the aims of the fund, and the risks being taken in the fund. Discretionary surplus distributions are considered on an annual basis in order to distribute (where appropriate) any capital in the fund which is considered excess to that needed for the level of free assets required.

10.2 Practices

The inherited estate of each LTB fund is managed independently in line with any terms of transfer (in relation to acquired funds) and allowing for the Society's approach to surplus distribution and its risk appetite for each fund.

In relation to the transferred in business of Ideal, Nottingham, Schoolteachers and Druids, the overall aim for each fund is to distribute any free assets (or surplus) within the fund to with-profits policyholders over their remaining lifetime. This is subject to the funds retaining sufficient capital to meet their capital requirements, and to support investment strategy and smoothing.

The UIEF Fund received capital support from the Fraternal assets in the past to ensure it had the sufficient capital to meet its liabilities. It is not the Society's intention to specifically target the distribution of all free assets within the fund.

In circumstances where an LTB fund requires capital support to meet its regulatory capital resource requirements, or to meet its liabilities, support will be provided first from other LTB funds and then from the Society's Fraternal assets. In this situation and where it is appropriate, a charge will be made to the LTB fund for the support.

11 Volumes of new business

11.1 Principles

As detailed earlier, a number of LTB funds are currently not writing new business, with the exception of that arising as a result of the exercising of rights or options attaching to existing policies, with others being open to new business.

The Society retains the discretion as to whether to reopen any LTB fund to new business and whether any fund should cease writing new business. In considering any new business proposition, and when determining the volume of new business which can be accepted into a fund, the Society's primary consideration is the solvency position of the LTB fund, and the expectations of existing with-profits policyholders and how the new business may impact on those expectations.

11.2 Practices

The UIEF, Nottingham,Schoolteachers and Druids funds are currently open to new business. This new business relates to ISAs, Junior ISAs (JISAs), Child Trust Funds (CTF), tax-exempt policies, and Sickness Income Plans for which there is no maximum volume of business that can be accepted.

Any decisions on whether the funds remain open to new business, what types of business to make available and the terms and conditions of that business will be made by the Insurance Committee from advice provided by the AFH (and the WPA where appropriate). New business will only be accepted if, in the reasonable opinion of the Insurance Committee, the terms upon which such plans are accepted are unlikely to have a materially adverse effect on the interests of existing policyholders at that time.

If the Society was to consider a new business opportunity for any particular LTB fund this would require an appropriate business case to be produced and to be approved by the Board, after taking advice from the Insurance Committee and With-Profits Actuary.

12 Maintaining the LTB funds

The following provisions are in place for the cessation of the ring-fenced funds within the overall LTB.

12.1 Ideal Fund

The Ideal Fund included a sub-fund "the Ideal sub-fund" that was transferred into the Ideal business from the Ideal Insurance Company, prior to the Ideal business transferring to the Society. The terms of transfer from the Ideal Insurance Company removed the requirement for the Ideal sub-fund to be maintained once the number of policies within the fund was less than 100.

This threshold was met in 2013 and as a result the Board agreed for the sub-fund to be rolled-up into the Ideal Fund as at 31 October 2013. At this point the surplus was distributed and the policies became non-profit in line with the terms of transfer, based on advice from the Society's With-Profits Actuary.

The Board may at any time after one year has elapsed after the date of cessation of the Ideal sub-fund (31 October 2014), review the need to maintain the Ideal Fund as a separate fund within the LTB Fund and, thereafter, determine a basis for the cessation of the Ideal Fund which is fair to the with-profit policyholders.

12.2 Nottingham Fund

Under the terms of transfer, if the number of Nottingham policies (other than CTF accounts and other unit-linked policies) is less than 5,000 the Board may review the need to maintain the Nottingham Fund as a separate fund within the LTB fund and, thereafter, determine a basis for the cessation of the fund which is fair to all with-profit policyholders.

On cessation of the fund, the whole of the surplus of the Nottingham Fund will be distributed or allocated to with-profit policies remaining in force at that time. This distribution will be on basis determined by the Society's With-Profits Actuary having regard to treating customers fairly and policyholders' reasonable expectations.

12.3 Schoolteachers Fund

Under the terms of transfer the Board may review the need to maintain the Schoolteachers Fund as a separate fund within the LTB fund in the following circumstances:

- If the number of Schoolteachers policies (other than CTF accounts and other unit-linked policies) is less than 1,000; or
- the value of the Schoolteachers Fund (other than CTF accounts and other unit-linked policies) at 31 December in any year is less the £500,000; or
- 10 years has elapsed since the effective date.

On cessation, the whole of the surplus of the Schoolteachers Fund will be distributed or allocated to with-profit policies remaining in force at that time. This distribution will be on basis approved by the Board on the advice of the Society's With-Profits

Actuary having regard to treating customers fairly and policyholders' reasonable expectations.

12.4 Druids Fund

Under the terms of transfer the Board may review the need to maintain the Druids Fund as a separate fund within the LTB fund in the following circumstances:

- If the number of Druids policies (other than CTF accounts and other unit-linked policies) is less than 1,000; or
- 10 years has elapsed since the effective date.

On cessation, the whole of the surplus of the Druids Fund will be distributed or allocated to with-profit policies remaining in force at that time. This distribution will be on basis approved by the Board on the advice of the Society's With-Profits Actuary having regard to treating customers fairly and policyholders' reasonable expectations.

Document History

The PPFM has been updated as follows:

Version Number	Date approved	Detail
1.0	5 December 2012	Initial version
2.0	25 June 2014	Updates following 2013 compliance review to reflect: • the change in regulator; • the collapsing of the Ideal With-Profit Sub-Fund into the Ideal Fund; and; • the restriction on the recharge of indirect “non-specific” expenses to the Schoolteachers Fund being time expired
3.0	1 January 2016	Updates to incorporate the Druids Sheffield Friendly Society which transferred into the Society on 30 April 2015.

Glossary

Annual bonus

A bonus that is added on a regular basis throughout the life of a with profits policy, providing an addition to the guaranteed benefits payable to the policyholder in the event of a claim. These bonuses are credited by means of an annual addition to the benefits payable on death or maturity. Annual bonuses may also be referred to as regular bonuses or reversionary bonuses. Once an annual bonus has been declared it cannot be removed.

Asset share

This is the ‘fair share' of the fund attributable to an individual policy. It is calculated by accumulating premiums paid at the rates of return earned on the assets assumed to be backing the policy, after allowing for deductions for benefits and charges such as expenses, mortality and tax.

Board

The Board of Directors of the Independent Order of Oddfellows Manchester Unity Friendly Society Limited.

Conduct of Business (“COB”) sourcebook

The regulator’s detailed sourcebook on how Financial Services firms should conduct themselves. The sourcebook contains very specific detail on subjects such as how a firm communicates with its customers, how it handles it’s With-profit business etc.

Conventional business

Policies which have a basic sum assured which is payable in the event of a claim. These policies may be with-profits in which case bonuses may be added during the life of the policy, or non-profits where no bonuses are added.

Final bonus

A discretionary bonus paid on a with profits policy, based on recent performance of the fund, which may become payable on a death, critical illness or maturity claim.

Financial Conduct Authority (FCA)

The regulatory body with responsibility for firms’ conduct; its primary statutory responsibility is to promote confidence in financial services and markets.

Inherited estate

The assets held in excess of those required to back the expected liabilities, including payment of guaranteed benefits and future bonuses.

Insurance Committee

The Committee delegated by the Board to monitor, control and direct the business affairs of the Society in relation to each of the Long Term Business (LTB) funds.

Long Term Business Fund

A fund within the Society required to be established by regulations. All long-term business liabilities and associated assets are contained within the Fund.

Market Value Adjustment (MVA)

An adjustment that may be applied to a UWP or AWP policy on surrender, the aim of applying an MVA is to protect policyholders who do not surrender from the impact on the Long-Term Fund of surrendering policies taking more than their fair share of the funds. A Market Value Adjuster is sometimes called a Market Value Reduction.

Miscellaneous profits or losses

Profits or losses that are not credited or charged to asset shares. These include profits and losses arising from our non-profit and unit-linked business.

Non-specific expenses

These are expenses which are not directly attributable to the LTB funds; they reflect the LTB funds being part of the Society's infrastructure. Non-specific expenditure includes items that are relevant to the running of the Society as a whole such as IT infrastructure, utility costs and building insurance.

Regulatory capital requirement

Rules intended to ensure that regulated companies have in place and maintain an adequate capital buffer against which to absorb unexpected losses. The aim is to contribute to the safety and on-going viability of credit unions by effectively allowing them time to address underlying difficulties which could lead to failure.

Unitised business

Policies where the policy value is expressed as a number of units, here either:

1. the fund value is represented by the bid value of units, which may increase with time, or
2. the number of units increases each year to represent the increase in value and the unit price remains fixed.

With-profits actuary

The function of with-profits actuary described in the Supervision Manual of the Financial Conduct Authority Handbook.

With-profits policy

A with-profits policy is an insurance contract that participates in the profits of a life fund.