

2017

ANNUAL REPORT AND ACCOUNTS

Report and Financial Statements
for the year ended 31 December 2017

Welcome from the Chair

Dear Members,

Welcome to the 2017 Annual Report and Accounts for the Original Holloway Friendly Society Limited, which includes our Strategic Report and Financial Statements. There are six parts to this report.

The report begins with an Overview from me, as the Society's Chair, summarising the results and activity from an external point of view.

Second, the bonus report, shows how we are able to share the value emerging with Members with particular product types.

Third, there is a Strategic Report from Stuart Tragheim, the Society's Chief Executive. Stuart begins with an Overview, this time from inside the Society, before providing a Business Review followed by details of Risks to the Strategy and the Society's approach to Risk Management.

Fourth, there is the Report of the Board of Management, which covers the activities of the Board and its Committees, and which includes the Governance Report. This is followed by the Directors' Remuneration Report.

The fifth item is the report from the Independent Auditor. The final item is the Financial Statements, including notes to explain the presentation.

I hope you find the content interesting and informative. The Board and the Society are always pleased to hear from Members and we welcome any feedback that you might have on the report, the progress of the Society or your experiences and suggestions.

Yours sincerely,



Martin Day
Chair
2 May 2018

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OFFICERS, PROFESSIONAL ADVISERS AND REGISTERED OFFICE

OFFICERS OF THE SOCIETY Board of Management ('Board')

Chair and Non-Executive Director Martin Day

Vice Chair and Independent Non-Executive Director Kevin Wiltshire

Senior Independent Director (Independent Non-Executive) John Holland

Other Independent Non-Executive Directors Anna East, Adrian Humphreys, Bob Perks¹ and Derek Wright²

Chief Executive and Executive Director Stuart Tragheim

Finance & Risk Directors (Executive Directors) Martin Collins³, Paul Harwood⁴

Company Secretary Martin Collins³, Nick Rhodes⁵, Paul Harwood⁶

¹Resigned 11 July 2017

²Appointed 3 February 2017, regulatory approval on 22 June 2017

³Resigned 31 May 2017

⁴Appointed 14 November 2017

⁵Appointed 1 June 2017 and Resigned 14 December 2017

⁶Appointed 15 December 2017

Professional Advisers

Chief Actuary & With Profits Actuary

Christopher Critchlow, BSc, FIA

OAC Plc
141-142 Fenchurch Street
London
EC3M 6BL

Independent Auditors

Moore Stephens LLP

30 Gay Street
Bath
BA1 2PA
to 7 August 2017

Internal Auditors

Hurst Advisers and Accountants LLP

Lancashire Gate
21 Tiviot Dale Stockport
Greater Manchester
SK1 1TD
to 31 December 2017

Fund Managers

Investec Wealth and Investment Limited

Royal Mead
4-5a Railway Place
Bath
BA1 1SR

Bankers

Lloyds Bank Plc

19 Eastgate Street
Gloucester
GL1 1NU

PricewaterhouseCoopers LLP

2 Glass Wharf
Bristol
BS2 0FR
from 8 August 2017

Ernst and Young LLP

The Paragon
Counterslip
Bristol
BS1 6BX
from early 2018

Tilney Investment Management Services Ltd

Royal Liver Building
Pier Head
Liverpool
L3 1NY

Registered Office

The Original Holloway Friendly Society Limited

Holloway House
71 Eastgate Street
Gloucester
GL1 1PW

email: mail@holloway.co.uk

web: holloway.co.uk

telephone: 01452 526 238

The Original Holloway Friendly Society Limited is a friendly society registered and incorporated under the Friendly Societies Act 1992. The Board operates as the Committee of Management defined in the Act.

It uses the trading style 'Holloway Friendly' and is referred to throughout this report as 'the Society'.

The Society is registered in the UK under number 145F.

It is authorised and regulated by the Prudential Regulatory Authority, and regulated by the Financial Conduct Authority. Its Firm Reference Number (for regulatory enquiries) is FRN 109986.

The Society has one wholly owned subsidiary called HF Life Ltd, registration number 08649971. HF Life Ltd uses the trading style, and is referred to in this report, as 'Optimal'.

Where we refer to the Group in this report, we mean the combined operations of the Society and Optimal. Where we refer to the Society in the financial statements, we mean the Society excluding Optimal. Elsewhere, we may use 'the Society' to include the activities of Optimal: the meaning should be clear from the context.

OVERVIEW

Chair's Statement

"More Members, Higher Bonuses, Increased Investment"

It has been another significant year for Holloway Friendly. Last year, I was able to report to you that the Board had agreed its new strategy. This year, I am pleased to report, has been dominated by a number of significant steps that bring the strategy to life, driven by business growth and recruitment, within the context of a demanding regulatory landscape.

During the year, the Society appointed its new Chief Operating Officer, Mike Taylor, and its new Finance and Risk Director, Paul Harwood. Both bring a wealth of industry experience to your Society, and have immediately set to work in assisting Stuart, your Chief Executive, in transforming the Society.

We said farewell to Martin Collins and Bob Perks during the year. Martin has served the Society in a variety of senior roles for over 23 years, most recently as Finance and Risk Director. Bob has served as a Non-Executive Director for over 10 years. On behalf of Members everywhere, I thank them for their service and wish them well.

Membership

We never forget that the Society exists to serve its Members, particularly in times of need. This year has seen exciting developments in our policy acceptance and claims handling processes. Driven by experience, we have been able to improve how Members deal with the Society, such that we have seen new policy acceptance within 2½ hours and claim acceptance within 4 hours. These are extremes, but they demonstrate the seriousness of our intent to improve our service, allowing intermediaries to recommend the Society with confidence and Members to be assured that we will be there when most needed.

Our Membership grew during 2017. This is excellent news. We feel the loss of any Members keenly, and plan to devote some resource during 2018 to understanding the reasons for Members deciding to leave the Society.

Bonus

I am pleased to report that the bonuses for with profits business, for longer-serving Members, have been increased, while bonuses for all others have been maintained. Full details are in the report on page 10.

Results

During 2017, the Society grew its sales of new income protection business and maintained value, as measured by its chosen metric of Embedded Value. The Society is well positioned to build on the momentum generated, adding more value and growing the Membership.

Our five-year strategy relies on significant investment to build a Society fit for the challenges of coming decades. We expect to see a reduction in cash over coming years as we fund our strategy, but will only invest if Member benefits are secure and where we expect to see a corresponding increase in the Society's value.

Regulation

The Society is subject to stringent regulation from the Prudential Regulatory Authority and the Financial Conduct Authority. While the Society may be relatively small, we are proud to implement and maintain adherence with regulations, in word and in spirit.

In 2018, the Society will need to meet new EU rules on data protection (called the General Data Protection Regulation or 'GDPR') and sales (called the Insurance Distribution Directive). The Society's plans to comply are well advanced.

Corporate Governance

Last year, the Board made a number of changes to its supporting Committees and to the Society's rules. In 2017 these changes were implemented, following approval by the Financial Conduct Authority and by Members at the 2017 Annual General Meeting.

Between July and November, the Board and its Committees undertook a thorough external Board evaluation. I am pleased to report that the findings were very positive, noting that "...on the whole, Holloway has a robust and reliable governance structure and follows best practice in all of the key processes identified..." More detail of the independent conclusions is set out in the report of the Nomination and Remuneration Committee. The external review drew out many useful ideas for the future conduct of the Board and its Committees, which we are implementing. The next full external review will be some 2-3 years hence.

The Board reviewed its succession plans and is satisfied that they are appropriate. Over the year, the Board has taken an increasing interest in developing the Society's Senior Leadership Team and is pleased to be actively involved in the development of some fine individuals.


It has been particularly heartening to see the continuing involvement with, and support for, the James Hopkins Trust. Not only has the Society raised and donated over £3,000 over the year, time has been willingly given to assist with the care and maintenance of the Trust's building and grounds.

Looking Ahead

My role is to ensure that the Society is well run for its Members. I judge our success in this regard in a number of ways: we have to run an effective Board, continually addressing strategy, culture and execution and challenging our Executive team. We have to deal with new and existing regulations confidently and willingly. We have always to be mindful of the needs of Members who buy our products and who therefore stand behind the Society.

If the balance is right in these areas, we trust that the result will be a growing Membership, products that properly meet Member needs, and a thriving Society.

All of this is only made possible through the efforts of those that contribute to the work of the Society. Without our people, we can achieve very little. Therefore, in concluding this short report, I would like to thank all of my colleagues at Holloway House and further afield for their contribution to the successes of 2017 and look forward to making 2018 yet another significant year.



Martin Day
Chair
2 May 2018



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BONUS REPORT

Apportionment of surplus, compound and final 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 depends on the claims made by all Members as a group. It 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

Based on the advice of our With Profits Actuary, the Board of Management is pleased to declare unchanged bonuses in respect of 2017 performance as follows:

Bonus Declarations		
Apportionment of Surplus	2017	2016
Holloway Old Tables	£1.30	£1.30
Holloway New Tables and Classic	£1.50	£1.50
Holloway New Classic Plan	£1.25	£1.25
Holloway Premier Plan	£0.20	£0.20
Holloway Classic Plus	£0.90	£0.90
Holloway Classic Plus - Guaranteed	£0.75	£0.75
Holloway Classic Plus - New Table	£0.30	£0.30
Provident Standard	£1.30	£1.30
Provident D13	£1.30	£1.30
Provident D26	£1.30	£1.30
Provident S26	-	-
Provident Commuted	£2.40	£2.40
Holloway Commuted	£1.86	£1.86

Based on the advice of our With Profits Actuary, the Board of Management is pleased to declare unchanged compound bonuses to be credited to Members' Accounts in respect of 2017 performance as follows:

Credit to Members' Accounts	2017	2016
Compound Bonus	2%	2%

Based on the advice of our With Profits Actuary, the Board of Management is pleased to declare final bonuses to be credited to Members' Accounts on maturity or earlier surrender during 2018-2019 as follows:

Final Bonus		
Policy Term	2018-2019	2017-2018
0 to 4 years	Nil	Nil
5 to 9 years	5%	5%
10 to 14 years	10%	7.5%
15 to 19 years	12.5%	10%
20 to 24 years	17.5%	15%
Over 25 years	22.5%	20%

for the coming year, the bonus to be applied to maturing policies is:

The Board is pleased to note the higher bonuses for policies that have been in force for ten or more years, and to maintain the bonus for policies in their first ten years.

The Society's interest in its Members does not stop with claim payment. Our team actively works with Members to help them achieve their most important goal, getting back to work.

STRATEGIC REPORT

Chief Executive's Overview

“a secure and sustainable future”

I am delighted to be writing my second report to Members as Chief Executive of Holloway Friendly. 2017 has been a transformation year for the Society, and I am pleased to be able to share some of the changes that have been made or have begun.

As indicated in last year's report, the Society operates in a fast-moving market. Our strategy is to build value through modernisation, by achieving our desired position as the preferred choice of intermediaries, and most importantly by being there for you, our Members, when you need us most. We believe that a strategy built on these three pillars will allow the Society to blossom in our dynamic, highly regulated environment.

With this in mind, the Society has taken a number of important steps during 2017 to transform its outlook. We have built a sales team and a marketing function. We now have the ability to talk directly and consistently to intermediaries who advise on income protection. We have strengthened our operations, underwriting and claims management teams, all of whom are incredibly energised with the idea of intelligently supporting Members. I am proud to be able to share some of the sometimes heart-warming stories about genuine Member support in this report. In summary, we have successfully adjusted our processes so that we can protect more Members sooner, and pay claims more quickly and with less fuss.

There is a limit to the services that can be developed on the Society's existing IT platform. Bearing this in mind, towards the end of 2017 your Board agreed in principle to a major multi-million pound systems development project. This is an important step in the strategy, central to modernisation and to providing products and services desired by intermediaries. Crucially it is the foundation to efficient Member support.

For Intermediaries

The Society now only offers its products through financial intermediaries, who act on behalf of their clients in selecting providers who can reliably be there when needed. It is therefore critical to the Society's growth that we can demonstrate continually our professionalism, market understanding and agility, as well as our kindness and humanity, when handling claims.

During 2017, we made a number of changes to our products, our underwriting philosophy and our claims handling processes. The changes range from the removal of small irritants (“why do we insist on a wet signature?”) to those which are market-leading. For example, we have launched an online underwriting pilot, which has been enthusiastically embraced.

At the time of writing, and as far as I am aware, the Society is the only IP provider which does not have automatic limits for medical information at lower benefit levels, preferring instead for our talented underwriters to assess what is needed by listening to individual circumstances.

For Members

The best way that we can serve our Members is to pay claims promptly and reasonably. I am delighted that our claims handling team is brimming with compassion. Members need to claim during difficult times: the last thing a sick person needs is their Society making a bad situation worse.

We have aggressively attacked this part of our activities. Our record from receipt of a claim to payment is 4½ hours. It is a record that the team is determined to beat. How has it been achieved? By revising how, in a digital age, we collect and consider the information needed to support a claim. Of course, we have to be wary of the possibility of fraud (after all, it is your money that we are safeguarding) but we consider first what is reasonable. With camera phones and email, information can be

transferred more quickly and conveniently than ever. Shortening the time to accept a claim reduces the worry that naturally arises when seeking to claim under an insurance policy.

We have refreshed our rehabilitation support. The Society's interest in its Members does not stop with claim payment. Our team actively works with Members to help them achieve their most important goal, getting back to work. During 2017, we have funded re-training, counselling, even mobility scooters, because this was the right thing to do for the Member concerned. These are not difficult decisions for our team, nor do they require multiple levels of authorisation. At its simplest, we exist to support our Members by making these decisions.

For the Future of the Society

One of the hardest decisions in 2017 was to close Optimal, our group life product provider to new business. Modern financial services organisations need to offer a diverse product range to avoid undue concentration, and Optimal was established in this light.

2017 was Optimal's best year for sales, from new and repeat customers. However, the group life market is very competitive and it needs significant scale to deliver returns. Having considered its likely future growth, the Board reluctantly concluded that it was not in the Society's interest to continue to fund Optimal with no expectation of value creation for Members.

We were pleased to secure the option of excellent transfer terms for Optimal's clients with a leading group life specialist and are in the process of managing the run-off of that business. It is always difficult breaking this news to those directly employed by a business that is closing, especially when the reason has nothing to do with the excellent work that those people were doing. I believe that we handled this part of the work sensitively and respectfully, in line with the Society's values.

In summary, during 2017 I am satisfied that we have recruited the right people and that the resulting team is implementing the required changes to process and systems to enable our growth strategy. We have built the foundation for effective distribution, supported by superior insight, and we are already seeing the results in new sales. The Society has grown in Member terms over the year and has maintained its Embedded Value. Much of the growth took place towards the end of the year, as the changes made throughout the year coalesced to drive a really powerful impact. I am pleased that the momentum appears to have carried through to 2018. We are targeting and achieving growth. Our strategy is being implemented with skill and occasionally flair.

The importance of our people has been a theme throughout this report. I am proud of the colleagues that help me run the Society. They understand that we must serve the Membership, and when better than in a time of personal need. They understand the need for change to achieve growth, and hence value, for the Society. More than that, they are dynamic, creative, collaborative, persistent and determined. They give me confidence for the Society's future, and I would like to thank them for their current and future contribution to the Society's success.



Stuart Tragheim
Chief Executive
2 May 2018

Key Performance Indicators for 2018

The important indicators of the Society's success as it pursues its strategy have been agreed with the Board as follows:

Embedded value

the long-term financial value of the Society to Members

Free Asset Ratio

the financial strength to meet our promises to Members

Annual Premium Income

the lead indicator of our ability to attract new Members

Total Membership

the reason for our existence

Number of lapses

retention of Members is crucial to the Society's success

Colleague engagement

a strong Society emerges from dedicated people

STRATEGIC REPORT

Business Review

Principal Objectives

The Society manufactures protection products for distribution via intermediaries. It exists primarily to protect the incomes of its Members when they are unable to work through illness. The Society seeks to grow, to increase its value, which essentially means more Members with income protection and possibly other types of protection product. The Society has an objective to be perceived as a leading participant in its chosen markets.

Strategy and Business Model Key Performance Indicators (KPIs)

Strategy

The Society's strategy is to achieve growth through insight-led propositions. These propositions are developed into products which are distributed through intermediaries. The Society is selected by these intermediaries because it is seen as a credible business partner, it knows the market, is easy to work with, and evidently serves the interests of its Members.

Business Model

The Society's business model describes how it generates value for Members over the long term and how the strategy will be achieved. It centres on sales of protection products to a range of customers through intermediated channels, which the Society administers from acceptance to claim. Some professional governance functions are outsourced (the actuarial function, the internal audit function, some underwriting) as is some point-of-sale systems processing.

Our business model suggests that we will achieve our strategy by providing products which are designed to meet an identified customer need, are priced attractively and are presented to intermediaries effectively.

As part of this activity, we expect to outsource some systems development, including of a new administration system; move to online data capture and in-house underwriting; refresh, update and enhance our product range; grow Member numbers through better relationships and competitive, relevant products; increase professionalism to reflect modern consumer and regulatory expectations; and consider reinsurance where beneficial.

Business Performance: Performance for Members

Value KPIs

Embedded Value is an economic measure of the Society's long-term value to its Members. It allows the Board to establish the impact of management activity over the long term and thus helps avoid short-term thinking. Embedded Value has remained at healthy levels this year, buoyed in part by investment performance.

Total Membership is a very simple measure of success. The Society thrives, the greater its Membership, which currently exceeds 14,500. We established almost 1,500 new policies for Members, an increase of over 25% on the prior year.

New Sales We measure new sales by their annualised premium at the point of sale and call this measure the Annual Premium Income or 'API'. 2017 sales were pleasingly higher than in prior years, the increase being seen towards the end of the year. Our sales exceeded the £0.5m API mark, an increase of almost 25%.

Risk KPIs

Free Asset Ratio is a measure of how much surplus capital is available to meet Member benefits. While a high number suggests prudence, it may also indicate assets that are failing to generate an appropriate return. The Free Asset Ratio has fallen over the year as a result of the investment in new business and in strategic development, but remains at a healthy level, sufficient to ensure that Member benefits can always be paid.

Colleague Engagement It is important for the Society's values that working for us is a fulfilling, rewarding and worthwhile experience. To this end, during 2017 the Society introduced or ran

- » a Wellness Programme
- » monthly Chief Executive briefings
- » formal events to discuss the future of the Society and share in successes to date, and
- » a colleague recognition scheme

as well as continually investing in a variety of different types of training.

The first colleague survey has been issued and elicited a fulsome response of more than 95%. While levels of satisfaction were high, we are working on the areas that our colleagues suggested warranted some consideration.

Other Important Trading Results

Earned premiums net of reinsurance increased over the year by almost £0.4m to £6.16m.

Sickness claims paid grew by over 14% to £1.09m.

Net Operating Expenses grew significantly to £7.52m. This reflects the Society's investment in its strategy, growing its capability and expertise, building the platform for future success.

The Fund for Future Appropriations has fallen in the year to £51.290m, from £54.137m. The reduction reflects the investment in the Society's strategy.

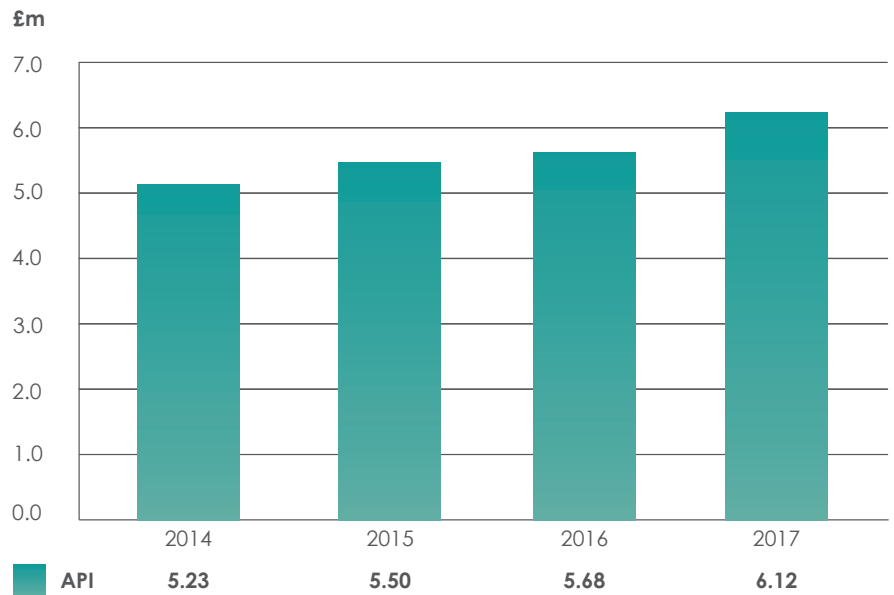
Member and Stakeholder KPIs

Lapses

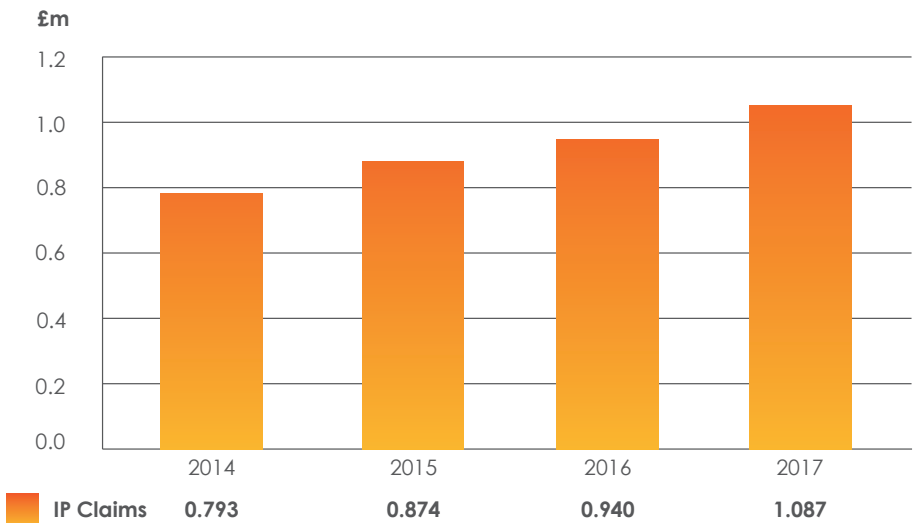
We continue to monitor all lapses continually. Low lapses are positive for the Society and the implementation of its strategy.

% Premium Paid as Claims is a measure of the sickness benefits being paid to Members. The higher the percentage, the greater the benefit to the Membership. In 2017, this value was significantly higher than in prior years, proof that we are performing our core purpose.

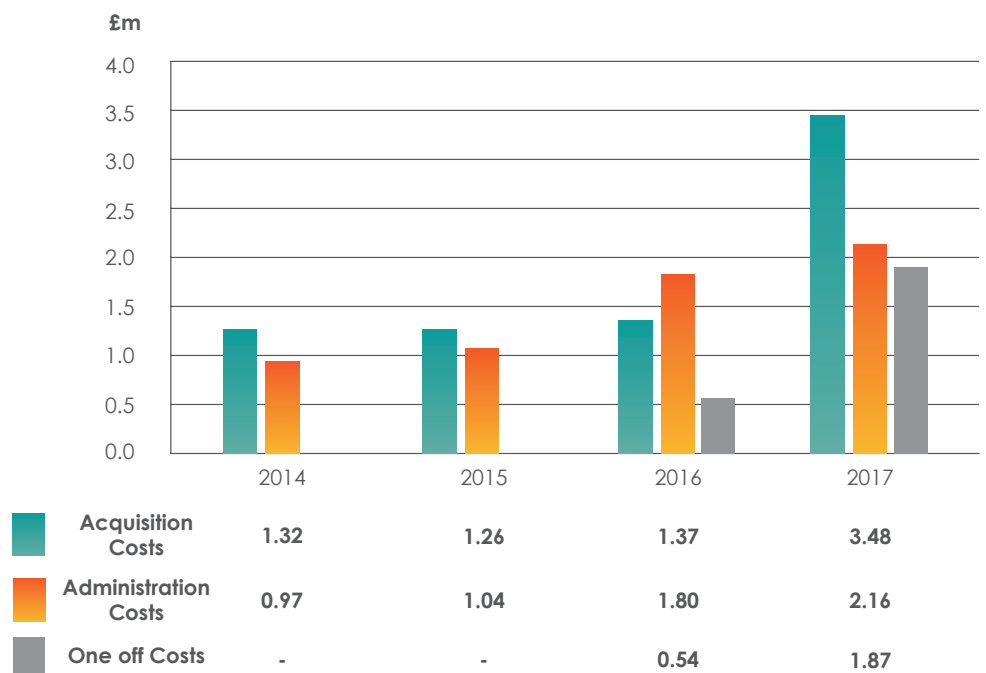
Annual premium income



IP claims



Society expenses



Business Performance: People, Transformation and Finance

The Society's business performance over 2017 can be considered from three complementary points of view: people, transformation and financial.

People

The Society's permanent headcount at the end of 2017 stood at 58. This is an increase of 20 over the year. Three new functions have been created (distribution, marketing, and compliance) and operations, IT, finance, underwriting, new business and HR have seen increases in their people complement. New executives responsible for operations and finance have been recruited. An Executive team and a Senior Leadership Team have been established and are now fully engaged in the Society's work.

The culture of an organisation is an important predictor of outcomes. Late in 2016, an exercise was held to draw out the Society's values. The resulting values are tightly held and passionately defended. They are an important description of how it feels to work at the Society. They are useful in recruitment and selection, and serve to ensure that the right outcomes are sought in new situations.

Transformation

While the Society's culture has remained rooted in the desire to support Members, the character has changed markedly. Visible indicators of this include the refurbishment of two floors of Holloway House. It is important that hard-working people realise that their efforts are appreciated and the provision of modern, comfortable office space is a pre-requisite if the Society is to recruit and retain talented people.

Less visible but no less transformative are the changes to the services that the Society provides to Members. These include the changes to product pricing, presenting consistent and competitive terms to the market; changes to underwriting, using our underwriters' skills for Member benefit and introducing competitive features; and changes to claims handling and Member support, making it quicker and easier to claim, and making every effort to support Members' primary goal of getting back to work.

The major investment for 2017 concerns the development of a new administration system for the Society. This follows almost a year of careful review of the Society's needs (begun in 2016), identification of possible partners, selection of a short list and the detailed negotiations covering the attributes of the system to be developed. Providing the final details can be ironed out on a timely basis, we expect the new system to be in place and working during 2019.

The decision to close Optimal, the Society's group life provider, to new business was not an easy one, particularly given the record levels of new business and renewals that it was winning.

The Society appointed a new Independent Auditor this year, as well as a new Internal Auditor. Both these appointments followed competitive tender processes.

The Society has benefitted from the advice of a number of consultants and contractors. I would like to thank them for their work.

Over 2017, the Society has developed its professionalism in almost every area. The Directors recognise that the bar for a modern insurer is high and that governance requirements have never been so extensive or so comprehensive. The Risk Management System has been extensively updated, to ensure that there is continual consideration of risk, and that this consideration is integral to business thinking, discussions and decisions. In particular, the development of the Society's Own Risk and Solvency Assessment has established a lens through which the Society's activities can be viewed which brings together all of the relevant strategic considerations.

Board professionalism was tested through a rigorous external review, which covered not just the Board but its committees. To have such a positive conclusion is a strong reflection of the quality of the work done during the year.

Finance

The Society exists to pay the incomes, in part, of Members who are too sick to work. In 2017, 256 new claims began payment, alongside 178 claims that were already in payment at the beginning of the year. By 31 December, the Society was replacing the income of 188 Members, having paid £1.094m in Member claims over the year (2016: £0.954m).

Year-end Position, Trends and Factors

Year-end Position

The Society's people profile is close to ideal for this stage in its development. There are a couple of positions in the Senior Leadership Team to be filled and there may well be a need to increase headcount further to accommodate greater volume of work in new business and claims handling areas.

Good momentum has built in almost all developmental and operational areas across the Society, including sales, marketing, underwriting and IT. The professionalism, range and depth of the governance and control functions have been greatly increased. The working environment, facilities, services and training support available to colleagues have been improved.

The strategic investment necessary to deliver a larger, more valuable Society with a much increased Membership is significant. As always, the returns follow the investment. Implementing the strategy requires changes in terms of the keenness of the premium rates, the terms available to intermediaries and the operating expenses for a different type of organisation. At the end of 2017, the investment is well under way and early benefits are starting to emerge.

Early in 2018, contracts to build the new administration system were signed.

Trends and Factors likely to affect future development, performance or position of the business

The Society plans to grow in coming years, by competing through intermediaries in the protection sector. Growth brings pressure in two areas: the need to be competitive and the need physically to accommodate growth. Put simply, better terms and better service. Pricing properly for volume is thus vital.

The sales infrastructure is in place and good sales momentum has been generated. The trend of increasing sales is expected to continue.

The changes to underwriting, new business and claims processing have been driven by experienced underwriters and claims assessors, to fit within current pricing. At least one new product is expected to be launched during 2018, which must be carefully priced.

The Government's implementation of Universal Credit has the potential to affect the need for IP positively or negatively. A positive approach might serve to increase the product's value, recognising and appreciating individuals that take responsibility for their own financial futures. A negative alternative would ignore the benefit altogether, which would seem to be counterproductive.

Major IT projects always contain an element of risk. The Directors have concluded that all appropriate steps have been taken to risk manage the Society's project and will continue to closely monitor this development.

Responsibility to the Community

During 2018, colleagues throughout the Society joined in a wide range of activities to support the James Hopkins Trust, a local children's charity providing support for severely disabled under 5s and their families. Events ranged from fundraising to giving time to smarten up the grounds. On fundraising, the Society was pleased to match the amount raised by colleagues, with the result that £3,359 in total was donated during 2017.

Working with the James Hopkins Trust has proven to be enormously rewarding for all involved. We are thrilled to have been able to make a difference to this very worthwhile local charity.

“ During 2018, colleagues throughout the Society joined in a wide range of activities to support the James Hopkins Trust.

Risks to the Strategy and Risk Management

The Society faces a number of risks, some of which are common to all insurers and some of which are specific to the Society. During the year, the Directors carried out a robust assessment of all risks facing the Society, including those which threaten its business model, future performance, solvency and liquidity. The principal risks are described below:

Membership Numbers

Every year, a number of policies reach their maturity date. We also expect a proportion of the Membership to surrender their policies. This might happen for understandable reasons (the policy may no longer be needed or be affordable). Loss of every Member weakens the Society, because their contribution to the Society's value is lost. If more Members than expected take this step, the Society will be financially weaker than expected.

We monitor Member numbers continually. During the year, we will be investigating whether steps can be taken to reduce the number of Members choosing not to continue with their policies.

Claims Profile

The Society expects to meet a number of claims each year. Every claim has a cost, which we meet because that is the reason for our existence. If more Members than expected are unable to work and hence claim, or if claims persist for longer than expected, the Society pays out more than expected and hence would be financially weaker.

We monitor the number of claims and their cause continually. We use this information to set premium rates and to adjust underwriting, both at policy issue and claim stage. We review claims in payment to assess what extra can be done to help a Member return to work.

Strategy Execution

The Society's strategy involves a significant amount of change and assumes the results from a number of activities will be as expected. Of course, events do not always happen as planned.

The development of the new policy administration system is a major project for the Society and there is a risk that it is late, over budget or does not do what is expected of it.

These risks are being managed through the employment of an experienced project manager, the use of an already working system as a

foundation, fixed cost contracts, and close attention to functionality specification and testing.

The building of a sales and marketing function to provide growth is a different type of project. The primary risk is that sales growth does not emerge or that the resulting sales are not of appropriate quality. This risk is managed by careful oversight of all aspects of the sales and marketing activity and attention to emerging results.

The changes to product, underwriting and claims management have associated risks. At its purest, if underwriting and claims are not in line with pricing, there will be a financial impact. These impacts only become clear after the event. This risk is managed through careful design by experienced underwriters and close monitoring of emerging experience.

Governance

The Society operates in a heavily regulated environment that expects high standards from those charged with overseeing and running insurers.

The Society seeks to meet regulatory requirements in spirit and letter. Given the volume of regulation and its complexity, this requires considerable resource and focus. Any breaches of regulation may lead to a censure from the regulators.

This risk is managed through the development of professional governance functions, appointment of professional service providers and continual review of activities, together with appropriate liaison with regulators.

Having examined the prospects for the Society and the risks that it faces, the Directors have assessed the Society's prospects over the five-year period from 1 January 2017, which represents the period of the current business plan. This assessment was driven by an analysis of how the business might perform in a number of different circumstances. The resulting outcomes were discussed and helped to shape the development of the business plan.

As a result, the Directors have a reasonable expectation that the Society can continue to progress its five-year business plan and meet all its liabilities as they fall due.

The Board has considered the effectiveness of the Society's Internal Control and Risk Management Systems. Both of these systems have been extensively reviewed and updated during 2017. The risk and control effectiveness information that the Board receives has been extended and put in the context of the Society's business plan. For some time, the Society has

appointed an external party to provide its internal auditor function, and thus the Board has received independent assurance regarding the effectiveness of its internal control environment. Having considered the material available to it, the Board is satisfied that the Internal Control and Risk Management Systems are effective.

Conclusion

The Society is well on the way to achieving its transformation. Our people have embraced willingly a remarkable degree of change. There is drive, energy and enthusiasm to propel the Society on to its next stage of growth.

We are starting to see the fruits of the structural changes made and the benefits of new ideas, people and thinking, driving better results for Members and higher sales.

I look forward to seeing the momentum continue into 2018 and beyond.



SJ Tragheim
Chief Executive
2 May 2018



Good momentum has built in almost all developmental and operational areas across the Society, including sales, marketing, underwriting and IT.

While the Society may be relatively small, we are proud to implement and maintain adherence with regulations, in word and in spirit.

REPORT OF THE BOARD OF MANAGEMENT

The Board has pleasure in presenting the Report and Financial Statements of the Original Holloway Friendly Society Limited, (the Society), to its Membership for the year ended 31 December 2017.

Principal Activities

The principal activity of the Society is the provision of Income Protection insurance based on Holloway principles. The principal activity of the Society's subsidiary, Optimal, is the provision of Group Life products. No activities have been carried on which are outside the Society's powers.

Outcomes for Members

Bonuses to Members

The bonuses payable to Holloway plan policyholders are set out in the Bonus Report on page 10.

Service to our Membership, Feedback and Complaints

Our colleagues continue to make every effort to provide a first-class service and both Members and intermediaries regularly comment on this when contacting the Society. We continually seek feedback from Members and intermediaries, and act on the responses received.

From time to time, complaints are received. The Society has established systems to ensure that complaints are handled with care and sensitivity, and are thoroughly and impartially investigated. Members always have the right to raise their complaint with the Financial Ombudsman Service, which the Society encourages if Members remain dissatisfied.

Financial Position

The Society has maintained levels of solvency well above its Solvency Capital Requirement (the regulatory requirement).

Corporate Governance

The Corporate Governance Report provides information about the Board, including details of the Directors, the Board's responsibilities and activities and the operation of its Committees, together with details of who attended which meetings.

Board's Responsibilities

The Board has a duty to report to Members on the Society's performance and its financial position. It is responsible for preparing the financial statements on pages 46 to 61.

The Society's Rules and UK law require the Board to prepare these 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 is required to:

- » select suitable accounting policies and then apply them consistently;
- » make judgements and estimates that are reasonable and prudent;
- » state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- » prepare the accounts on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

As at the date of this report each director confirms that, so far as each individual is aware:

- » there is no information relevant to the audit of the Society's financial statements for the year ending 31 December 2017 of which the auditor is unaware; and
- » all steps have been taken that an individual ought to have taken to discharge the duty of a director to become aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

The Board 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.

Directors' Conclusions

The Directors are satisfied that it is appropriate to adopt a going concern basis of accounting in preparing the financial statements. They have concluded that there is no material uncertainty that would impair the Society's ability to present its accounts on this basis for the twelve months following the signing of the accounts.

After due consideration, the Directors have concluded that 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.

Appointment of Independent Auditors

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

Character of the Board

Diversity

The Board strongly believes that diversity of thought, attitude and background throughout the Society is a driver of business success. Diversity brings a broader, more rounded perspective to decision making and risk management; making the Board and senior management more effective. Aside from gender, the Board believes that diversity includes criteria such as nationality, race, age and experience of different businesses. It strives, in its recruitment, to continually improve its diversity. The report from the Nomination and Remuneration Committee sets out actions on this matter in more detail.

Board Effectiveness

The Board is responsible for assessing its own performance and effectiveness. During 2017, it commissioned an external review, led by its Nomination and Remuneration Committee. The resulting recommendations are being incorporated into the Board's processes and activities for 2018. More details are provided in the Corporate Governance report.

Board Disclosures

The Society maintained Indemnity Insurance against Board Members' and Officers' Liability.

The Society made no political donations during the financial year.

Serving the Membership

The Board is committed to its Membership, which represents the Society's owner and customer. Communication with Members is encouraged via letters, email, the website, telephone, survey responses and an

invitation to the Annual General Meeting. Members are encouraged to use their vote. The Society continues to offer different ways of casting votes to make it easier including allowing Members to cast their vote electronically or complete and return the proxy voting form.

For those personally able to attend the AGM, the Chair of the Board and the Chief Executive, make presentations on the previous year's performance and on the future plans for the Society. All Board Members expect to attend the AGM and are delighted to meet Members and answer their questions.

Thanks and Appreciation

The Board would like to add its thanks to those of the Chair and Chief Executive, and formally note its appreciation of all those at the Society who continue to demonstrate dedication and hard work on behalf of Members and intermediaries.

On behalf of the Board of Management,



Martin Day
Chair
2 May 2018

Corporate Governance Report

About the Board, its Role and Character

Role and Responsibilities

The Board is collectively responsible for the long-term success of the Society. Its role is to provide entrepreneurial leadership of the Society within a framework of prudent and effective controls that enables risk to be assessed and managed. The Board sets the Society's strategic aims, ensures that the necessary financial and human resources are in place for the Society to meet its objectives, and reviews management performance. It sets the Society's values and standards and ensures that its obligations to its Members - including reporting to Members on the Board's stewardship - and others are understood and met.

In meeting its responsibilities, the Board is expected to ensure good corporate governance. In short, this means that the Board has to ensure that the Society is well run. The process of ensuring good governance starts at the top, hence there is a focus on the governance of the Board and its Committees. It is these matters that are addressed in this report. www.holloway.co.uk

The Society produces a Solvency and Financial Condition Report which provides more details about the Board's assessment of the Society's financial strength and its governance. This report is available on our website.

Ensuring High Standards of Corporate Governance

In assessing the quality of corporate governance, the Board draws upon the views of Directors, emerging industry and wider corporate concerns and expectations, and published materials on corporate governance.

Specifically, the Board has regard to the UK Corporate Governance Code, published by the Financial Reporting Council. The Association of Financial Mutuals has considered this material and extended it where its applicability to mutual organisations was not obvious. It has produced an Annotated Corporate Governance Code for Mutual Insurers (the 'Code').

The Society complies substantially with the Code. There are two exceptions;

Meetings with Members: the Society does not operate Member panels or other such mechanisms, and therefore, other than the AGM, has no formal forum to facilitate communication with Members. The Board continually considers the various approaches to ensuring contact with Members, but has yet

to establish an approach which is effective and represents a valuable use of Member resources. It will continue to consider this matter.

The Non-Executive Directors are not subject to annual election: instead, new Non-Executive Directors are elected at their first AGM for an initial term of three years, may be re-elected for a two-year term and then are subject to annual re-election.

The Board does not regard these exceptions to the Code to be material.

Board Mechanics

The Board expects to meet at least five times every year. Additional meetings, seminars and workshops are held as required to support the formulation of strategy and for training and professional development purposes.

At the end of 2017, the Board comprised two Executive Directors and six Non-Executive Directors. The Company Secretary acts as the secretary to the Board.

The terms and conditions of appointment for Non-Executive Directors are available to Members on request.

The Chair, Chief Executive and Senior Independent Director

Role profiles are in place for the Chair, Martin Day, the Chief Executive, Stuart Tragheim, and the Senior Independent Director ('SID'), John Holland. These role profiles describe the duties of each role. The Chair's priority is leadership of the Board and ensuring its effectiveness; the Chief Executive's priority is the management of the Society, and the SID's is to act as an alternative person to whom stakeholders can raise concerns.

The Board has delegated authority for the operational management of the businesses to the Chief Executive, who decides matters that are necessary for the effective day-to-day running and management of the business within certain limits. Above the agreed limits, matters must be escalated to the Board for consideration and approval.

During the year, the Non-Executive Directors met without the Chair present at a meeting led by the SID.

Non-Executive Directors, Executive Directors, Independence and the Balance of the Board

The Non-Executive Directors are independent of management, bringing effective and constructive

challenge to the deliberations of the Board and help develop proposals on strategy. The Executive Directors are led by the Chief Executive and prepare and present business to be conducted by the Board and its Committees. The majority of the Directors on the Board are Non-Executive.

The Board, having considered the matter, considers that all of its Non-Executive Directors are independent in character and judgement.

The UK Corporate Governance Code sets out a number of tests of independence that can be applied to individual directors. The Society's Non-Executive Directors are independent under those tests with the following exceptions:

- » Mr R J W Perks and Mr K C W Wiltshire have both served as a Director for more than nine years. Mr Perks did not stand for re-election at the 2017 AGM. Mr Wiltshire will not stand for re-election at the 2018 AGM, and
- » the Non-Executive Directors and the Chief Executive have policies with the Society and pay premiums on an arms-length basis.

The Board is comprised of an appropriate balance of diverse and complementary skills necessary to competently oversee an insurer. Its collective experience and skills cover the areas of strategy, management, sales, distribution and marketing, execution, accounting, actuarial and audit matters, investment management, risk management, prudential regulatory and conduct oversight, and the appropriate and effective operation of a board. As a result, the Board is well placed to meet the requirements of its immediate stakeholders (Members, current and future, employees, regulators and intermediaries) and the wider industry.

Any relationships or circumstances that are likely to affect, or could appear to affect, a Non-Executive Director's judgment are disclosed and recorded in the register of conflicts of interest. Directors are obliged to inform the Society of any new conflicts that arise. The register is updated at every meeting or on request.

Profile of Directors and Members of the Executive Committee

Membership, Attendance and Performance

Martin Day, Chair and Non-Executive Director

Martin joined the Board in January 2010 and was elected as Chair 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. Aside from this, he has no

other significant commercial commitments. Martin is a member of the Society's Audit and Risk Committee and the Nomination and Remuneration Committee.

Kevin Wiltshire, Vice Chair and Independent Non-Executive Director

Kevin has been a Non-Executive Director since 2007 and until June 2017, was Chair 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.

Kevin is a member of the Society's Audit and Risk and Investment Committees.

Stuart Tragheim, Chief Executive and Executive Director

Stuart joined the Society in June 2016 as Chief Executive Designate and became Chief Executive in October 2016, at which point he joined the Board. 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 Lloyds Banking Group, Equiniti and LV=. He 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 industry experience and contributes regularly to industry wide developments, having previously chaired the Investment and Life Assurance Group and having been a Member of the Association of British Insurer's Distribution and Regulation Committee. Stuart currently sits on the Board of the Association of Financial Mutuals.

Stuart is a Member of the Society's Nomination Committee, Investment Committee and Executive Committee, which he chairs. He is a Director of HF Life Limited.

John Holland, Senior Independent Non-Executive Director

John joined the Board in 2012 and was appointed Senior Independent Director in 2015. He is a senior programme director with 35 years' experience in insurance and banking industries. John has spent much of his career working in IT and leading transformational change programmes internationally. During his time with Zurich Financial Services, John was the IT Director for Zurich's UK Banking Division. He has recently served as the Interim Director of IT for The Pensions Regulator.

John is a member of the Society's Nomination and Remuneration Committee and Investment Committee. He was a Director of HF Life Limited until 13 December 2017.

Anna East, Director, Independent Non-Executive Director Anna joined the Board in November 2015. She is a solicitor having practiced at Eversheds and a financial services plc. Until very recently, Anna was the Chair of the Dudley Building Society and Vice Chair at Midland Heart Housing Association as well as Chair of its Audit Committee. She is a Non-Executive director at Entrust which is a national regulator. Anna has held a number of NHS Board roles and is a governor of King Edwards School in Edgbaston, Birmingham.

Anna chairs the Society's Nomination and Remuneration Committee and is a member of the Society's Audit and Risk Committee.

Paul Harwood, Finance and Risk Director, Executive Director Paul joined the Board in November 2017, having joined the Society as Finance and Risk Director Designate in April. Paul has worked in the international financial services sector for over 20 years in a variety of roles, including as Chief Actuary for an LSE-listed international financial services group and as a risk management specialist for the Irish Insurance Regulator following the implementation of Solvency II.

Paul is an Actuary and Chartered Director. He is chair of the Irish Baroque Orchestra and a governor of King William's College based on the Isle of Man.

Paul is a member of the Society's Investment Committee and Executive Committee. From 15 December 2017, he took on the role of the Society's Company Secretary.

Adrian Humphreys, Independent Non-Executive Director Adrian joined the Board in November 2015. He is currently the Chairman of JLT Benefits Consulting practice and is a specialist in Corporate Healthcare and Risk provision. He is an Independent Non-Executive Director of Benenden Healthcare. Adrian previously spent 15 years of his career working for Western Provident Association ('WPA'), a not-for-profit health insurer. For 10 years, he was the Managing Director of WPA's Corporate Division. Prior to this he worked for the management consultant Arthur D. Little Inc.

Adrian has an MBA from Cranfield and a PhD in the field of Physics and Mathematics.

Adrian chairs the Society's Investment Committee.

Mike Taylor, Chief Operating Officer, Member of the Executive Committee

Mike Joined the Society in June 2017. He is an underwriter with many years' experience as Chief Underwriter and in other roles for organisations such as UNUM and Friends Life/ AXA, and Zurich Financial Services. In these roles, he has routinely delivered technology-driven and service-oriented change, making the most of the digital opportunities available.

Mike has a Masters degree in Mechanical Engineering from the University of Wales. He has previously served on the Chief Underwriter Industry Committee and the ABI Protection Committee, and is a regular speaker on underwriting topics.

Mike is a member of the Executive Committee.

Derek Wright, Independent Non-Executive Director

Derek is an actuary and has worked in both the life insurance industry and as a consultant. 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. Much of Derek's time at Deloitte was spent on audit and risk consulting activities to the insurance industry.

Derek is 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.

Derek was invited to join the Board as a Director on 3 February 2017, receiving regulatory approval on 22 June 2017. He joined and began chairing the Audit and Risk Committee from that date. From 13 December 2017, he became a Director of HF Life Limited.

Attendance

Board of Management Meetings 2017		
Name	Attended	Out of a possible
Martin Day	6	6
Kevin Wiltshire	6	6
Martin Collins	3	3
Anna East	6	6
John Holland	6	6
Adrian Humphreys	6	6
Robert Perks	4	4
Stuart Tragheim	6	6
Derek Wright	5	5
Paul Harwood	1	1

Matters Considered by the Board

The Board has a number of important responsibilities which it discharges throughout the year. These responsibilities include making decisions in the following areas:

- » developing and agreeing the strategy for the Society
- » approving the annual business plan and budget
- » overseeing operations
- » assessing Executive performance, and
- » considering new ventures and reviewing existing operations.

Major matters addressed by the Board during 2017 have been described in the Strategic Report.

The Board is helped in its work by a number of Committees. These Committees typically consider matters on behalf of the Board and conclude their discussions with recommendations for the Board. They may provide assurance to the Board on matters within their remit.

The Board delegates matters relating to the Society's day-to-day operations to the Chief Executive. Broadly, decisions needed to achieve the agreed plan, strategy, conduct, culture and risk management are delegated.

A schedule of the Matters Reserved for the Board is available free on request.

Board Committees

The Board has established four committees to assist it in discharging its responsibilities: specifically the Committees cover Audit and Risk, Nomination and Remuneration, Investment and Executive matters. These Committees are important constituents of the Society's governance arrangements.

Each Committee has written terms of reference, which are published on the Society's website under the Governance section or are available on request. The terms are regularly reviewed, to ensure that each Committee is effective, meets appropriate best practice and is positioned to deliver effective assurance to the Board without unnecessary duplication. The Chair of each Committee reports to the Board on matters of significance at each of its scheduled meetings.

The Company Secretary or his delegates serve as the secretary to each Committee. Each Committee may seek external professional advice at the Society's expense.

The effectiveness of each Committee is considered as part of the annual performance review of the Board. In 2017, the Board commissioned an external review, which included a review of the effectiveness and performance of its standing committees.

The results of the review have been incorporated into the Board and Committee processes and activities for 2018.



Martin Day
Chair
2 May 2018

Individual Committee Reports

Report from the Audit and Risk Committee

Role and Responsibilities

The Committee meets at least three times each year and as and when required to perform its responsibilities.

These are:

- » to ensure the continuation of effective financial reporting, internal control and risk management
- » to provide a direct means of communication for internal and external auditors to the Board
- » to review the Society's risk appetite, risk management policy and procedures, risk register and internal audit annual plan and make recommendations to the Board, and
- » to review the performance and cost effectiveness of the head of actuarial function, and the internal and independent auditors.

The Committee reports regularly to the Board on its activities and makes recommendations and escalates significant risk exposures to the Board as appropriate. It ensures that mitigating actions are taken when risks are moving, or are expected to move, outside appetite.

The Chief Executive and Finance and Risk Director are not Members of the Committee although they usually attend meetings, except when the Committee wishes to meet alone.

Membership, Attendance and Performance

The Committee comprises four independent Non-Executive Directors.

The table below sets out the Committee's meetings during 2017 and the attendance by individual Directors:

Audit and Risk Committee Meetings 2017		
Name	Attended	Out of a possible
M Day	4	4
K Wiltshire	4	4
A East	3	4
D Wright	3	3

K Wiltshire served as Committee Chair until 22 June 2017.

D Wright was appointed to the Committee on 22 June 2017, assuming the role of Chair

Matters Considered By The Committee

Independent Audit

The Committee is responsible for overseeing the relationship with the Society's Independent Auditor, monitoring performance, objectivity and independence, to ensure that coverage is focused and that suitable overlap with the work of internal audit is achieved.

During the year, and as suggested in last year's report, the Committee held a tender process to appoint a new Independent Auditor, having recognised that the incumbent had been in post for over 15 years and would shortly be prevented in continuing in this role by recent rule changes.

Moore Stephens LLP served as the Society's Independent Auditor up to 7 August 2017. During 2017, Moore Stephens did not perform any non-audit services.

PricewaterhouseCoopers LLP ('PwC') was appointed from 8 August 2017. It is too early in their tenure to assess effectiveness.

Significant Issues in relation to Financial Statements

The Committee considers all risks that affect the business. Where the risks can be modelled, they are included in the assessment of future financial position. The Committee considers carefully the assumptions used to project these risks. Judgement is important in these assessments, particularly for the sickness rates (both inception and duration).

Independent Auditor Performance and independence

The Committee assessed the performance, independence and objectivity of Moore Stephens and the effectiveness of the audit process during 2017. A key component of this assessment is the consideration that the Independent Auditor is sufficiently robust in its challenge. The Committee reviewed the Independent Audit strategy and received reports from the Independent Auditor on its own policies and procedures regarding independence and quality control, including an annual confirmation of its independence in line with industry standards.

On the appointment of PwC, the Committee was satisfied that the firm was independent and objective, in line with industry standards.

Re-appointment of the Independent Auditor

The Committee next expects to consider its Independent Auditor during 2022. The Committee proposes that PwC be appointed at the next AGM.

Oversight of Fees payable to the Independent Auditor

The fees payable to PwC for the year ended 31 December 2017 amounted to £60,800 for the statutory audit and £16,700 for non-audit services (the review of the 2017 Solvency and Financial Condition Report).

Oversight of the Actuarial Function

The Committee considered the methodology and assumptions for the valuation as proposed by the actuarial function, and, after discussion, recommended them to the Board.

It considered the proposals for interim and final bonus from the With Profits Actuary and recommended them to the Board.

It assessed the performance of the Actuarial Function and the Chief Actuary during the year, and was satisfied.

Oversight of the Compliance Function

The Committee considered the proposed compliance plan and, after discussion, recommended it to the Board. The Committee oversaw compliance activity.

There is a direct reporting line from the Compliance Officer to the Committee Chair.

Oversight of the Risk Function

The Committee considered the proposed changes to the Risk Management and the Internal Control System, and gave feedback to the Chief Risk Officer. The revisions to the Systems were implemented and the Committee received the resulting reports. It considered a number of risk-related policies and procedures.

Specifically, the Committee considered the proposed risk tolerance statements and the Own Risk and Solvency Assessment ('ORSA') policy, and made recommendations to the Board about their adoption.

The Committee drove the 2017 ORSA, considering the early results and feeding back comments on the risk tests applied and the plausible assessment of required capital. The Committee recommended the final ORSA report to the Board.

There is a direct reporting line from the Chief Risk Officer to the Committee Chair.

Oversight of Anti-Money-Laundering Reporting Officer's Activity

The Committee received the annual Money Laundering Reporting Officer's report and an up-to-date risk assessment.

There is a direct reporting line from the Money Laundering Reporting Officer to the Committee Chair.

Oversight of Internal Audit

The Committee considered the suggested internal audit universe suggested by the Internal Audit plan, received the reports from the Internal Auditor and monitored the progress of suggested management action.

During 2017, the Committee directed a tender exercise to consider a new provider of internal audit services. After due consideration, the Committee recommended Ernst and Young LLP ('EY') to the Board. The recommendation was duly accepted and EY was appointed early in 2018.



Derek Wright
Chair – Audit and Risk Committee
2 May 2018

Report from the Nomination and Remuneration Committee

Role and Responsibilities

The Committee meets at least twice each year and as and when required to perform its responsibilities.

The responsibilities in respect of nominations are:

- » to regularly review the structure, size and composition of the Board

- » to give full consideration to succession planning for Directors and other senior executives
- » to be responsible for identifying and nominating for the approval of the Board, candidates to all Board vacancies and considering the continuing suitability of Directors for re-election, and
- » to keep under review the Society's leadership needs, both Executive and Non-Executive and the time commitment required from Non-Executive Directors.

The responsibilities in respect of remuneration are:

- » To oversee the Society's Remuneration Policy, by design and in practice.

After every meeting, the Committee reports to the Board on its activities and makes recommendations and/or escalates significant matters to the Board as appropriate.

The Company Secretary is not a member of the Committee although he usually attends meetings, except when the Committee wishes to meet alone.

Membership, Attendance and Performance

This Committee conducts both nomination and remuneration-related business, with the membership changing based on the category of business being considered. For remuneration-related business, the Committee is exclusively comprised of independent



The Board is collectively responsible for the longterm success of the Society. Its role is to provide entrepreneurial leadership of the Society.

Non-Executive Directors (usually three). For nomination-related business, the Committee comprises the same three independent Non-Executive Directors and the Chief Executive.

The table below sets out the Committee's meetings during 2017 and the attendance by individual Directors:

Nomination and Remuneration Committee Meetings 2017		
Name	Attended	Out of a possible
A East	3	3
M Day	3	3
J Holland	3	3
S Tragheim ¹	3	3

¹Nomination-related business only

Matters Considered By The Committee

The Committee has specific responsibility for several important areas of governance.

Remuneration

The Board has delegated responsibility to the Committee for setting remuneration for all Executive and Non-Executive Directors, including the Chair. Its remit extends to pension rights and any compensation payments. It recommends and monitors the level and structure of remuneration for senior management.

The Remuneration Report on pages 33 - 36 has more details about the Society's remuneration.

Diversity

The Society seeks to attract and retain individuals who contribute through their diversity of thought, attitude and background. It recognises that this is particularly important at Board and senior management level, and while there is genuine diversity in approach, the backgrounds of many might be deemed too homogenous to benefit fully from a broader, more rounded, perspective.

The Board's policy is to take gender diversity into account in making all Board appointments, subject to an overriding consideration that appointments be made on merit. The Society has no specific objectives regarding diversity but is keeping the matter under review. The Committee is responsible for applying this policy.

Board Performance Evaluation

During 2017, the Committee oversaw a full external review of the Board and its Committees, in line with the Code's requirement that a "... Board should undertake a formal and rigorous annual evaluation of its own performance." Karl George, Managing Director of the Governance Forum, conducted the review.

Neither Mr George nor The Governance Forum have any other connection with the Society.

The evaluation took the form of self- and peer-assessment questionnaires, direct observation of meetings, review of the meeting packs and minutes and interviews with each Director. Findings were discussed with the Chief Executive and the Chair, prior to the Committee being presented with a summary of conclusions.

Important conclusions from the final report include:

"On the whole, Holloway has a robust and reliable governance structure and follows best practice in all of the key processes identified..."

"Within this wider review, these and other aspects of the Code's requirements are covered, demonstrating to and offering the Board at Holloway assurance that the organisation is complying with the Code."

"The review has concluded that there are robust systems and processes in place with some areas identified that will ensure the Organisation continues to function well. As the Board progresses its succession planning, it will be crucial to keep these systems and processes under review to ensure stability."

"There is also evidence of good practice in relation to the quality of documentation and how business is conducted at Board Meetings with a professional yet friendly atmosphere being identified."

"The overall assessment demonstrates a number of areas where Holloway's governance is at the level of good or very good and although there are a number of recommendations and areas for improvement in this report, these are not of a fundamental nature. The organisation should use this information to inform its ongoing actions and practices related to governance."

"This report should be read with the understanding that the Board Effectiveness Review is conducted using some self-assessment and also external assessment and facilitation. It does not constitute an audit nor does it provide a guarantee that circumstances or events may impact the governance assessments provided."

The external review included the performance of the Nomination and Remuneration Committee, the Audit and Risk Committee, the Investment Committee and the Executive Committee. Specific feedback was provided to each Committee chair, who is responsible for deciding how best to implement any recommendations.

Director and Executive Appraisal, Development and New Director Induction

The performance of Non-Executive Directors was part of the external Board Review. Directors assessed their performance using self-assessment and peer-review questionnaires. The results were discussed with each Non-Executive Director with a facilitator and the Chair (or, for the Chair's review, with the SID).

Separately, the SID led the Directors in a performance evaluation of the Chair.

This appraisal process aims to identify areas of development or education for each Director that, once addressed, might improve their understanding or contribution to the Society's business. The Society seeks to support identified training needs as well as providing development and education opportunities from time to time.

The performance of members of the Executive Committee is subject to regular appraisal by the Chief Executive, who himself is subject to performance appraisal by the Chair. In 2017, under the aegis of the Nomination and Remuneration Committee, an externally facilitated 360° appraisal was conducted for the three members of the Executive Committee.

There is a formal induction programme for Non-Executive Directors following their appointment. The programme covers the nature of friendly societies and the history and culture of Holloway Friendly, and includes meetings with the Chair, Chief Executive and Company Secretary.

Succession Planning and New Director Appointments

The Board is actively engaged in succession planning for both Executive and Non-Executive roles to ensure that Board can retain its effectiveness in future.

The Society's rules expect a maximum term from individual Non-Executive Directors of nine years, although a compelling case can be made for one-year extensions. Bearing this in mind, the Committee has implemented plans for the natural refreshing of the Board whilst ensuring that appropriate knowledge and experience remains to support Executives and management. In 2017, Derek Wright was recruited as a Non-Executive Director. The process followed was as follows:

- » the Committee evaluated the balance of skills, experience, independence and knowledge on the Board
- » in the light of this evaluation, the Committee prepared a description of the role and capabilities (skills, expertise and experience) required for the new Non-Executive Director appointment

- » the Company Secretary prepared an information pack for prospective candidates. This included access to selected sections of the extranet to review documents
- » recommendations for candidate were sought from a variety of sources, including Members, Directors and third parties. An external search firm, Ezek Talent Management, was appointed to assist in the identification of suitable candidates. Ezek Talent Management has no other connections with the Society other than for recruitment
- » CVs of candidates were reviewed by Members of the Committee
- » the Committee Members selected a small pool of candidates for interview. The Chief Executive served on the interview panel
- » testimonials and references were collected and reviewed
- » the Committee identified its favoured candidate and entered into preliminary discussions and fact finding, including inviting the prospective Director to meet the rest of the Board, and responding to any further questions from the candidate, and
- » the Board considered the appointment, as recommended by the Nomination Committee, and agreed to invite the candidate to join the Board.

The Society plans to recruit a Non-Executive Director during 2018 using a similar process.

Other Matters

Having reviewed the matter, and in the light of the increased formality of the Senior Independent Director role, the Committee has recommended that the role of Vice Chair will no longer be needed once the current Vice Chair steps down. In the event that the Chair cannot attend a meeting, the Board will elect one of their number to chair the meeting.



Anna East
Chair – Nomination and
Remuneration Committee
2 May 2018

Report from the Investment Committee

Role and Responsibilities

The Investment Committee normally meets at least three times each year and as and when required to perform its responsibilities. These are:

- » to make appropriate arrangements for investment management
- » the appointment, reappointment and removal of investment managers
- » to arrange and review contract terms with investment managers
- » to advise the Board of any planned changes in investment management
- » to monitor the performance of financial investments and the performance of investment managers
- » to provide a direct means of communication between the Board and investment manager(s), and
- » to maintain effective communication on investment matters between the Chief Actuary, investment Committee and investment managers.

Membership, Attendance and Performance

The Committee comprises three independent Non-Executive Directors, the Chief Executive and the Finance and Risk Director.

The Company Secretary acts as the secretary to the Committee. The table below summarises Committee membership and attendance.

Investment Committee Meetings 2017		
Name	Attended	Out of a possible
A Humphreys	3	3
K Wiltshire	3	3
J Holland	3	3
R Perks ¹	1	1
M Collins ²	1	1
S Tragheim	3	3
P Harwood ³	2	2

¹ R Perks resigned from the Society at the 2017 AGM.

² M Collins resigned from the Society in June 2017.

³ P Harwood joined the Committee in April 2017.

Matters Considered By The Committee

Investment Policy

During the year, the Committee secured external advice on the nature of its investment policy. The advice is being considered and a number of decisions are expected during 2018.

Investment Performance

The Committee continues to consider reporting from the asset managers concerning investment performance.



Adrian Humphreys
Chair – Investment Committee
2 May 2018

Report from the Executive Committee

Role and Responsibilities

The Committee normally meets monthly.

At its meetings, it considers performance, using the Balanced Score Card and regular management information to draw attention to trends and progress towards to Society's goals.

The range of topics covered is wide. Not every item is considered at every meeting. The topics include:

- » trading performance
- » operational performance
- » risks identified and being managed
- » business development and marketing
- » product development
- » internal communications
- » financial performance
- » investment performance
- » risk register progress
- » conduct risk
- » people and culture, and
- » colleague remuneration and benefits.

The Committee reports to the Board after every meeting. The report allows Board members to identify any issues about which

they require more information and to track progress on items of particular interest.

Members of the Board are welcome to attend meetings at any time.

Membership, Attendance and Performance

The Committee is comprised of the Chief Executive, Finance and Risk Director and Chief Operations Officer. Members of the Senior Leadership Team are invited to attend.

The Company Secretary acts as the secretary to the Committee.

During 2017, the Executive Committee met formally once per month to consider the performance of the Society, review emerging performance, assess progress towards the constituents of the Balanced Score Card and monitor matters such as risk management, culture, conduct etc.

The meetings have developed over the year as new colleagues joined the Society.

Matters Considered By The Committee

During the year, the primary focus of the Committee was managing the changes being implemented and the achievement of the activities described in the Balanced Score Card.



Stuart Tragheim
Chief Executive
2 May 2018

Directors' Remuneration Report

I am pleased to present the Directors' Remuneration Report for the year to 31 December 2017. The Nomination and Remuneration Committee is responsible for considering and recommending Executive Director and Non-Executive Director remuneration to the Board, as well as setting the Society's overall remuneration policy.

The Committee takes care to recognise and manage conflicts of interest when receiving views from Executive Directors or senior management or when consulting the Chief Executive about its proposals.

Remuneration Policy

The Board recognises that the Society will only achieve its goals through the sincere and dedicated application of its people. The Society's long-term future is in the hands of those working in the business today. It is important to reward those people properly.

In recognition of this, the Society has developed a remuneration policy that is aligned with its mission and vision, and with behaviours that support its values. The policy recognises the need to maintain day-to-day standards and to complete the work envisaged in the strategy. It recognises the need to balance individual achievement and the Society's achievement as a whole. In particular, the performance-related components of remuneration are designed to promote the Society's long-term success.

Principles for Remuneration

The principles of the 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
- » The annual bonus and the long-term incentive Plans are fully discretionary, non-contractual and overseen by the Nomination and Remuneration Committee (which 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.

Executive Directors

The process for developing Executive remuneration policy and setting the packages of individual Executive Directors is formal and transparent. No Director is involved in setting her or his own remuneration.

The Society rewards its Executive Directors according to the following principles:

- » rewards are competitive, given the work and responsibility of each role, and the market
- » there is a performance element
- » progress towards strategic goals is valued, as is improved professionalism and improvements in the quality of outcomes
- » conduct matters are paramount: rewards reflect sensitivity to conduct requirements
- » termination packages are fair and reasonable

Remuneration set in line with these principles ought to support the Society's strategy, allowing superior performance to be recognised without encouraging short-term risk taking. The resulting remuneration packages are a combination of base salary, benefits and bonus payments. Bonus payments are expected to be a significant, but not overwhelming, component of remuneration.

Base Salary and Benefits are used to attract and retain talented individuals with the skill and experience relevant to the role, and the willingness to contribute to the Society's mission and values. Base salaries are set with regard to levels in comparable organisations and the availability of suitable candidates. Benefits include car allowance, private medical and dental (for family) and other standard benefits (death-in-service, paid holiday, sick pay etc.).

Base salaries are reviewed, normally once per year taking into account the role and responsibilities of the individual, as well as their performance.

Benefits may vary by individual and level. They are reviewed from time to time, to remain competitive and/or to streamline where appropriate or to correct anomalies.

Pension is a component of benefits. Executive Directors are entitled to Membership of the Society's defined contribution pension scheme. The Society contributes 10% of salary for the Finance and Risk Director and provides a salary

enhancement equal to 10% of salary in lieu of the Chief Executive's membership of the scheme.

An Annual Bonus Plan is used to encourage teamwork and the balancing of effort across a range of criteria, measured numerically and by outcome or impact, without losing the focus on achievement or the requirement to take into account risk appetite. The Society benefits from success in many areas (allowing for risk), rather than success in a few areas, or dispersed efforts in many areas that never finish. The sales team has its own incentive plan. Everyone else is invited, after satisfactory probation, to join the Annual Bonus Plan. Members of the Executive team can earn up to 45% of basic salary as Annual Bonus, subject to meeting stretching targets.

For the sales incentive plan, performance is measured according to the team's success in terms of sales and certain conduct metrics. For the Annual Bonus Plan, performance is monitored through progress on a Balance Score Card, which comprises numeric and activity/outcome measures over a given calendar year. The weightings are suggested by the Executive Committee and agreed by the Nomination and Remuneration Committee. Any payment is dependent on the meeting of threshold conditions. If these conditions are not met, the Committee reserves the right to make a discretionary award.

A Long Term Incentive Plan is used to attract and retain talented individuals at Executive level with the skill and experience relevant to the role, and the willingness to contribute to the Society's mission and values, and to engender a focus on the Society's longer-term success. Targets are set in Embedded Value terms, subject to a satisfactory solvency ratio being maintained.

This Plan operates by considering performance in overlapping three-year periods. The first year of the 2017-2019 Plan has concluded. The 2018-2020 Plan period began on 1 January 2018. No awards are determined until each three-year period has concluded, although an appropriate accrual is posted in the accounts after each year. All awards are at the discretion of the Nomination and Remuneration Committee.

The Chief Executive can earn up to 60% of basic salary under the Plan, subject to meeting stretching targets. Other members of the Executive Team can earn up to 50% of basic salary subject to meeting stretching targets.

Any payment under the Plan is paid in instalments, 50% on the 1 January following the end of the performance period, 25% one year later and the balance one year after that. Any and all payments under this Plan can be reduced, withdrawn or clawed back in certain defined circumstances.

Committee Discretion

The Committee reserves the right to override the formulas underpinning the Annual Bonus Plan and the Long Term Incentive Plan, either to reduce or enhance earned awards. The Committee intends only to use this discretion to fairly reflect contributions made and where not to do so would be harmful to the Society's long-term success.

In 2017, the Committee applied its discretion by recognising improvements in forecasting the Society's performance that were made during the year and used these revised forecasts as the basis for the Annual Bonus Scheme. The application of the bonus formula gave a reasonable reflection of performance. Calculated bonuses were reduced for the Executive and Senior Leadership Team, to reflect the differences between the original and the revised forecast.

In the event that early termination is considered, the Committee will carefully consider the terms of any payment, recognising the need to avoid rewarding poor performance.

Non-Executive Directors

The Society seeks to reward its Non-Executive Directors with competitive fees that reflect the work and responsibility of the roles undertaken. Fees are fixed every year.

The fees payable are determined with reference to information from comparable organisations, as reported in an appropriate annual remuneration survey that covers many friendly societies.

Non-Executive Directors are not eligible to participate in bonus or incentive schemes, and cannot join the pension scheme. Once appointed to the Board, their term of office is initially three years from their first AGM, then two years, then one year. Non-Executive Directors may not normally serve more than nine years: re-election after six years is permitted only subject to rigorous review and an assessment of the need for refreshing of the Board.

The notice period for Non-Executive Directors is one month and there is no provision for loss-of-office or exit payments.

Remuneration Policy across the Society

The three principles apply across the Group. Salaries and benefits for all are benchmarked from time to time against comparable companies. All those employed by the Society on permanent contracts are eligible to join either the Annual Bonus or the Sales Incentive Plan.



The Society seeks to attract and retain individuals who contribute through their diversity of thought, attitude and background.

Directors' Emoluments

The table below sets out the emoluments to all Directors during 2017.

Directors' Emoluments, 2017 & 2016, £						
Director	Fees/Salary	Bonuses	Benefits	Pension Contribution	Total	Total
					2017	2016
S Tragheim	163,181	52,339	6,200		221,720	107,802
M Collins ¹	138,311		2,714	65,238	206,263	170,935
P Harwood ²	13,933	21,687	710	2,301	38,631	n/a
M Day	29,500		3,155		32,655	26,733
A East	22,000				22,000	15,003
A Humphreys	22,000				22,000	12,158
J Holland	22,000				22,000	16,508
K Wiltshire	20,000				20,000	18,843
D Wright ³	11,400				11,400	n/a
B Perks ⁴	10,500				10,500	14,833
C Organ					n/a	5,744
K Griffin					n/a	6,239
M C-Manser					n/a	35,275
Total	452,825	74,026	12,779	67,539	607,169	430,073

¹ to 31 May 2017, ² from 14 November 2017 ³ from 3 February 2017 ⁴ to 31 July 2016

This table must be read in conjunction with the Additional Notes in the 2017 Report & Accounts.

Additional Notes

On 31 May 2017, Martin Collins left the Society. The emoluments noted above include £138,361 as payment in lieu of notice. During the year, while employed, he exchanged part of his basic salary and bonus for additional employer pension contributions.

Derek Wright was invited to join the Board in February 2017 and was approved by the regulator in June 2017. The emoluments noted above relate to his service as a Director. Prior to receiving regulatory approval, he received emoluments of £7,100.

Paul Harwood joined the Society in April 2017 and joined the Board from November 2017. The emoluments shown above include bonus for all service during 2017.

On behalf of the Board of Management,



Anna East
Chair of the Nomination and Remuneration Committee
2 May 2018

The Board's policy is to take gender diversity into account in making all Board appointments, subject to an overriding consideration that appointments be made on merit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE ORIGINAL HOLLOWAY FRIENDLY SOCIETY LIMITED

Report on the financial statements

Opinion

In our opinion, The Original Holloway Friendly Society Limited's Group financial statements and Society financial statements (the "financial statements"):

- » give a true and fair view of the state of the Group's and the Society's affairs as at 31 December 2017 and of the Group's and the Society's income and expenditure for the year then ended;
- » have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law); and
- » have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated statement of financial position which includes the Group and Society statements of financial position as at 31 December 2017; the consolidated statement of comprehensive income which includes the Group and Society statements of comprehensive income for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Society.

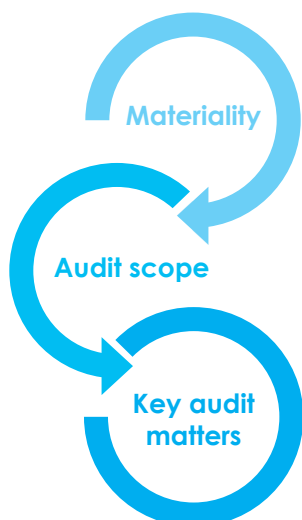
Other than those disclosed in note 10 to the financial statements, we have provided no non-audit services to the Group or Society in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Context

We were appointed on 8 August 2017 as auditors of The Original Holloway Friendly Society Limited, a mutual society based in the South West of England. The main activities of the Group are providing income protection insurance products to members. During the year, the Society has announced the closure to new business of HF Life Limited, the subsidiary of the Society.

Overview



- Overall Group materiality: £513,000 based on 1% of the Fund for future appropriations.
- Overall Society materiality: £487,000 based on 0.95% of the Fund for future appropriations.

-
- For the one significant component, we tested all material balances and line items in the financial statements. We also performed additional audit procedures over the Cash at bank and in hand within the non-significant subsidiary, as it represents a large proportion of the overall balance within the Group financial statements.
-
- Morbidity assumptions used in the valuation of liabilities for income protection ("IP") contracts (Group and Society).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Board of Management made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Society financial statements, including, but not limited to, the Friendly Societies Act 1992, UK tax legislation and the applicable Prudential Regulation Authority regulations. Our tests included, but were not limited to review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators and enquiries of management. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Board of Management that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter

Morbidity assumptions used in the valuation of liabilities for income protection (“IP”) contracts (Group and Society)

The valuation of liabilities for IP contracts depends on a number of assumptions, but it is most sensitive to the assumed rates of policyholder morbidity. Small changes in these assumptions could have a material impact on the valuation. There is inherent judgement in choosing the morbidity assumptions and therefore there is a risk that they could be inappropriate.

The Directors' best estimate morbidity assumptions are derived with reference to the Group's historical experience which is then used to make adjustments to industry morbidity tables in line with standard actuarial practice.

We focused our audit work on these key judgements adopted by the Directors in setting their morbidity assumptions.

Refer to the Report from the Audit and Risk Committee on page 28 and note 3 on page 51.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Group and the Society, the accounting processes and controls, and the industry in which it operates.

The Group consolidated financial statements are formed of a consolidation of two entities being the main insurance company The Original Holloway Friendly Society Limited, and a non-significant subsidiary that ceased trading part the way through the year. In relation to the audit of the Group consolidated financial statements there is only one significant component on which we focus the majority of our audit procedures, being The Original Holloway Friendly Society Limited.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Society financial statements
Overall materiality	£ 513,000	£ 487,000
How we determined it	1% of the Fund for future appropriations.	0.95% of the Fund for future appropriations.
Rationale for benchmark applied	We consider the Fund for future appropriations to be the most relevant measure to apply as this represents the value of the members' interests in the Group.	We consider the Fund for future appropriations to be the most relevant measure to apply as this represents the value of the members' interests in the Society.

How our audit addressed the key audit matter

Our work to address the valuation of these long term insurance contract liabilities was supported by our actuarial specialists and included the following procedures:

- » We tested the underlying data used in the year-end valuation and experience analysis which supports management's judgements in setting the morbidity assumptions.
- » We tested the calculations carried out in this process and found them to be in line with industry standard methodology.
- » We evaluated the proposed adjustments to the standard industry tables to set the long term best estimate assumptions. We did this by reviewing management's experience analysis which compares the actual level of sickness claims incurred by the Society in the analysed year to the expected rates within that year.

Through the procedures detailed above, we have found the morbidity assumptions used to value the liabilities for IP contracts were supported by the evidence obtained.

For the one component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The materiality allocated to this component was £487,000.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £25,000 (Group) and £24,000 (Society) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
<p>We are required to report if we have anything material to add or draw attention to in respect of the Board of Management's statement in the financial statements about whether the Board of Management considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Board of Management's identification of any material uncertainties to the Group's and the Society's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.</p>	<p>We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Society's ability to continue as a going concern.</p>

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Board of Management is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Report of the Board of Management, we also considered whether it had been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Friendly Societies Act 1992, (FSA92) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Report of the Board of Management

In our opinion, based on the work undertaken in the course of the audit, the information given in the Report of the Board of Management for the financial year for which the financial statements are prepared is consistent with the financial statements and has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it. (FSA92)

In light of the knowledge and understanding of the Group and the Society and their environment obtained in the course of the audit, we did not identify any material misstatements in the Report of the Board of Management. (FSA92)

The Board of Management's assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the Board of Management's reporting on how it has applied the UK Corporate Governance Code – An Annotated version for mutual insurers (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- » The Board of Management's confirmation on page 18 of the Annual Report that it has carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- » The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- » The Board of Management's explanation on page 18 of the Annual Report as to how it has assessed the prospects of the Group, over what period it has done so and why it considers that period to be appropriate, and its statement as to whether it has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the Board of Management's reporting on how it has applied the Code, we are required to report to you if, in our opinion:

- » The statement given by the Board of Management, on page 23, that it considers the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Society's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Society obtained in the course of performing our audit.
- » The section of the Annual Report on page 27 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.
- » The Board of Management's statement relating to the Society's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, by the Association of Financial Mutuals, for review by the auditors.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Board's Responsibilities on page 22 the Board of Management is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Board of Management is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the Group's and Society's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Management either intends to liquidate the Group or the Society or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Friendly Societies Act 1992 exception reporting

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

- » we have not received all the information and explanations and access to documents we require for our audit; or
- » adequate accounting records have not been kept by the Society, or
- » the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Management on 8 August 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. This is therefore our first year of uninterrupted engagement.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
2 May 2018

**Our five-year strategy
relies on significant
investment to build a
Society fit for the challenges
of coming decades.**

FINANCIAL STATEMENTS

The Original Holloway Friendly Society Limited consolidated statement of comprehensive income for the year ended 31 December 2017

	Notes	Group 2017	Society 2017	Group 2016	Society 2016
		£	£	£	£
TECHNICAL ACCOUNT - LONG TERM BUSINESS					
Gross premium written	5	7,375,457	7,114,604	6,675,548	6,372,899
Outward reinsurance premiums		(999,159)	(999,159)	(901,926)	(689,022)
Net earned premium income		6,376,298	6,115,445	5,773,622	5,683,877
Investment income	6	2,590,650	2,590,650	1,848,702	1,848,702
Unrealised gains on investments	7	629,666	629,666	2,116,924	2,116,924
Other income		166,673	166,673	128,671	128,671
Total technical income		9,763,287	9,502,434	9,867,919	9,778,174
Gross claims incurred		4,094,045	4,094,045	2,759,380	2,759,380
Reinsurance recoveries		(916,982)	(916,982)	(13,422)	(13,422)
Claims incurred, net of reinsurance	8	3,177,063	3,177,063	2,745,958	2,745,958
Change in technical provisions	9	1,486,432	1,486,432	-5,790,121	-5,790,121
Net operating expenses	10	7,777,319	7,516,466	3,906,379	3,698,136
Investment expenses and charges	11	165,529	165,529	172,580	172,580
Tax attributable to long term business	12	-	-	-	-
Allocated investment return transferred to the non-technical account		3,480	3,480	3,371	3,371
Transfer to/ (from) the fund for future appropriations	13	(2,846,536)	(2,846,536)	8,829,752	8,948,250
Total technical expense		9,763,287	9,502,434	9,867,919	9,778,174
Balance on long-term business technical account		-	-	-	-
NON TECHNICAL ACCOUNT					
Balance on the long term business technical account		-	-	-	-
Allocated investment return transferred from the long term business technical account		3,480	3,480	3,371	3,371
Other charges, including value adjustments		(3,480)	(3,480)	(3,371)	(3,371)
Excess of income over expenditure for the financial year		-	-	-	-

The above results have been split between Group and Society. The Group includes the income and expenditure from the wholly owned subsidiary, Optimal, which closed to new business in November 2017. Its business will run off during 2018.

The Group had no recognised gains or losses other than those included in the movements on the Technical Account and the Non-Technical Account and therefore no separate statement of recognised gains and losses has been presented.

The Group has not presented a Statement of Changes in Equity as there are no equity holders. The Society is a mutual organisation.

The Original Holloway Friendly Society Limited consolidated statement of financial position as at 31 December 2017

	Notes	Group 2017	Society 2017	Group 2016	Society 2016
		£	£	£	£
ASSETS					
Intangible assets					
Development costs	14	480,164	480,164	86,091	66,923
Investments					
Land and buildings	15	800,000	800,000	750,000	750,000
Other financial investments	16	47,256,382	47,256,382	48,982,980	48,982,980
		<u>48,056,382</u>	<u>48,056,382</u>	<u>49,732,980</u>	<u>49,732,980</u>
Assets held to cover linked liabilities	17	1,124,316	1,124,316	1,157,534	1,157,534
Reinsurers, share of technical provisions	18	77,205	77,205	105,979	105,979
Debtors					
Arising out of reinsurance operations	19	97,200	97,200	-	-
Other debtors	19	53,839	250,537	179,776	88,290
		<u>151,039</u>	<u>347,737</u>	<u>179,776</u>	<u>88,290</u>
Other Assets					
Tangible assets	20	181,084	168,015	66,952	43,367
Stocks		11,860	11,860	7,499	7,499
Cash at bank and in hand		612,821	176,484	681,997	523,485
		<u>805,765</u>	<u>356,359</u>	<u>756,448</u>	<u>574,351</u>
Prepayments and accrued income					
Accrued interest and rent		484,155	484,155	233,753	233,753
Other prepayments and accrued income		105,924	105,924	79,290	79,290
		<u>590,079</u>	<u>590,079</u>	<u>313,043</u>	<u>313,043</u>
Technical provisions	9	3,361,225	3,361,225	4,890,272	4,890,272
		<u>54,646,175</u>	<u>54,393,467</u>	<u>57,222,123</u>	<u>56,929,372</u>
LIABILITIES					
Fund for future appropriations	13	51,339,861	51,290,392	54,186,397	54,136,928
Technical provisions for linked liabilities	9	1,022,334	1,022,334	1,064,950	1,064,950
Creditors					
Arising out of direct insurance operations		108,000	108,000	-	-
Arising out of reinsurance operations		97,794	97,794	192,913	192,913
Claims outstanding		112,190	112,190	118,011	118,010
Other creditors including tax and social security	21	1,965,997	1,762,757	1,659,852	1,416,572
		<u>2,283,981</u>	<u>2,080,741</u>	<u>1,970,776</u>	<u>1,727,495</u>
		<u>54,646,176</u>	<u>54,393,467</u>	<u>57,222,123</u>	<u>56,929,373</u>

The financial statements on pages 46 to 60 were approved by the Board of Management and were signed on its behalf by:-

M J Day
Chairman
and Director
2 May 2018

S J Tragheim
Chief Executive
and Director
2 May 2018

Paul Harwood
Company Secretary
and Director
2 May 2018





Notes to the Consolidated Financial Statements

1. Significant Accounting Policies

The principal accounting policies applied in preparing these financial statements are set out below. They have been applied consistently to all the information presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standards 102 and 103 as issued by the Financial Reporting Council and the Friendly Societies (Accounts and Related Provisions) Regulations 1994 (the 'Regulations').

FRS 102 requires the use of certain critical accounting estimates. It requires management to exercise judgement in applying the chosen accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are set out in note 2. Forming estimates inherently requires the use of available information and application of judgement. Actual outcomes could differ from estimates.

In accordance with FRS 103 on Insurance Contracts, the Society has applied existing accounting practices for insurance contracts, modified as appropriate to comply with applicable standards.

The financial statements have been prepared on a historic cost basis, except for the revaluation of certain properties and financial instruments.

Going concern

The Group meets its day-to-day working capital requirements through its own resources.

During 2017 a decision was made to close Optimal (the Group's only subsidiary) to new business. Optimal will continue to administer its business until it has naturally expired or has been transferred elsewhere. It is expected that Optimal will have no active insurance contracts in place at 31 December 2018.

The Group's forecast and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that it has adequate resources to continue in operational existence

for the foreseeable future. The Group therefore continues to adopt the going concern basis in preparing its financial statements.

Basis of consolidation

The Group accounts consolidate the accounts of the Society and its subsidiary, both of which have accounting periods ending 31 December 2017.

Accounting for property

Land and buildings are included at open market value, as determined every three years by an independent surveyor. The valuation was last undertaken in November 2017.

Accounting for net earned premiums

Premiums are accounted for when due for payment. Premiums for new business are accounted for when the insurance contract liability is set up and the premium is due for payment. Reinsurance premiums are accounted for when due for payment.

Accounting for investment income

Investment income is accounted for at fair value and includes dividends, interest from investments and rents. Dividend income is accounted for when received. Other investment income is included on an accruals basis.

Accounting for net gains/(losses) on investments

Realised gains/(losses) on investments are accounted for as the difference between net proceeds and their original purchase price. Where the investment was purchased in the previous accounting period the unrealised gains/(losses) are adjusted for the reversal of any unrealised gains/(losses) brought forward.

Unrealised gains/(losses) on investments are accounted for as the difference between a fair value at 31 December 2017 and a similar valuation as at 31 December 2016 or, where purchased during 2017, the purchase price.

Accounting for other income

Other income primarily relates to the value of forfeitures on insurance contracts. Forfeitures are accounted for as the insurance contract liability is released.

Accounting for operating expense

Net operating expenses, charged in the long-term business technical account, comprising acquisition and administrative expenses, are charged when incurred.

Accounting for pension costs

Contributions to the Group's defined contribution pension scheme are charged to the operating expenses in the period in which the cost is accrued.

Accounting for the tax attributable to long-term business

The Group is only liable to taxation on part of its life and endowment assurance fund. Taxation is provided for an accruals basis, provision being made for the current year's liability.

Accounting for investments

Assets held to cover linked liabilities These investments are included at market value. The linked liabilities match the corresponding assets and are valued on a basis consistent with them.

Other financial investments These investments are included at market value, with changes in value during the year being accounted for in the long-term business technical account.

In compliance with FRS102, the Group discloses in note 16, for each class of financial asset held at fair value in the statement of financial position, an analysis of the level in the fair value hierarchy into which the measurements are categorised.

Valuation methodology	Level
Using active quoted prices	1
Using other observable inputs	2
Using 'other' valuation technique	3

Intangible assets These assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated, using a straight-line method, to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

Computer software development	25% on a straight-line basis
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Tangible assets These assets are accounted for at their purchase cost plus any incidental costs of acquisition. Depreciation is calculated to write off the cost of tangible assets over their estimated useful lives, at the following rates:-

Motor vehicles	25% on a straight-line basis
Office equipment	10% - 25% on a straight-line basis
Computer equipment	25% on a straight-line basis

Accounting for claims and benefits

Maturity claims are accounted for when due for payment. Surrenders are accounted for on the earlier of the date payment is made or when the insurance contract ceases to be included within the long-term insurance contract liability.

Death and sickness claims are accounted for when the Society is notified of the claim. The value of claims on participating policies includes bonuses paid or payable. Reinsurance recoveries are accounted for in the same period as the related claim.

Where claims costs are estimated, the estimate includes reinsurance recoveries. The actual claim cost is likely to be different from the estimate.

Accounting for the fund for future appropriations

The fund for future appropriations represents the excess of assets over and above the long-term insurance contracts and other liabilities. It represents the amounts that have yet to be declared as bonuses for participating insurance contracts and the Society's free assets. Any profit or loss reported on the Statement of Comprehensive Income is transferred to or from this fund.

Accounting for policy allocations and bonuses

The Long-Term Business Technical Account assumes that all bonuses are maintained at current rates.

Accounting for technical provisions

The technical provisions are determined by the Board on the advice of the Chief Actuary as part of the annual actuarial valuation of the Society's long-term business. The provision is determined in accordance with Solvency II rules as specified by the European Insurance and Occupational Pensions Authority (EIOPA).

Accounting for reinsurance

Group life insurance contracts are ceded to reinsurers under contracts to transfer part or all of the risk. Such contracts are accounted for as insurance contracts provided the risk transfer is significant.

The amounts that will be recoverable from reinsurers are estimated based upon the gross provisions, having due regard to collectability. The reinsurers' share of claims incurred in the Statement of Comprehensive Income reflects the amounts received or receivable from reinsurers in respect of those claims incurred during the period. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are accounted for in the Statement of Comprehensive Income as Outwards reinsurance premiums when due.

2. Critical Accounting Judgements and Estimates

In preparing the financial statements, management is required to make estimates and assumptions which affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates, together with past experience and expectations of future events that are believed to be reasonable under the circumstances. Actual results in the future could differ from such estimates.

Technical provisions

A Best Estimate of Liabilities is determined on best estimate assumptions together with a Risk Margin which reflects the costs that a third party would require to administer the Group's liabilities. Both Best Estimate of Liabilities and the Risk Margin are calculated in line with Solvency II requirements as at the valuation date. Due to the long-term nature of the Society's liabilities, these estimates are subject to significant uncertainty.

The assumptions used for mortality and morbidity are based on standard industry tables adjusted where appropriate to reflect the Group's experience. The assumptions used for expenses and lapse rates are based on Society plans and experience.

The assumptions used for discount rates are based on risk-free rates specified by EIOPA.

The main assumption underlying these techniques is that past claims development experience compared with a standard table provides a reliable basis for projecting future claims experience.

3. Capital Management

The Group maintains an appropriate level of capital to ensure the payment of existing policyholder benefits with a 99.5% level of confidence, while investing to achieve its strategic aims.

The Group's capital management objectives are:

- » To ensure that the Group's strategy can be implemented and sustained;
- » To maintain the Group's financial strength at an appropriate level for the risks of the business;
- » To give confidence to policyholders and other stakeholders; and
- » To comply with the capital requirements imposed by its regulator.

Details of the Society's objectives and its strategy to achieve them are provided in the Chief Executive's statement on page 12.

The strategy is set for a five-year period beginning 1 January 2017. The work to achieve the strategy is typically described in annual plans which take into account the tactical needs of the Society. The plans and the strategy are continually reviewed and challenged by the Board.

At least annually, the Board directs an exercise to assess the risks in the business and the impact on solvency if one or more of these risks were to materialise. The assessment depends on various actuarial and other assumptions about potential change in market prices, future operating experience and the actions management would take in the event of particular adverse changes in market conditions.

With the results in mind, the Board considers the Society's capital requirements and directs management accordingly. Capital management is thus an important consideration in Board decision making.

The Solvency Capital Requirement is calculated in accordance with EIOPA's standard formula.

Following the 2017 capital assessment, management intends to maintain surplus capital in excess of its Solvency Capital Requirement.

The Society complied with the prudential requirements regarding capital and technical provisions throughout 2017. It is not, and has not been in 2017, subject to any externally imposed capital requirements.

Capital Statement

The following summarises the capital resources of the Society as determined for UK regulatory purposes.

The capital statement below covers all of the Society's insurance business. There are no specific constraints on the capital of the Society. As the Society has no shareholders, all of its capital belongs to its members.

Long-term insurance business	2017 £000s	2016 £000s
Fund for future appropriations	51,290	54,137
Adjustments to assets	(586)	(12)
Total available capital resources	50,704	54,125

Risk Management

As the Society's capital belongs to its members, the Society is able to amend the level of profit allocation and bonuses payable to its members should this be necessary to maintain solvency.

Assumptions used in the valuation of technical provisions

A gross premium valuation is used to calculate the liabilities. The assumptions used in the valuation of the long-term insurance liabilities are set out below. Due to the long-term nature of the Society's liabilities, the assumptions, and hence the valuation results which are based on them, are subject to significant uncertainty.

Discount rate of interest Assumptions are set having regard to risk-free rates of return (without volatility adjustment) as specified by EIOPA as at 31 December 2017.

Expenses Maintenance expenses are set allowing for new business in accordance with the Society's business plans for the period 2017-2021. Thereafter, expenses are assumed to increase in line with an expense inflation assumption of 3.10% per annum (2016: 3.80% per annum).

Morbidity For sickness products, an inception and recovery approach is used, based on CMIR12 rates: broadly 30% of inceptions and 60% recovery rate for weeks 0-4 of sickness, 125% recovery rate for weeks 4-13 of sickness and 200% thereafter (2016: unchanged). The rates are reviewed annually to allow for emerging experience.

Lapses Are assumed at 7.5% per annum for the Society's income protection insurance contracts and 2.5% per annum for the Society's commuted Holloway insurance contracts (2016: unchanged). No lapses are assumed in the valuation of unit-linked and group life insurance contracts (2016: unchanged).

Mortality Assumptions are set by reference to standard actuarial tables. At the end of 2017, mortality in line with 50% of AMC00 Ultimate was assumed for healthy lives (2016: unchanged) and 100% CMIR12 mortality rates for sick lives (2016: unchanged).

Options and guarantees

None of the Society's insurance contracts had any financially significant options or any guaranteed surrender values in place during the year up to the valuation date.

Analysis of change

The available capital has reduced during the year. This is primarily because of higher expenses, increased new business commission outflow and higher benefit payment. It has been mitigated by investment performance and a change in expectation of expense inflation.

2017	Change £000s	Available Capital £000s
Available capital at start of year		54,125
Investment gains	+3,134	
New business	-2,001	
Policy cash flows	-2,644	
Change in risk free rates	+55	
Change in benefit inflation	+1,338	
Final bonuses	-711	
Model changes	-31	
Change in expense inflation	+238	
Change in expense	-4028	
Change in current liabilities	-353	
Unwind of risk margin	+1,236	
Change in risk margin	+920	
Change in admissibility	-574	
Available capital at end of year		50,704

4. Risk management and control

This note provides information on the main risks and how they are managed.

Underlying approach to risk management

The following principles outline the Society's approach to risk management and internal control:

- » The Board has responsibility for ensuring that there are effective risk management and internal control systems.
- » Primary oversight of these systems is delegated to the Audit and Risk Committee by the Board.
- » The Risk Management System ensures that risks that might move outcomes well outside those envisaged by the business plan are identified, measured, monitored, managed and reported appropriately.
- » The Internal Controls System ensures that controls are effective. This includes understanding the nature of the controls, monitoring their effectiveness, allowing them to evolve and to develop a culture of openness and continual challenge. Root cause analysis and consideration of near misses are important components of the approach.
- » The Risk and Controls Committee (a management committee) receives reports on risks from throughout the Society. It reviews the reports and commissions further investigation as necessary.

- » Managers are accountable for the internal control environment in their areas.

Insurance risk (health risk)

The Society is exposed to a range of financial risks through its financial assets, financial liabilities, reinsurance assets and insurance contract holders liabilities.

Morbidity risk There are more sickness claims than expected or that the claims last for longer.

Lapse risk More insurance contracts cease than are expected, and therefore future premiums are lower than expected.

Expense risk More is spent than has been budgeted.

In all three cases, if the risk materialises, profitability will be reduced. These risks are inherently part of the Society's business.

Morbidity risk can be mitigated through reinsurance at a cost. At the moment, the Society is sufficiently financially strong to absorb this risk, provided its pricing, underwriting and claims-handling processes remain effective.

Lapse risk is difficult to mitigate. The Society is developing a programme to monitor lapse risk more closely and to reinforce the value of its insurance contracts, if appropriate, when a lapse is signalled.

Expense Risk is closely monitored.

Note 9 sets out the technical provisions and the changes over the year.

New business risks

Lower-than-expected new business is a risk. The Society needs a healthy and increasing stream of new business to achieve its strategy.

Higher-than-expected new business also involves risk. It is important that there are sufficient people to handle increased volume and that underwriting standards are maintained. Like most businesses, existing personnel can be temporarily moved to support a spike in new business, but this is not a permanent solution. It also carries the risk that important strategic work cannot progress.

The Society is actively and continually managing these risks.

Financial risks (Market risk, Credit risk, Liquidity risk)

Market risk Investments fall in value or provide lower income; deposits fail.

Credit risk Debtors, reinsurers or other counterparties default on their financial obligations.

Liquidity risk Is the risk that the Society is unable to meet its liabilities when they become due.

Market risk

The Society's market risk primarily arises from equity price risk and interest rate risk. It has a very small exposure to currency risk.

Equity price risk

The Society is exposed to equity price risk as a result of its holdings in equity investments, classified as financial assets at fair value through profit or loss. Exposures to individual companies and to equity shares in aggregate are monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes. Investments held are listed and traded on the UK and other recognised stock exchanges (primarily in Europe and North America).

The Society has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by geography and counterparty. This policy of diversification is used to manage the Society's price risk arising from its investments in equity securities.

The sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market.

Management monitors equity price movements on a regular basis. Listed equity securities represent 100% (2016: 100%) of total equity investments. If equity market indices had increased/decreased by 5%, with all other variables held constant, and all the Society's equity investments moving according to the historical correlation with the index, the income/gain for the year would increase/decrease by £1.0m (2016: £0.9m).

Interest rate risk

Interest rate risk arises primarily from investments in fixed interest securities. The Society's claims costs are not directly related to interest rates, so policyholder liabilities are not exposed to interest rate risk.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date. However, the with-profits element of the liabilities is directly affected by changes in the level of interest rates to the extent that they affect the carrying amount of the assets held in the with-profits funds. The prescribed increase in EIOPA risk-free yields (effectively 100 basis points) would result in a reduction in surplus of £3.8m (2016:

£3.4m). The prescribed decrease in EIOPA's risk-free yields (averaging 40 basis points (2016: 34) over the next 25 years) would result in an increase in surplus of £1.7m (2016: £1.3m).

Managing market risk

The Society has an Investment Committee which oversees market risk. The Committee recommends the investment policy to the Board, receives reporting, oversee investment activity and ensure that the agreed policy is followed.

The Society manages its assets for the benefit of its Members. The asset allocation policy, counterparty limits and other controls provided in the investment policy balance the risks against the rewards.

Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Society is exposed to credit risk are:

- » amounts due from corporate bond issuers;
- » amounts due from insurance intermediaries;
- » amounts due from insurance contract holders;
- » reinsurers' share of insurance and investment contract liabilities; and
- » amounts due from reinsurers in respect of claims already paid.

The Society has very little credit risk. Its counterparties are selected to be of high credit worthiness.

The Society manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty or groups of counterparties and to geographical and industry segments. Such risks are subject to regular review.

Reinsurance is used for the Optimal business.

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	Market Value £000	
	2017	2016
Investment grade*	18,423	17,887
Non investment grade	772	323
Non rated	1,126	2,954
TOTAL	20,321	21,164

* BBB and above

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. No financial assets are past due or impaired at the

reporting date and management expects no significant losses from non-performance by these counterparties.

The assets reported above include £1.124m (2016: £1.158m) related to the assets backing unit-linked insurance contracts. The holders of these contracts bear the credit risk arising from these assets. The assets include those held in the with-profits funds where the Group is able to transfer part of the credit risk arising from these assets to holders of with-profits investment and insurance contracts to the extent that the future level of discretionary bonuses can be reduced to absorb any associated credit losses (as well as losses arising from all other financial risks).

Liquidity risk

Liquidity risk is the risk that cash may not be available at a reasonable cost to pay obligations when due. The Board sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of borrowing facilities that should be in place to cover anticipated liabilities and unknown levels of demand.

Amounts under unit-linked insurance contracts are generally repayable on demand and the Society is responsible for ensuring there is sufficient liquidity within the asset portfolio to enable liabilities to unit linked policyholders to be met as they fall due.

With-profits insurance contracts can be surrendered before maturity for a cash surrender value. Liquidity risk can be managed by the Society exercising its discretion to adjust the level of terminal bonus payable on early surrender.

Sensitivity of the Society's results to changes in key assumptions

The following describes the sensitivity of the Society's results to changes in assumptions.

Assumption	Change	Impact (£000s)
Change in morbidity inceptions (%CMIR12)	+10%	(729)
	-10%	+729
Change in morbidity recoveries (%CMIR12)	+10%	+2,280
	-10%	(3,397)
Expense allowances	+10%	(1,035)
	-10%	+1,035
Change in rate of mortality (%AMC00)	+10%	+215
	-10%	(153)
Change in risk free yields	EIOPA shock up	(3,828)
	EIOPA shock down	+1,689
Fall in fixed interest asset value	-10%	(1,938)
Fall in equity values	-10%	(2,024)
Fall in property values	-10%	(80)

The Impact column shows the change in available capital

5. Earned premium income

	Group 2017 £	Society 2017 £	Group 2016 £	Society 2016 £
Gross premium written				
Income protection business - regular premiums	5,822,650	5,822,650	5,671,471	5,671,471
Life cover business - regular premiums	1,552,807	1,291,954	1,004,077	701,428
	<u>7,375,457</u>	<u>7,114,604</u>	<u>6,675,548</u>	<u>6,372,899</u>

All contracts are written for residents in both the UK and Isle of Man.

6. Investment income

	Group and Society	
	2017 £	2016 £
Rental income from investment properties	5,891	28,249
Income from investments:		
Interest income (Cash deposits)	61,401	89,742
Interest income (British Government securities)	138,408	128,626
Interest income (Other fixed interest securities)	593,771	435,340
Dividend income	561,690	533,543
	<u>1,361,161</u>	<u>1,215,500</u>
Gains/(loss) on realisation of investments	1,229,489	633,202
	<u>2,590,650</u>	<u>1,848,702</u>

7. Net unrealised gain/(loss) on investments

	Group and Society	
	2017 £	2016 £
Investments at fair value through income:		
Equity securities	629,666	2,116,924
	<u>629,666</u>	<u>2,116,924</u>

8. Claims incurred

	Group and Society	
	2017 £	2016 £
Death claims paid	1,129,098	5,850
reinsurers' share	(910,211)	-
	<u>218,887</u>	<u>5,850</u>
Sickness benefit	1,094,114	953,756
reinsurers' share	(6,771)	(13,422)
	<u>1,087,343</u>	<u>940,334</u>
Maturity	70,828	146,576
Member withdrawals	1,800,005	1,653,198
	<u>1,870,833</u>	<u>1,799,774</u>
Claims incurred, net of reinsurance	3,177,063	2,745,958

The presentation of Claims incurred has been updated since 2016: Member withdrawals are now included, rather than shown separately. In the 2016 Financial Statements, the Member withdrawals figure of £1,653,198 was labelled as Bonuses and rebates. The presentation has been corrected as in the note above.

9. Technical provisions

9. Technical provisions	Group and Society			
	Unit Linked Liabilities £	Non-Unit Linked Liabilities £	Total 2017 £	Total 2016 £
Balance at 1 January	1,064,950	(4,890,272)	(3,825,322)	1,964,799
Increases in the year resulting from income	41,486	7,802,285	7,843,771	7,047,506
Decreases in the year resulting from payment of claims and expenses	(84,102)	(6,273,237)	(6,357,339)	(12,837,627)
Balance at 31 December	<u>1,022,334</u>	<u>(3,361,224)</u>	<u>(2,338,890)</u>	<u>(3,825,322)</u>
Change in technical provisions	(42,616)	1,529,048	1,486,432	(5,790,121)

Note 3. Capital management and Note 4. Risk management and control provide supporting information regarding the valuation assumptions and approach to risk associated with the technical provisions.

10. Net operating expenses

	Group 2017 £	Society 2017 £	Group 2016 £	Society 2016 £
	Long-term insurance			
Acquisition expenses	4,299,127	4,133,898	1,887,562	1,530,647
Administrative expenses	3,478,192	3,382,568	2,018,817	2,167,489
Net operating expenses	7,777,319	7,516,466	3,906,379	3,698,136

Net operating expenses include the following:

Fees payable to the Society's auditor

Audit	60,800	60,800	32,400	28,800
Audit related assurance services	16,700	16,700	8,700	8,700
Other services	-	-	6,000	6,000
Actuarial fees for valuation and consultancy	241,351	241,351	224,893	224,893
Depreciation on tangible fixed assets	44,789	34,274	36,384	25,869
Operating lease rental charges	3,060	3,060	3,218	2,077

Exceptional Items of £348,776 have been reclassified under Net operating expenses and the 2016 Statement of Comprehensive Income corrected.

Employee benefits expense	Group 2017 £	Society 2017 £	Group 2016 £	Society 2016 £
People Expenses				
Salaries and wages	2,429,428	1,947,036	1,271,806	913,986
Social security costs	242,232	191,199	117,632	80,849
Pension costs	248,743	194,876	90,153	61,834
	<u>2,920,403</u>	<u>2,333,111</u>	<u>1,479,591</u>	<u>1,056,669</u>

The number of employees during the year, including executive directors, calculated on a monthly average basis was as follows:

	2017	2017	2016	2016
Board and senior management	11	10	11	10
Acquisition and member contact	23	19	14	9
Administration	24	19	13	11
	<u>58</u>	<u>48</u>	<u>38</u>	<u>30</u>

	2017 £	2016 £
The aggregate remuneration of key management personnel, being the Executive Directors, was as follows:		
Salaries and wages	451,384	208,424
Social security costs	39,819	26,430
Pension costs	73,867	82,916
	<u>565,070</u>	<u>317,770</u>

The Group has a long-term incentive plan covering financial years 2017-2019. A payment is due if certain targets are achieved over this period. The plan is discretionary and no award is considered until the end of the performance period. A similar plan has been introduced covering financial years 2018-2020.

Full details of Directors' emoluments are contained in the Directors' Remuneration report on 33 to 36.

11. Investment expenses and charges

	Group 2017 £	Society 2017 £	Group 2016 £	Society 2016 £
Investment expenses and charges	165,529	165,529	172,580	172,580

In line with FRS 102, investment losses of £509,909 for 2016 have been reclassified to Gains/(losses) on realisation of investments.

12. Taxation

	Group 2017 £	Society 2017 £	Group 2016 £	Society 2016 £
Current taxation	-	-	-	-

13. Fund for future appropriations

	Group Fund for future appropriations			
	General Reserve £	Life & Endowment £	Total 2017 £	Total 2016 £
Balance at 1 January	53,900,209	286,188	54,186,397	45,356,645
Transfers to/(from) fund for future appropriations	(2,846,668)	132	(2,846,536)	8,829,752
Balance at 31 December	<u>51,053,541</u>	<u>286,320</u>	<u>51,339,861</u>	<u>54,186,397</u>

Society Fund for future appropriations				
	General Reserve £	Life & Endowment £	Total 2017 £	Total 2016 £
Balance at 1 January	53,850,740	286,188	54,136,928	45,188,678
Transfers to/(from) fund for future appropriations	(2,846,668)	132	(2,846,536)	8,948,250
Balance at 31 December	51,004,072	286,320	51,290,392	54,136,928

Member funds	2017 £	2016 £
Balance at 1 January	19,349,861	19,367,709
Apportionment of surplus	1,048,980	1,124,372
Compound bonus	362,988	365,168
Terminal bonus	174,631	162,745
	20,936,460	21,019,994
Withdrawals	1,673,070	1,540,945
Forfeitures and lapses	126,935	129,188
	1,800,005	1,670,133
Balance at 31 December	19,136,455	19,349,861

14. Intangible assets

Group intangible assets					
		Policy Administration System £	Computer Software £	2017 Total £	2016 Total £
Cost	As at 1 January	-	162,136	162,136	200,535
	Additions	269,624	222,749	492,373	44,327
	Disposals	-	(93,113)	(93,113)	0
	As at 31 December	269,624	291,772	561,396	244,862
Amortisation	As at 1 January	-	95,213	95,213	76,417
	Charge for year	-	79,132	79,132	82,354
	Eliminated on disposals	-	(93,113)	(93,113)	0
	As at 31 December	-	81,232	81,232	158,771
Net Book Value as at 31 December		269,624	210,540	480,164	86,091

Society intangible assets					
		Policy Administration System £	Computer Software £	2017 Total £	2016 Total £
Cost	As at 1 January	-	162,136	162,136	170,535
	Additions	269,624	222,749	492,373	44,327
	Disposals	-	(93,113)	(93,113)	0
	As at 31 December	269,624	291,772	561,396	214,862
Amortisation	As at 1 January	-	95,213	95,213	76,417
	Charge for year	-	79,132	79,132	71,522
	Eliminated on disposals	-	(93,113)	(93,113)	0
	As at 31 December	-	81,232	81,232	147,939
Net Book Value as at 31 December		269,624	210,540	480,164	66,923

In line with FRS 102, software of £6,653 and product development of £60,271 have been reclassified as intangible assets and the 2016 Statement of Financial Position adjusted.

15. Land and buildings

	Group and Society	
	2017 £	2016 £
Cost/Valuation		
As at 1 January	750,000	875,000
Increase in valuation	50,000	-
Disposals	-	(125,000)
As at 31 December	800,000	750,000

Land and buildings are freehold and are included at market value at 31 December 2017. The valuation was carried out by Richard Clark MRICS, Dip Law, FNARA of Alder King, Property Consultants. The office property is partially occupied by the Society and was valued on an existing use basis.

16. Other financial investments

	Group and Society			
	2017		2016	
	Market Value £	Cost £	Market Value £	Cost £
Financial assets – Fair value through income				
Shares, other variable yield securities and unit trusts				
UK Listed	14,212,917	12,909,757	12,921,884	9,995,689
UK Unlisted	-	-	1,134,117	1,000,000
Overseas listed	5,698,455	4,007,691	4,991,857	3,904,498
Debt securities and other fixed income securities	13,842,372	12,533,658	13,366,234	12,322,182
Deposits with credit institutions	13,502,638	13,502,638	16,568,888	16,568,888
	47,256,382	42,953,744	48,982,980	43,791,257

Valuation methods
- these are based on FRS102 (section 11)

Group financial assets

	Group and Society	
	2017 Level 1 Active quoted prices £	2016 Level 1 Active quoted prices £
Shares, other variable yield securities and holdings in collective investment schemes	19,911,372	19,047,858
Debt securities and other fixed income securities	13,842,372	13,366,234
Deposits with credit institutions	13,502,638	16,568,888
Total group financial assets held at fair value through profit and loss	47,256,382	48,982,980

There were no level 2 or level 3 assets held by the Society.

17. Assets held to cover linked liabilities

	2017		2016	
	Market Value £	Cost £	Market Value £	Cost £
Financial assets – fair value through income				
Shares, other variable yield securities and unit trusts				
UK Listed	647,831	589,165	653,217	611,244
Debt securities and other fixed income securities	447,646	386,096	444,747	386,095
	1,095,477	975,261	1,097,964	997,339
Financial assets – at amortised cost				
Deposits with credit institutions	28,839	28,839	59,570	59,570
	1,124,316	1,004,100	1,157,534	1,056,909

18. Reinsurers' share of technical provisions

	Group 2017 £	Society 2017 £	Group 2016 £	Society 2016 £
Reinsurers' share of technical provisions	77,205	77,205	105,979	105,979

2016 shows a reclassification in Reinsurers' share of technical provisions of £105,979 which was previously included in Accrued interest and rent.

19. Debtors

	Group 2017 £	Society 2017 £	Group 2016 £	Society 2016 £
Arising out of reinsurance operations				
Due from reinsurers	97,200	97,200	-	-
Other debtors				
Accounts receivable	53,084	20,519	175,556	13,512
Loans	755	755	4,220	4,220
Amounts due from Subsidiary	-	229,263	-	70,558
	<u>53,839</u>	<u>250,537</u>	<u>179,776</u>	<u>88,290</u>

2016 shows a reclassification of Amounts due from subsidiary. This £70,558 was previously included in Accrued interest and rent.

20. Tangible assets

Group tangible assets					
		Office Equipment £	Computer Equipment £	2017 Total £	2016 Total £
Cost	As at 1 January	116,838	116,479	233,317	242,721
	Additions	89,050	63,550	152,600	37,859
	Disposals	(82,485)	(47,750)	(130,235)	(47,263)
	As at 31 December	<u>123,403</u>	<u>132,279</u>	<u>255,682</u>	<u>233,317</u>
Depreciation	As at 1 January	82,786	83,579	166,365	196,017
	Charge for year	14,371	24,096	38,467	17,588
	Eliminated on disposals	(82,485)	(47,749)	(130,234)	(47,240)
	As at 31 December	<u>14,672</u>	<u>59,926</u>	<u>74,598</u>	<u>166,365</u>
Net Assets Value as at 31 December		<u>108,731</u>	<u>72,353</u>	<u>181,084</u>	<u>66,952</u>

Society tangible assets					
		Office Equipment £	Computer Equipment £	2017 Total £	2016 Total £
Cost	As at 1 January	116,838	63,206	180,044	189,448
	Additions	89,050	63,550	152,600	37,859
	Disposals	(82,485)	(47,750)	(130,235)	(47,263)
	As at 31 December	<u>123,403</u>	<u>79,006</u>	<u>202,409</u>	<u>180,044</u>
Depreciation	As at 1 January	82,786	53,891	136,677	176,844
	Charge for year	14,371	13,581	27,952	7,073
	Eliminated on disposals	(82,485)	(47,750)	(130,235)	(47,240)
	As at 31 December	<u>14,672</u>	<u>19,722</u>	<u>34,394</u>	<u>136,677</u>
Net Assets Value as at 31 December		<u>108,731</u>	<u>59,284</u>	<u>168,015</u>	<u>43,367</u>

21. Other creditors including taxation and social security

	Group 2017 £	Society 2017 £	Group 2016 £	Society 2016 £
Taxation and social security	105,919	105,919	89,617	89,617
Amounts due to retired members	630,222	630,222	592,354	592,354
Amounts due to current members - extra contributions	98,634	98,634	98,857	98,857
Other creditors	1,131,222	927,982	879,024	635,744
	<u>1,965,997</u>	<u>1,762,757</u>	<u>1,659,852</u>	<u>1,416,572</u>

2016 shows an amount of £124,376 which has been reclassified to Arising out of reinsurance operations which was previously included in Other creditors.

22. Capital commitments

At 31 December 2017, the Society had no capital commitments (2016: nil)

23. Financial commitments

Non-cancellable operating lease commitments.

Group	2017			2016		
	<1 year £	2 - 5 years £	> 5 years £	<1 year £	2 - 5 years £	> 5 years £
	16,994	7,174	-	38,862	-	-

Society	2017			2016		
	<1 year £	2 - 5 years £	> 5 years £	<1 year £	2 - 5 years £	> 5 years £
	2,594	7,174	-	2,998	-	-

24. Particulars of business

All the Society's business relates to direct insurance business, being income protection, specialist critical illness, friendly society ten-year plans and group life.

25. Related parties

Details of the remuneration paid to Directors is provided in the Directors' Remuneration Report on pages 33 - 36. Some Board members and senior management have policies with the Society and pay premiums on an arms length basis. The total value of policies held by Directors and their families does not exceed £7,000. All transactions with related parties were undertaken at arm's length under commercial terms of business. There are no other related party transactions.

26. Actuary

The Chief Actuary is Mr Christopher Critchlow BSc, FIA of OAC plc. The Society has requested him to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr Critchlow, has confirmed that neither he nor his family were members of the Society, nor have they any financial or pecuniary interests in the Society, with the exception of fees paid to OAC for professional services, which amounted to £241,351 in 2017 (2016: £224,893).

27. Actuarial valuation

In accordance with the Prudential Regulation Authority Handbook (Supervision 4.3.13 R) the Society is obliged to have an actuarial valuation of its long-term business. The valuation report has been prepared by the Chief Actuary, Mr Christopher Critchlow, in accordance with the relevant Technical Actuarial Standards published by the Financial Reporting Council. A copy of the report can be seen at the registered office of the Society.

**The best way that we can
serve our Members is to
pay claims promptly
and reasonably.**



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Regulated by the Financial Conduct Authority.
Firm Reference Number (for regulatory enquiries) FRN 109986.
Income protection from the original provider. Founded in 1880