

2017

**AGM Report**

The Original Holloway  
Friendly Society Limited

Income protection  
from the *original* provider



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The Original Holloway Friendly Society Limited**

## Welcome to the 2017 AGM Report

In the following pages you will find information on the performance and future of your society and supporting information for voting at the AGM.

Following the success of the new ways to register your vote, we have maintained a choice of how to do so by post, mobile and internet, and you are always welcome to come and meet some of our colleagues and Directors at the AGM personally.

# Chairman's Statement

This has been a significant year for the Society, not only due to changes in the regulatory environment, but also our development of a new strategy that builds on our competitive advantages: financial strength and value for money products.

We appointed a new Chief Executive, Stuart Tragheim, to initiate a root and branch review of the Society. Through this process we identified an opportunity for the Society to modernise and grow, which we set about realising by developing a new strategy.

With this work now largely complete, the Board has approved the new strategy and the initial investments required to fund its implementation. More detail about the new strategy can be found in Stuart's Chief Executive Report.

In addition, Martin Collins, previously our Chief Executive Officer, has been appointed Finance Director and 2016 saw the departure from the Executive of Mathew Crompton-Manser, our Sales and Marketing Director.

## Membership

Against a backdrop of significant change, both in terms of the new appointments described above and the broader regulatory and market environment, the Society performed well in 2016. Our membership numbers continue to grow, albeit slowly, and we have again produced a solid operating profit. Our future short-term profitability will be impacted by the investments required to fund our growth ambitions, but we expect the Society's long-term Embedded Value to continue to grow strongly as the new strategy is implemented.

## Regulation

Like all friendly societies, Holloway Friendly faces a challenging regulatory landscape. Much management and actuarial time continued to be spent during 2016 on the implementation of Solvency II, which came into force on 1st January 2016. The Society has made good use

of its Chief Actuary, Christopher Critchlow and his team at OAC Actuaries and Consultants to assist in this work and we are pleased to say that the Society continues to fully comply with the new regulations.

## Corporate governance

During the year, the Board changed the structure of some of its sub-committees to rebalance some of the workload which will become effective from 1st January 2017. As such, we have established a new Nomination and Remuneration Committee under the chairmanship of a recently appointed Non-Executive Director, Anna East.

In addition, the Board have agreed a number of changes to the rules of the Society that will enable a more efficient decision making process on product developments. In addition, the rule changes modernise some of our other governance practices, such as redefining the maximum terms of office for Non-Executive Directors.

These changes have been approved by the Board and will be subject to formal approval by the Financial Conduct Authority, and by our members at the 2017 AGM.

## Allocation, compound bonus and final bonus

After another positive year in terms of sickness claims experience, the Board have been able to maintain the current rates of Allocations of Profits. Even though income earned from investments continues to suffer from persistently low interest rates, The Board have also been able to declare a consistent Compound Bonus rate and keep the Final Bonus rates for the coming year the same as 2015. A table of the various rates are set out in the Bonus Report on page 14.

## Looking ahead

Having achieved solid financial results and made significant progress on our new strategy to modernise the Society, we can look forward to 2017 and beyond with confidence. None of this would, however, be possible without the

hard work of our colleagues and management, and the support of our members. In particular, I would like to thank Colin Organ and Kieron Griffin for their contribution to the Society over so many years. Both stepped down from the Board at the 2016 AGM after having served on several Board sub-committees over the years.

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**Martin Day**

*Chairman*

*9th May 2017*

# Chief Executive's Report

## Introduction

It is a pleasure to write my first report as Chief Executive of Holloway Friendly. Having joined the Society mid-year, my main focus has been fulfilling the brief given to me by the Board – developing a new strategy that will result in a modernised and larger business.

While recent financial results have been strong, with good levels of free assets and annual profits, we cannot be complacent. The financial services marketplace continues to move at a rapid pace and the Society must adapt to make the most of the opportunities and address any challenges. Our new strategy is designed to put us in a stronger position to do exactly that, while continuing to serve the needs of new and existing members.

## Developing our new strategy

As the first in the UK to offer disability insurance, the Society is no stranger to innovation. Our challenge now is to maintain this spirit of innovation by re-energising and refocussing the Society on growth opportunities.

We began this process by conducting a comprehensive review of all aspects of the Society's operations to set the right path going forward. To expedite this, we engaged a number of professional, specialist external consultants to help us develop the new strategy and to ensure that we were able to do so at considerable pace. This proved to be highly effective and we completed seven of the work streams by the end of 2016, with the remaining four due to be completed by mid-2017.

Part of this process was to re-examine the Society's mission to ensure that our future direction is firmly rooted in our core purpose. Supporting our members remains the bedrock of the Society and we have therefore agreed an updated articulation of our mission statement:

**“We exist to provide real value for money support to our members and their families at their time of need.”**

Our new vision is **“To be the most recommended provider of innovative, specialist protection products for individuals and businesses, that are ideally matched to the needs of our customers, provide real value for money, are easy to arrange and are backed by great service.”**

.....in short **“To be the most recommended specialist protection provider.”**

## Targeting and achieving growth

The Society's ability to generate profit and maintain a strong capital position in challenging markets is testament to our prudent cost management and the value we offer customers. This provides a solid platform for our growth strategy as we make our 'real value for money support' available to a much larger membership. We are targeting a significant growth in our membership numbers over the next five years. This growth will also increase total financial value for our members, with our overall governing KPI measure of Embedded Value expected to increase significantly over the same period.

We intend to achieve this valuable growth through the delivery of a number of fresh propositions over the next three to four years by rationalising and updating our core range of propositions so the products better meet the demands of the markets that we serve. In addition we will use our expertise to bring new products to the market that meet emerging consumer needs.

Financial strength and existing product profitability are the key existing competitive advantages that we can leverage to drive this growth. Together, they enable us to guarantee premiums (a key preference of intermediaries) and at a price that competes even against reviewable premiums in our existing target market of higher risk occupations.

### The right people, processes and systems to deliver

We are building the expertise required to deliver these propositions by recruiting top people from across the industry in the key areas of marketing, sales, financial and risk management and operations. We will also invest in the capability of our people, systems, processes, infrastructure and organisational design so our growth is both efficient and effective.

In addition, we have developed a new target operating model (TOM) – a blueprint that defines who does what and when and how all these elements will work together to deliver our strategic objectives. We will combine the

existing Holloway and Optimal operations to build a professional and modern Society that's fit to deliver our mission and vision.

### Effective distribution, supported by valuable insight

We will develop deep insight across the various types of intermediary, understanding the key drivers that influence them to recommend products to their customers. Our investments will be defined by that knowledge; we recognise that having the best end-customer proposition is fully effective only if we design and deliver on a winning service proposition that persuades intermediaries to choose Holloway and

## Key metrics agreed with the Board

Board Key Performance Indicators	Rationale
Embedded Value (EV)	The long-term financial value of the Society to members
Free Asset Ratio (FAR)	The financial strength to meet our promises to members
Solvency Ratio	150% of the Solvency Capital Requirements is a prudent benchmark for financial strength and risk
Colleague Engagement	Employees who share a mutual-gains relationship are more likely to increase customer satisfaction levels, productivity and innovation
Annual Premium Income (API)	Indicator of top line growth, supporting our member growth ambitions
Total Membership	Making value for money support available to as many as possible
% Lapses/Ongoing API	Member retention is the dominant determinant of value in our business plan
% Applications/Portal Quotes returned	Indicator of adviser recommendations compared to the market
% of Total Premiums Received Paid as Claims	Responsiveness to members in their time of need
% of Total Premiums Received Paid as Member Benefits	Direct financial value to members from Society income

Optimal products. We will also invest in end-customer insight to ensure that our propositions are targeted effectively for specific customer groups. This will help intermediaries better understand how our propositions work for customers and also improve our marketing support for intermediaries. As a result, we will be seen as being 'easy to do business with'.

Further advantage in proposition and distribution will be achieved through new senior hires, whose proven track record will further strengthen existing management capabilities.

#### **Measuring our progress and success**

As we put in place the building blocks to deliver our strategy it is vital that we have the means to accurately measure progress. Our mission-critical KPIs, on page 4, will enable us to adapt delivery of our strategy, refocussing our activity where required.

The Board will monitor performance regularly against these key performance indicators as the implementation of the new strategy starts to take shape.

#### **Delivering together**

We recognise it's not just about what we do but how we do it. We particularly value our existing mutual-based strengths of integrity, teamwork, prudence, fairness and perseverance – and our new capabilities will add vitality and creativity to help us stand out from our competitors. This combination of our historic strengths and our willingness to embrace the future has been enshrined in a new set of values, which will help us work together to achieve our common aims.

#### **Looking ahead**

This has been an important year for the Society, in which we have laid the foundations for a successful and sustainable future. Delivering this will take time and effort but the route ahead is now clear. With the support of the Board, management and our colleagues, we can create a re-energised business to drive growth, serve members and increase Embedded Value.

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#### **Stuart Tragheim**

*Chief Executive*

*9th May 2017*

# Report of the Board of Management

The Board of Management (Board) has pleasure in presenting the Report and Financial Statements of The Original Holloway Friendly Society Limited, (the Society), for the year ended 31 December 2016.

## Principal activities

The principal activity of the Society continues to be the provision of Income Protection Insurance based on Holloway principles. The Society's subsidiary, HF Life Limited trades under the name Optimal providing Group Protection products. No activities have been carried on which are outside the Society's powers.

## Statement of solvency

The Society has maintained levels of solvency well above the required margin of solvency as prescribed by the Regulations.

## Dividend

As a friendly society there is no share capital and therefore no dividend is payable.

## Bonuses to members

The bonuses payable to Holloway plan policyholders are set out in the Bonus Report on page 14.

## Members of the Board of Management

Names of the members of the Board of Management who served during the year are set out in the 2016 Report and Accounts which is available on our website.

## Indemnity insurance

The Board of Management maintained the Indemnity Insurance against Board Members' and Officers' Liability.

## Political donations

The Society made no political donations during the financial year.

## Board of Management

The Board currently meets every second month. Additional meetings, seminars and workshops are held as required to formulate strategy and for training purposes. Details of Board members who held office during 2016 together

with details of meetings attended have been incorporated into the Corporate Governance Report of the 2016 Report and Accounts which is available on our website. The Corporate Governance Report also provides information on the responsibilities and activities of the Board and the operation of its Committees.

## Financial reporting

The Board has a duty to report to members on the Society's performance and financial position, and are responsible for preparing the financial statements which are available on our website.

## Appointment of independent auditors

A resolution to reappoint Moore Stephens as the Society's Independent Auditors will be proposed at the forthcoming Annual General Meeting.

## Gender diversity

The Board of Holloway Friendly has followed the important debate around the recommendations of Lord Davies' review on Women on Boards and the question of boardroom diversity.

The Board of Holloway Friendly is committed to maintaining the highest standards of corporate governance. We regard the composition and the effectiveness of our Board as a crucial element of our corporate governance. We do not think quotas, for the proportion of women on the board or otherwise, are appropriate for a number of reasons. We believe all appointments should be made on merit rather than through positive discrimination.

When we next make an appointment to the Board, our brief in the selection process as regards external candidates will be to review candidates from a variety of backgrounds and perspectives. We will work to a specification which will include the strong desirability of producing a long list of possible candidates which fully reflects the benefits of diversity, including gender diversity. Any appointment of an internal candidate, while similarly based on merit, will also take into account the benefits of diversity, including gender diversity. We believe

that diversity amongst board members is of great value but that diversity is a far wider subject than just gender. We will give careful consideration to issues of overall board balance and diversity in making new appointments to the Board.

### **Statement of disclosure of information to the auditor**

As at the date of this report each director confirms that:

- so far as (s)he is aware, there is no information relevant to the audit of the Society's financial statements for the year ending 31 December 2016 of which the auditor is unaware;
- (s)he has taken all steps that (s)he ought to have taken in his/her duty as a director to make him/herself aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

### **Statement of Board of Management's responsibilities**

Society Rules and law require the Board of Management to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Society, and of its results for that period. In preparing those financial statements, and in carrying out the business of the Society, the Board of Management 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;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Board of Management is responsible for keeping proper accounting records which disclose with reasonable accuracy at any

time the financial position of the Society and to ensure that the accounts comply with the Friendly Societies Act 1992. It is also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

We consider the annual report and accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for members to assess the Society's performance, business model and strategy.

### **Service to our customers**

Colleagues continue to make every effort to provide a first class service and both members and advisers regularly comment on this when contacting the Society. The surveys that are issued to sections of the membership confirm that this is the case. If we are informed of any areas that require improvement, this is actioned by the Colleague TCF group without delay.

### **Complaints**

The Board of Management is committed to the maintenance of high standards of integrity and fairness in its dealings with members. However, the Board acknowledges that complaints can arise. To this end the Society has established systems to ensure that any complaints received are handled with due care and sensitivity and are thoroughly and impartially investigated. Members retain the right to take their complaint to the Financial Ombudsman Service.

### **Thanks and appreciation**

The Board of Management would once again like to record their thanks and appreciation to our colleagues who continue to demonstrate the dedication and hard work on behalf of the members and advisers.

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On behalf of the Board of Management,

**Stuart Tragheim**  
*Chief Executive*  
9th May 2017

# Business Review

## Principal activities

The Society's core business remains the provision of income protection insurance. In addition, the Society sells Group Life insurance through its subsidiary HF Life Limited.

## Key performance indicators

Information on developments in the membership, claims and expenses and investments are detailed below.

## Income protection membership

2016 saw another, albeit very small, increase in the number of income protection policies, the fourth year in a row with the total in-force policies increasing from 13,822 to 13,831 at the end of 2016. Although new policies written were less than in recent years due to a reduction in our niche market and increased competition, the number still exceeded those maturing or lapsing.

## Group business review and financial results

HF Life Limited trading as Optimal in the group protection market has been writing business since March 2014. Whilst the levels of business written have been lower than anticipated by the Board, we are still confident that this venture has a future within the Group. The investment by the Society in this venture is shown as an investment in subsidiary on the Society Statement of Financial Position in the 2016 Report and Accounts and includes a write-down to recognise that the full investment may not be recovered in the foreseeable future.

## Solvency II

As from 1st January 2016 the Society moved to a Solvency II basis of valuation. This change has resulted in material changes to the Society's technical provisions. Please refer to the 2016 Annual Report and Accounts on our website for further detail on these changes.

## Society business review and financial results

Earned premiums net of reinsurance increased over the year by £184k with an increase in Net Income Protection premiums of £141k, a fall in premiums from the closed Linked Life Fund of

£11k and net increase in premiums from Group Protection business of £54k.

Investment income, excluding gains, increased by £33k to £1,216k.

Realised and unrealised investment gains in 2016 were £2,750k and compares to losses of £1,231k in 2015. The improvement is due to good investment returns during the year from both the fixed interest and equity portfolios.

Claims incurred rose by £47k compared to 2015 with Sickness benefit payments showing a £126k increase over the previous year. As a percentage of Income Protection premiums, sickness benefits increased from 15.0% to 16.5% before reinsurance. Overall, the percentage of claims paid in 2016 was 97% (using the Friendly Society methodology).

New business levels in 2016 saw another fall compared to the previous year. The Board has agreed to a significant investment in Society capacity and capability to develop the business. Following the recruitment of a new Chief Executive the Society embarked on a project to assess an appropriate direction for the Society. This included significant expenditure during the latter half of 2016 to develop the new strategy.

Acquisition costs have increased by £266k to £1,530k and administration expenses increased by £774k to £1,819k. The 2016 costs include an element of one-off costs in connection with strategy project work however the expense base of the organisation is planned to increase substantially during 2017 to support the revised strategy.

The result of the investment in strategy has seen a fall in the operating surplus to £1,394k. When income and gains on investments are brought into account, the surplus is £5,360k, a £3,089k increase over 2015 due to the investment gains during the year. This was achieved after a £348k write down in the Society's investment in its subsidiary, HF Life Limited and writing off £214k for a specific investment.

The operating surplus together with investment gains resulted in an increase in the Fund for Future Appropriations of £8,948k during 2016.

Allocation and Bonuses of £1,489k have been approved by the Board following advice from the Chief Actuary who also recommended a transfer from technical provisions of £5,790k.

The Ten Year Plan Fund has decreased during the year by £39k due to the net effect of reducing premium receipts, maturity and surrender payments and an increase in the unit price. The unit price was at £2.3677 at the year-end, an increase of 8.75% over the year.

The Society's total funds have increased by £3,476k during the year to £52,039k. Amounts due to members at 31 December 2016 totalled £19,350k with negative technical provisions of £3,825k and a balance of £54,137k in the Fund for Future Appropriations.

### **Principal risks and uncertainties**

The Board of Management consider the largest risks impacting the Society are as follows:

#### *Insurance risk*

The principal activity of the Society is the provision of income protection insurance. This involves assuming the risks of our members by providing replacement income that is lost through accident, injury or sickness. The Society's principal risk therefore is that the level of claims from members is higher than anticipated.

#### *Financial risks*

The Society invests members' funds in a mix of cash, Government and corporate bonds, stocks and shares and property. The value of these investments and the income derived from them can increase and decrease depending on asset selection and market conditions.

#### *New business risk*

The Society's business plan provides for a substantial increase in the levels of new business and this will be supported by increased

management and operational expenses. This is required to develop the business in order to provide improved returns to the membership and to protect the Society from the increasing costs of doing business. Associated risks include those related to product development, marketing strategy and service levels.

#### *Governance and management*

The Board needs to ensure that it has the skills to manage the business effectively and the systems, reporting and controls in place to provide the information to ensure that these are maintained. The Board ensures that the Business Plans, budgets and Business Continuity Plan are regularly reviewed and updated.

#### *Regulation*

Financial services is a highly regulated environment. The Society needs to maintain its high standards of compliance with current regulation and ensure that it adapts to the constant changes in the regulations. The Board needs to evaluate any proposed changes to ensure that the Society can continue to compete in what is a highly competitive industry.

#### *Strategic and execution risk*

Following the Board's decision to invest in an expansion strategy, the Society has become exposed to additional risk from this strategy and its execution. The Board firmly believes that this is a beneficial move by the Society and have recruited a management team to ensure the effective execution of the strategy.

#### **Prospects**

The Society prepares its business plan on a five-year horizon. From analysis carried out during the year the Board are satisfied that the business plan can be achieved. The business plan has been agreed following a significant amount of consultancy and analysis to establish the Society's capacity and capability to achieve the improvements in levels of business that the Board is looking for.

### **Management and Colleagues**

As at 31st December 2016 the Society had 29 Executives, management and colleagues. This was made up of 19 women and 10 men. The leadership team consists of five men and three women and includes the two Executive Directors.

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On behalf of the Board of Management,

**Stuart Tragheim**

*Chief Executive*

*9th May 2017*

# Directors' Remuneration Report

This report explains how the Society has applied the principals in the Combined Code on Corporate Governance relating to Remuneration as applicable to a mutual insurer. During 2016 the Audit and Risk Committee was responsible for considering and recommending to the Board, Executive, Non-Executive and Senior Management remuneration. This responsibility will pass to the Nomination and Remuneration Committee for 2017.

## Executive Directors

The remuneration package comprises a basic salary, an annual bonus scheme and a medium-term bonus scheme. Executive Directors participate in annual and three-year bonus schemes.

The Board of Management has agreed to make various changes to Executive remuneration as outlined in the Remuneration Policy section below.

**Pension:** Executive Directors are entitled to membership of the Society's defined contribution pension scheme. The Society contributes 15% of salary for the Finance Director. The Society provides a salary enhancement equal to 10% of salary in lieu of the Chief Executive's membership of the scheme.

**Benefits:** Executive Directors are entitled to family private health and dental cover and a car allowance.

## Board Member Emoluments

	<i>Basic Salary and Fees</i>	<i>Meeting and Other Fees</i>	<i>Bonuses</i>	<i>Benefits</i>	<i>Pension Contribution</i>	<i>Total 2016</i>	<i>Total 2015</i>
Martin Collins	£60,677		£31,455	£6,419	£72,384	£170,935	£143,205
Mathew Crompton-Manser <sup>1</sup>	£29,886		(£8,222)	£3,080	£10,531	£35,275	£96,005
Martin Day	£14,266	£11,045		£1,422		£26,733	£23,895
Anna East	£7,968	£7,035				£15,003	£3,158
Kieron Griffin <sup>2</sup>	£4,234	£1,675		£330		£6,239	£13,545
John Holland	£8,468	£8,040				£16,508	£13,425
Adrian Humphreys	£7,468	£4,690				£12,158	£5,342
Mike Matthews							£7,287
Colin Organ <sup>2</sup>	£3,734	£2,010				£5,744	£12,450
Bob Perks	£8,468	£6,365				£14,833	£14,875
Stuart Tragheim <sup>3</sup>	£94,800		£9,761	£3,241		£107,802	
Kevin Wiltshire	£10,468	£8,375				£18,843	£20,002
	<b>£250,437</b>	<b>£49,235</b>	<b>£32,994</b>	<b>£14,492</b>	<b>£82,915</b>	<b>£430,073</b>	<b>£353,189</b>

During 2016 Martin Collins and Mathew Crompton-Manser exchanged part of their basic salaries and bonuses for additional employer pension contributions whilst Stuart Tragheim received a salary supplement in lieu of pension contributions.

<sup>1</sup> To 6 June 2016 – The provision for bonuses has been adjusted following Mathew Crompton-Manser's resignation and his leaving the Society.

<sup>2</sup> To 21 June 2016

<sup>3</sup> From 17 October 2016

**Service Contracts:** The Executive Directors do not have service contracts in excess of 12 months, in accordance with Corporate Governance best practice.

### Non-Executive Directors

The level of fees payable to Non-Executive Directors is determined using information from comparable organisations together with other factors. The Society participates in an annual remuneration survey together with a number of other friendly societies.

Remuneration in 2016 comprised a basic fee plus meeting attendance and other fees. Additional payments are made to the Chairman, Vice Chairman and Committee Chairmen to reflect additional responsibilities. Non-Executive Directors are entitled to personal private health cover. Non-Executive Directors do not have service contracts. The Board have agreed to move to a fixed fee remuneration structure from 2017.

### Remuneration Policy

There is formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. Basic salaries and the level of benefits together with performance related bonus schemes are reviewed annually with reference to comparable positions in similar organisations and to reflect the Director's role, experience and performance. Responsibility for the policy and oversight of its implementation has been delegated by the Board of Management to the reconstituted Nominations and Remuneration Committee.

Following the Board of Management's strategic review in 2016, it was agreed that:

- the Remuneration Policy should be re-aligned to support and incentivise the Society's management and employees to successfully deliver the new strategy, as further outlined below; and

- the existing executive bonus scheme should terminate with effect from 31/12/16, with a full pay out of accrued benefits.

### Principles for Remuneration

The principles of the new remuneration policy are:

- Incentives should strike a balance between rewarding delivery of results and managing the Society's risks, including demonstrating adherence to regulatory requirements and the Society's values and standards set by the Board;
- All incentive schemes are fully discretionary, non-contractual and overseen by a Board Committee that is independent of executive management; and
- All employees should be able to participate in an incentive scheme based on objectives that are aligned to their role and the Board's key strategic objectives.

### Summary of Remuneration

The following summarises the main part of our Executive Directors reward package:

#### Base Salary

#### To attract, retain and motivate the best people

Salaries are usually reviewed annually and fixed for 12 months. This decision includes the following factors:

- Level of experience, skill and responsibilities
- Society performance, economic and market conditions
- Availability of talent and comparable positions in similar organisations

#### Pension

#### To remain competitive

Executive Directors may choose to sacrifice salary for additional employer contributions.

## Benefits

### To aid retention and remain competitive

- Car allowance
- Private Dental and Medical
- Other benefits in line with all employees i.e. death insurance, sick pay, paid holiday etc.

## Annual Bonus (*Short-term Incentive Plan*)

### To motivate achievement of key annual targets and individual objectives, including adherence to risk, regulatory requirements and the Society's values and standards

Performance is measured against stretching financial and non-financial targets.

No bonuses will be paid unless minimum financial targets are achieved. The scheme rules enable the Society to reduce and/or clawback bonus payments under certain defined circumstances, including where there has been a failure to observe regulatory requirements or the Society's policies.

The scheme is open to:

- The Chief Executive and other Executive Committee members, who can earn up to 35% of basic salary for achieving targets (45% for stretch targets);
- Members of the Senior Leadership team, who can earn up to 30% of basic salary for achieving targets (40% for stretch targets);
- Managers, who can earn up to 20% of basic pay;
- all other employees (save for those who participate in a sales incentive scheme) can earn up to 12.5% of basic salary.

## Long-Term Incentive Plan

### To motivate and drive sustained performance over the long-term thereby discouraging short-term risk taking

Base awards are granted each year. The key target is to achieve growth in the Embedded Value of the Society. The targets are determined by the Board.

In order for any bonus to be paid for achieving the Embedded Value targets, the Society's solvency ratio must be maintained in excess of 150%.

The scheme is open to:

- the Chief Executive who can earn up to 50% of basic salary (60% for achieving stretch target);
- Other Executive Committee members, who can earn up to 40% of basic salary (50% for achieving stretch target).

A key feature of the scheme is that only 50% of any bonus earned is paid at the end of year three. Payment of the remaining bonus is deferred: 25% paid at the end of year four and the remaining 25% paid at the end of year five.

The scheme rules enable the Society to reduce and/or clawback bonus payments under certain defined circumstances, including where there has been a failure to observe regulatory requirements or the Society's policies.

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On behalf of the Board of Management,

**Martin Collins**  
*Company Secretary*  
9th May 2017

# Bonus Report

## Apportionment of surplus, compound bonus and reversionary bonus

The traditional Holloway plans issued by the Society were designed to build up a capital sum to be provided at the maturity of the policy.

The capital sum grows by the application of a number of factors:

### Apportionment of surplus

This is effectively a return to members of surplus premiums. The amount of the surplus will be dependent on the amount of claims made by all members as a group and is calculated as an annual amount per unit held which is added to the capital account of the member.

### Compound bonus

This Bonus is a distribution to the member based on an agreed percentage of the members opening capital balance after adjustment for any movements during the year.

### Final bonus

Where appropriate, an additional bonus is added to the capital sum immediately prior to the maturity of the plan. The amount paid will be based on the accrued capital value and the term that the policy has been in force.

## Bonus rates

The Board of Management has been able to declare the following:

	2016	2015		2016	2015
<i>Apportionment of surplus</i>					
Holloway Old Tables	£1.30	£1.30	Provident Standard	£1.30	£1.30
Holloway New Tables and Classic	£1.50	£1.50	Provident D15	£1.30	£1.30
Holloway New Classic Plan	£1.25	£1.25	Provident D26	£1.30	£1.30
Holloway Premier Plan	£0.20	£0.20	Provident S26	–	–
Holloway Classic Plus	£0.90	£0.90	Provident Commuted	£2.40	£2.40
Holloway Classic Plus – Guaranteed	£0.75	£0.75	Holloway Commuted	£1.86	£1.86
Holloway Classic Plus – New Table	£0.30	£0.30			
	<b>2016</b>	<b>2015</b>			
<b>Compound bonus</b>	<b>2.00%</b>	<b>2.00%</b>			

### Final bonus

For the coming year the final bonus rates to be applied to maturing policies will be as follows:

Policy Term	Bonus %	Bonus %
	2017-2018	2016-2017
0 to 4 years	Nil	Nil
5 to 9 years	5.0%	2.5%
10 to 14 years	7.5%	5.0%
15 to 19 years	10.0%	10.0%
20 to 24 years	15.0%	15.0%
Over 25 years	20.0%	20.0%

# Memorandum, Rules and Schedule Changes

Since the last AGM the Society has engaged external legal resource to rewrite, where appropriate, the Memorandum and Rule Book. The exercise was undertaken at the instigation of the Board in order to modernise the governance of the Society, attain the highest levels of compliance and ensure that the Society is enabled to deliver its new Strategy.

All alterations have been approved by the Board and have been registered with the Financial

Conduct Authority (FCA). A resolution to approve the alterations is now required.

A full copy of the previous, track changed and clean versions of the “new” Memorandum and Rule Book can be found on the Society’s website: [www.holloway.co.uk/about-us/governance](http://www.holloway.co.uk/about-us/governance)

Paper copies of all documents are available on request, free of charge from the Society. Please contact our member support team on: [members@holloway.co.uk](mailto:members@holloway.co.uk) or 0800 716654.

## Summary of Key Alterations to Memorandum and Rules

### Memorandum. Section 4 – Powers

**To ensure that the Society has all powers available under the relevant legislation and regulations by which to carry out the purposes of the Society.**

The purposes of the Society shall be the carrying on of any of the following classes of business or other activity:

- long-term insurance business of all or any of the classes falling within Head A of Schedule 2 to the Act;
- general insurance business of all or any of the classes falling within Head B of Schedule 2 to the Act;
- business falling within Head C of Schedule 2 to the Act; and
- activities falling within Head D of Schedule 2 to the Act.

In addition, the purposes of the Society may include the carrying on of:

- social or benevolent activities which are not inconsistent with the other purposes of the Society;
- group insurance business; and
- reinsurance of risks for any other registered friendly society or any other incorporated friendly society.

### Rule 2 – Membership

**To ensure that Group insurance customers are not treated as members and that policyholders arising out of the sale of any new products are captured as members and treated appropriately.**

In these Rules and subject to Rule 2.14, a Member of the Society is a person who:

- has applied to the Society for benefit or assurance in a form prescribed by the Board from time to time and whose application has been accepted; and
- has an interest, whether actual or contingent, in the funds of the Society.

The Society may require further information about an applicant as it sees fit. Acceptance of an application shall be at the Society’s total discretion.

The Society may carry on group insurance in accordance with the Act and the terms and conditions of each individual group insurance scheme will provide whether or not persons are required to be a Member of the Society.

The decision of the Board on any question of whether a person is or, as the case may be, is entitled to be, a Member shall be conclusive for all purposes of these Rules.

#### **Rule 7.2 – Management**

**To ensure that there is an appropriate balance of Executive and Non-Executive Directors on the Board.**

The Board shall consist of such number of Board Members as the Board Members may from time to time determine provided that there shall always be at least two more Non-Executive Board Members over and above the number of Executive Board Members. The quorum for a meeting of the Board Members shall be at least half of the Board Members and in addition where the Non-Executive Board Members exceed by a minimum of two the number of Executive Board Members attending a meeting. Board Members may be present in person or by telephone/ videophone but not by proxy.

#### **Rule 7.5(g) – Management**

**To ensure that there are no impediments to the introduction and operation of a revised sub committee structure, including an Executive Committee.**

The Board may delegate any of its powers, duties, discretions and authorities relating to the business of the Society to two or more Board Members or to a committee consisting two or more of such Board Members, Officer or other persons and/or employee or employees as it thinks fit; and the Board may impose restrictions, revoke amend or vary the regulations applying to such delegation. Such meetings shall be conducted by the rules so far as they are applicable to those regulating the proceedings of the Board.

#### **Rule 14.1(b) – Disqualification from Office**

**To enable the appointment to the Board of individuals that may be permanently resident outside of the United Kingdom, for example, in Crown Dependencies such as the Isle of Man or Channel Isles.**

#### **Rule 16 – Retirement by Rotation**

**To ensure that so far as is practicable retirement by rotation conforms with the Code provision B.7.1 (annual elections of all Directors). There will now be an initial three-year period before re-election, then two years, then one year, up to a maximum of nine years.**

Non-Executive Board members shall hold office for the period of three years after they are first elected to the Board whereupon they shall retire. Such persons may stand for re-election under Rule 16.3 but shall hold office for a period of two years only whereupon they shall retire. Such persons may stand for re-election under Rule 16.3 for a further period of one year whereupon they shall retire

#### **Rules 1.5 & 27 – Alteration of Memorandum and Rules**

**To ensure that the Society is able to amend existing products and launch new products without reference to the members and the regulator. This has been achieved by taking the product Schedules out of the Rules.**

The Schedules (including all Schedules attached to previous Rules) shall no longer form part of the Rules and, as such, may be varied, rescinded or added to in such manner as the Board consider fit.

No alteration of or addition to the Society's Memorandum or Rules shall take effect until it is registered or such later date as is specified in the record of alteration. Any alteration to the Schedules shall take effect from the date the Board decide appropriate.

# Directors Standing for Election



## **Martin Day** Chairman

Martin joined the Board in January 2010 and was elected as Chairman in 2013. He was a Senior Relationship Manager and Assistant Area Director for Lloyds TSB Corporate until taking early retirement in 2006. He worked for Lloyds TSB for 37 years. He now runs his own banking consultancy practice.



## **Kevin Wiltshire** Vice Chairman

Kevin has been a non-executive Director since 2007 and is Chairman of the Audit and Risk Committee. He is currently a senior partner with a financial planning practice based in the South West. Kevin has over 30 years' experience in insurance, financial services, asset management and tax planning and previously served on the Board of another friendly society for 18 years.



## **Stuart Tragheim** Chief Executive

Stuart joined the Society in June 2016 as CEO Designate and became CEO in October 2016. Stuart has worked in the financial services market for over 30 years in a range of strategy, leadership and business development roles including with various market leading

firms such as Equiniti and LV= and has run his own consultancy business providing strategic and business development advice and support to financial services businesses (insurers, reinsurers, banks, building societies, distributors, charities and retailers) focused mainly on strategy development and implementation.

Stuart has considerable Board, Executive and Management Committee experience and contributes regularly to industry wide developments, having previously chaired ILAG and been a member of the ABI's Distribution and Regulation Committee.



## **Derek Wright**

Derek Wright is an actuary and joined the board as a Non-Executive Director in 2017. Derek was the Chief Actuary of Laurentian Life in Gloucester until its sale in

1995 after which he joined Deloitte LLP where he set up its UK actuarial practice. He was appointed a partner of Deloitte in 1999. From 2011 until his retirement in 2015, Derek led the Canadian actuarial practice of Deloitte.

Derek is also a Non-Executive Director and chair of the audit committee of AVIVA International Insurance and represents the UK actuarial profession on the Insurance Accounting Committee of the International Actuarial Association.

# Independent Auditor's Report to the members of The Original Holloway Friendly Society Limited

We have audited the consolidated financial statements of The Original Holloway Friendly Society Limited for the year ended 31 December 2016 which comprise the Group and Society Statements of Comprehensive Income, the Group and Society Statement of Financial Position and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standards 102 and 103 'The Financial Reporting Standards applicable in the UK and the Republic of Ireland'.

This report is made solely for the Society's members, as a body, in accordance with the Friendly Societies Act 1992. 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 for no other purpose. To the fullest extent permitted by law, we do not accept or resume responsibility to anyone other than the Society's members as a body, for our audit work, for this report or other opinions we have formed.

## Respective responsibilities of the Board of Management and auditor

As explained more fully in the Board of Management's Responsibilities Statement set out on page 7, the Board of Management is responsible for preparing consolidated financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the consolidated 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 Boards (APB's) Ethical Standards for Auditors.

## Our assessment of risks of material misstatement

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- the operation and effectiveness of the Society's Member's system during the year and specifically the operation of the system over premium income and claims paid to members;
- the valuation and ownership of the Society's investments at the year end and the recording of transactions throughout the year;
- the Society's compliance with applicable regulations including adoption of Solvency II regulations and valuation;
- the application of revenue recognition accounting; and
- the risk of fraud arising from management override of internal controls.

## Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the consolidated financial statements. For the purpose of determining whether the consolidated financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the consolidated financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the consolidated financial statements. We determined materiality for the Society to be £100,000 for items impacting the Statement of Comprehensive Income,

which is approximately 1.5% of income. We determined materiality of £700,000 for items which require reclassification on the Statement of Financial Position, which is approximately 1.5% of gross assets. We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £5,000, as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the consolidated financial statements sufficient to give reasonable assurance that the consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board of Management; and the overall presentation of the consolidated financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited consolidated financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

The way in which we formed our response to the risks identified above was as follows:

- In order to address risk around the operation of the Society's Member's system during the year

we have tested the operation of the controls over membership records, premium income and claims paid to members.

- In order to address risk around ownership of the Society's investments held at the period end, we confirmed the holdings to independent third party confirmations provided by the Society's Custodian.
- In order to address the risk around the valuation of the Society's investment we obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2016 and vouched these on a sample basis.
- In order to address the risk of associated with the recording of investment transactions through the year ended 31 December 2016 we have tested a sample of transactions to independent documentation.
- In order to address the risk over the Society's compliance with its regulatory environment we updated our understanding of the regulatory requirements and reviewed the Society's correspondence with its regulators and statutory filings.
- In order to address the risk around the valuation of the technical provisions under Solvency II we have engaged an independent Actuarial firm as our expert to assess the work of the Society's Actuarial function and the reasonableness of estimation techniques applied.
- In order to address the risk of revenue recognition we have considered the accounting policies applied by the Society and have performed cut off testing to ensure that income has been recognised in the correct period.

- We have performed analytical procedures and carried out journal entry testing in order to identify and test the risk of fraud arising from management override of controls. We have also reviewed key estimates and judgements for bias.

### **Opinion on financial statements**

In our opinion the consolidated financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of the Group's and the Society's affairs as at 31 December 2016 and of the income and expenditure of the Group and Society for the year then ended; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

### **Opinion on other matters prescribed by the Friendly Societies Act 1992**

In our opinion the Report of the Committee of Management has 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 consolidated financial statements for the financial year.

### **Opinion on corporate governance statement**

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or

- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Board of Management's statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

We have nothing to report in respect of the following matters where the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the consolidated financial statements 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.

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### **D T Slocombe**

*Senior Statutory Auditor*

For and on behalf of Moore Stephens  
Chartered Accountants and Statutory Auditor  
9th May 2017





Holloway Friendly is the trading name of The Original Holloway Friendly Society Ltd.  
Holloway Friendly is registered and incorporated under the Friendly Societies Act 1992, registered No. 145F.  
Registered office: Holloway Friendly, Holloway House, 71 Eastgate Street, Gloucester, GL1 1PW.  
Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.