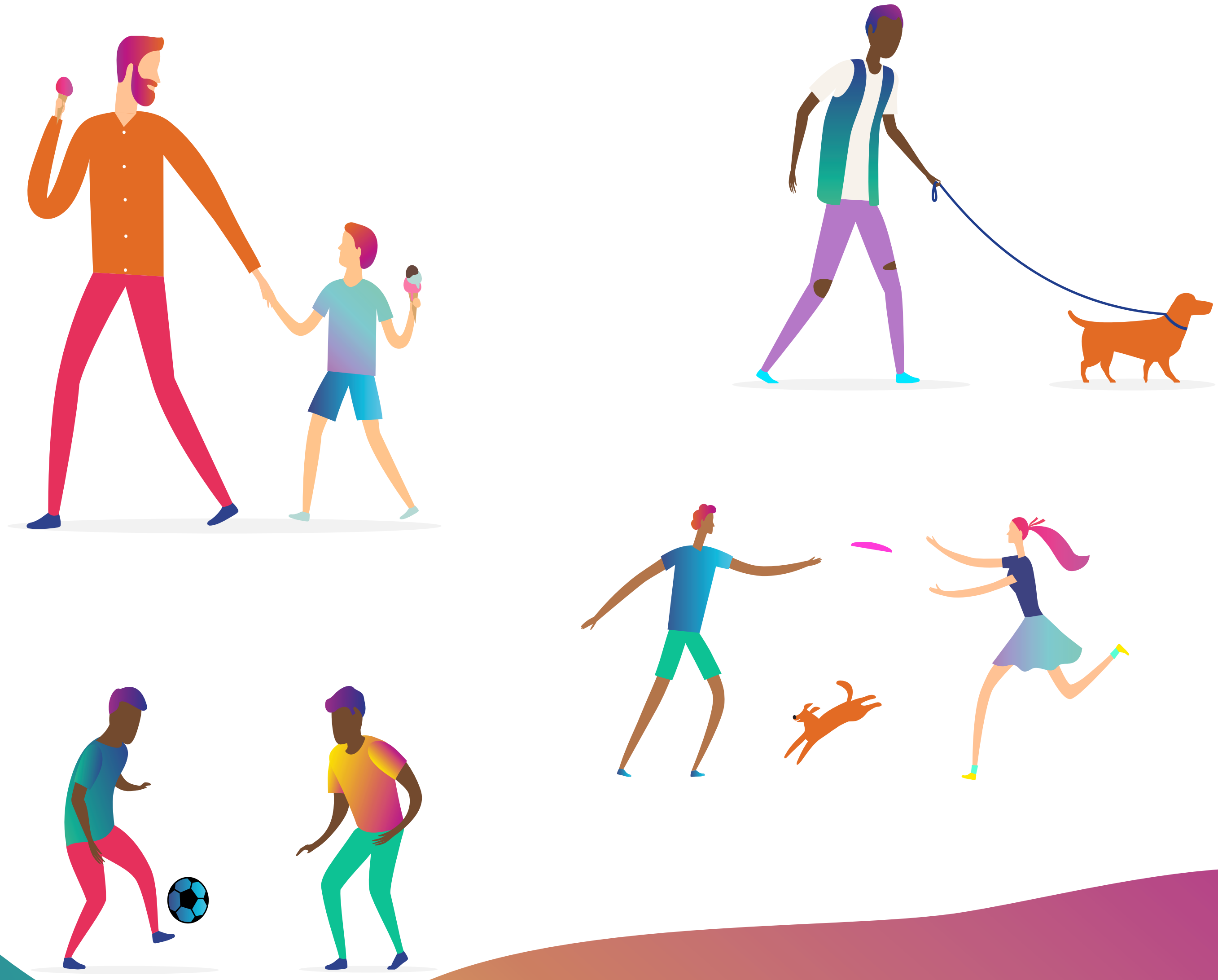
Holloway Friendly

2018 Annual Report and Accounts

Report and Financial Statements for the year ended 31 December 2018



Keeping life colourful

As the inventors of Income Protection, we know how to look after our members

Welcome from the Chair

Dear Members,

Welcome to the 2018 Annual Report and Accounts for the Original Holloway Friendly Society, which includes our Strategic Report and Financial Statements. There are six parts to this report.

First, an Overview from me, as your Society's Chair, summarising the results and activity from an external point of view.

Second, there is the Strategic Report from Stuart Tragheim, our Chief Executive. Stuart begins with his Overview followed by a Business Review and finally a description of the Risks to the Strategy and how we approach Risk Management.

Third, the bonus report, shows how we are able to share the value emerging with Members.

Fourth, there is the Report of the Board of Management. This covers the activities of the Board and its Committees and 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 their presentation.

I hope you find the content interesting and informative. We are always pleased to hear from you and we welcome any feedback or suggestions on our report, the progress of your Society or your experiences working with us.

Yours sincerely,

Martin Day
Chair
24 April 2019

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Officers, Professional Advisers and Registered Office

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

Chair and Non-Executive Director Martin Day

Vice Chair and Independent Non-Executive Director Kevin Wiltshire[1]

Senior Independent Director (Non-Executive) John Holland

Independent Non-Executive Directors Anna East, Adrian Humphreys, Graham Newitt[2], Derek Wright

Chief Executive and Executive Director Stuart Tragheim

Chief Financial Officer and Executive Director Paul Harwood

Company Secretary Paul Harwood

[1]term expired on 12 June 2018. The Society determined not to retain the Vice Chair role.
[2]appointed 9 July 2018.

Professional Advisers

Chief Actuary & With-Profits Actuary
Christopher Critchlow, BSc, FIA
OAC plc
141-142 Fenchurch Street
London
EC3M 6BL

Independent Auditor
PricewaterhouseCoopers LLP
2 Glass Wharf
Bristol
BS2 0FR

Internal Auditor
Ernst and Young LLP
The Paragon, Counterslip
Bristol
BS1 6BX

Bankers
Lloyds Bank
19 Eastgate Street
Gloucester
GL1 1NU

Fund Managers
LGT Vestra LLP
14 Cornhill
London
EC3V 3NR

Investec Wealth and Investment Limited
Royal Mead, 4-5a Railway Place
Bath
BA1 1SR

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. We use 'Board', 'Board of Management' and 'Directors' interchangeably in this report.

The Society 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 Regulation Authority and regulated by the Financial Conduct Authority. Its Firm Reference Number, needed 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'.

The Society is a member of the Association of Financial Mutuals.

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.

Chair's Overview

2018 has been an exciting year for the Society. The momentum seen towards the end of 2017 has continued throughout 2018. We have been able to increase our Membership significantly, bringing income protection to ever greater numbers of people. I am pleased that, despite record-levels of investment, the Society made a significant contribution to the Fund for Future Appropriations of over £7.5m. Increases in this Fund show the value added over a year for Members, similar to the profit that might be earned for shareholders. The larger the Fund, the greater the resources of the Society. Being able to grow the Fund at the same time as investing in our new administration system is a tremendous achievement.

At the same time, the pace of change at Head Office has been significant. I am delighted to be able to share in this report some of the steps taken to implement our strategy.

The Board said farewell to Kevin Wiltshire during the year. Kevin has served the Society in a variety of Board roles for almost 11 years, most recently as Vice Chair. On behalf of Members everywhere, I thank him for his service and wish him well.

Membership

Our Membership grew significantly during 2018. We never forget that the Society exists to serve you, our Members, especially in your time of greatest need.

We have continued our focus on reducing the time that routine tasks take to complete. We always try to remove unnecessary bureaucracy and to see the human need behind the claims that we handle. We have maintained market-leading turnaround times in many areas, including claim acceptance, which remains at pleasingly high levels. In 2018, we paid 98% of claims received. The message is clear: at Holloway, we pay valid claims and we pay them promptly.

This commitment to serving Members is at the heart of our attractiveness in the market. Intermediaries can be confident in recommending us. We treat potential and existing Members as we would like to be treated ourselves.

Particularly notable is the work that we trialled during 2018 around Member communication. We piloted a dedicated team focused on identifying why Members chose to leave the Society and have learned valuable lessons from this pilot. Sometimes, for example when Members have cover elsewhere, it is exactly the right step for them to leave. In other cases, we are able to help, whether it be by reducing premiums, changing cover or explaining better the advantages and services offered by the Society. We will use the results of this pilot to improve our Member communications in future.

Bonus

I am pleased to report that regular bonuses for all Members with eligible policies have been maintained. Recent market downturns have been reflected in the lower levels of terminal bonus. Full details are in the report on page 18.

Results

Policy sales during 2018 have consistently exceeded our expectations. We are delighted that our revised pricing and distinctive approach to underwriting have been recognised by intermediaries throughout the UK. The revisions were designed to bring the Society's products to a wider audience and we are delighted to have seen such a positive reaction within two years of our five-year strategy.

New sales are the lifeblood of an insurance company. New sales capture value, which in turn supports further investment.

Speaking of investment, 2018 was always planned to be an expensive year. Having signed the contracts to build our new, modern administration platform at the end of last year, we have borne most of the expense by now. As this is capital expense, it appears in the Statement of Financial Position. There will be some additional expense in 2019, after which expenses should settle down to business-as-usual levels.

Regulation

We have continued to respond to the requirements of our two regulators, the Prudential Regulation Authority and the Financial Conduct Authority.

During 2018, the final parts of the Insurance Distribution Directive were implemented, the General Data Protection Regulations came into force, and the new Senior Managers & Certification Regime was introduced.

While we are smaller than many financial services providers, we are proud to respond fully to changes in regulation, believing that adopting regulation in the right spirit is absolutely what our Members expect.

Corporate Governance

The Society has continued to develop its corporate governance, building on the changes introduced in 2016 and 2017 and the results of the recent external Board governance review. This year, the terms of reference of all Board Committees were reviewed. The updated terms are on our website under the Governance section.

We welcomed a new Non-Executive Director to the Board, Graham Newitt. Graham's appointment followed a Board skills review and a rigorous external search.

The Board reviewed its succession plan and is satisfied that it is appropriate. It is satisfied too that appropriate programmes are in place to ensure appropriate executive succession.

The Society continues to support the work of the James Hopkins Trust, a local children's hospice.

Looking Ahead

Serving as the Society's Chair is an enormous privilege. Over the past three years, your Board has appointed a new Chief Executive, agreed and embarked upon an exciting growth-focused strategy and implemented a number of governance reforms.

I am responsible to you, our Members, for ensuring that this activity continues to have you at its heart. I judge that you expect your Society to be well run, with an effective Board, capable management and the right sort of culture. The Society is managing a growing day-to-day business, significant change, a major capital project and is doing so to high standards of governance. Your Board consistently and thoroughly challenges the Executive team, while maintaining its support for the delivery of the strategy, on your behalf.

If the Board is effective in its endeavours, the Society should realise the goals set out in its strategy. It is heartening to see some success so early on.

Of course, the results are only achieved through the hard work and dedication of the Society's people. On behalf of our Members, I would like to thank all of my colleagues at the Society for their part in ensuring the success enjoyed to date, and the foundations they are building for the Society's future success. We've had a tremendous 2018 and I am excited for the challenges and opportunities that 2019 will bring.

Martin Day
Chair
24 April 2019

Diana's story

My financial adviser recommended income protection from Holloway Friendly. She said "you never know what's going to happen in life that affects your ability to earn."

Strategic Report

Chief Executive's Overview

The writing of this report is always a time for reflection. 2018 has been a challenging year for the Society as well as a rewarding one. I am delighted to be able to share the progress we have made in my third annual report to Members.

We want to be modern, to be attractive to intermediaries and to serve our Members. We have enjoyed success in all three areas.

The modernisation has been seen in every corner of the Society. Examples include our re-branding, as you can tell from this report and from our website, the completion of the refurbishment of the last floor in Holloway House and the continual upgrading of our computer infrastructure.

We are delighted with our progress in the market. New business has grown by 351% during 2018. The number of intermediaries who choose to recommend us time and time again has also grown. Repeat business has always been at the heart of our strategy. Membership at the end of 2018 stood at over 18,000, an increase of more than 20% over last year. Financially, our success is reflected in the extent to which we are able to grow the funds that support Member claims. Despite 2018 being a heavy year for expenditure, we were able to add more than £7.5m to the Fund for Future Appropriations, thus increasing the amount available to support our wider Membership in the future. Ultimately, as a mutual, our success is measured in the number of Members that we help through their time of need, ideally helping them return to work. I am pleased that we have paid more sickness benefits to more people in 2018.

We have continued the enhancements to our services to Members. Our communications with Members are evolving, to good effect, given the numbers that choose to remain with the Society.

In my last report, I highlighted the planned investment in our new computer system, PRISM. Great progress has been made on this project during 2018. We anticipate beginning its implementation in 2019. Projects like this are fraught with complication. I am delighted at the wide-scale contribution made by my colleagues to ensure that PRISM will be implemented successfully.

I am a firm believer that organisations thrive when they invest in the right way, in the right people. This belief has driven all of the people-related activity at the Society since I joined. I am proud to reflect on the achievements of 2018. Every area of the Society has developed in this time, based on able people striving to improve the outcomes for Members. There is a liveliness, an energy and an honesty in the teams I work with every day, and I am grateful to all my colleagues for the intensity and attitude that they bring to their work.

In summary, during 2018, we have built on the foundations laid in prior years. We have seen a jump in Member numbers, higher sales and progress in a number of business areas. These achievements were expected in our strategic plan, but they only happen because we have able and motivated people who have worked hard on Members' behalf.
As a result, the Embedded Value – the value of the Society to Members – has grown, at the same time as a record investment in PRISM. Most importantly, we have been able to help more of our Members at their time of greatest need.

I trust that we will see more of the same in 2019.

Stuart Tragheim
Chief Executive
24 April 2019

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

Solvency Ratio
the financial strength to manage risks that materialise

Annual Premium Income
the lead indicator of our ability to attract new Members

Total Membership
the metric that reflects retained, as well as new, Members

Number of Lapses
retention of Members is central to the Society's success

Colleague Engagement
the more engaged our people, the stronger the Society

STRATEGIC REPORT
Business Review

Principal Objectives

The Society's business is to sell protection products through intermediaries to people who need them. Simply stated, our purpose is to protect our Members' income when they can't work because of sickness or injury. We think it is important that people protect their income, and insulate themselves and their families from the financial consequences of being unable to work. Growth naturally follows when more intermediaries recommend our products to more people, which in turn means that we must offer attractive and properly priced products. We want to be known as a market leader for our type of business.

Strategy and Business Model Key Performance Indicators (KPIs)

Strategy

Our strategy is to achieve growth by understanding better what people really want and need, and providing products that meet these wants and needs. These products are recommended by intermediaries. Intermediaries choose to recommend us because we are a credible business partner that does not let its Members down, we understand people's wants and needs, and because we are easy to work with.

In short, the Society grows because we look after our Members.

Business Model

A business model describes how a business generates value over time. Our business model is built around selling protection products to a range of people who are recommended by intermediaries. We build the products ourselves and administer them from start to finish. We provide excellent service to Members and intermediaries.
Some professional functions are outsourced (the actuarial function, the internal audit function, and some underwriting).

Our business model says that we will grow by selling products which meet people's wants and needs, are priced attractively and are presented to intermediaries effectively.

We outsource some systems development, including the building of PRISM, the move to online data collection and automatic underwriting.
We plan to keep improving our product range and may add new products. We aim to improve our professionalism continually, to meet modern customer and regulatory expectations. We may use reinsurance in the future if it makes financial sense

Business Performance: Performance for Members

Value KPIs

Embedded Value is an economic measure of the Society's long-term value to Members. It is calculated by projecting forward the Society's business allowing for a number of assumptions about lapses, sickness claims, expenses etc. and discounting the future surpluses or deficits. The result is a single number which, when added to the assets, gives an economic value of the Society.

Embedded Value allows the Board to assess the longer-term impact of what management does and so helps avoid short-term thinking. Embedded Value has grown significantly this year, primarily due to successful sales growth, despite the sharp falls in equity values at the end of 2018.

Total Membership is a simple measure of success. The Society thrives, the greater its Membership. We currently have around 18,000 Members. We established over 5,000 new policies for Members, an increase of over 250% 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. 2018 sales were higher than in prior years. Our sales exceeded £1.878m API (2017: £0.534m), a significant increase.

Risk KPIs

Solvency Ratio is a measure of the risks undertaken and the resources available to meet these risks.
A high number is good because it means there are excess resources to meet any risks that materialise. But the number could be too high. It may suggest that assets are not being used effectively.
The Solvency Ratio has fallen over the year for a number of reasons, including the high levels of new business and the fall in investment markets at the end of 2018. There are other, technical, reasons for this number changing.

The Board will continue to monitor the Solvency Ratio in 2019 and take steps to ensure that risks accepted can be managed properly.

Other Important Trading Results

Earned Premiums net of reinsurance increased over the year by £0.346m to £6.70m (2017: £6.38m). The increase is modest compared to the reported sales growth because Optimal premium income was very much lower in 2018 following its closure and because new business is received throughout the year (e.g. where business is sold in December, only one monthly premium is received. Optimal's business had high gross written premiums with high outward reinsurance premiums, leading to a relatively low Net earned premium. Thus, while gross Group premiums have reduced since 2017, the premium amounts retained by the Group have increased (to £6.72m in 2018 compared to £6.38m in 2017).

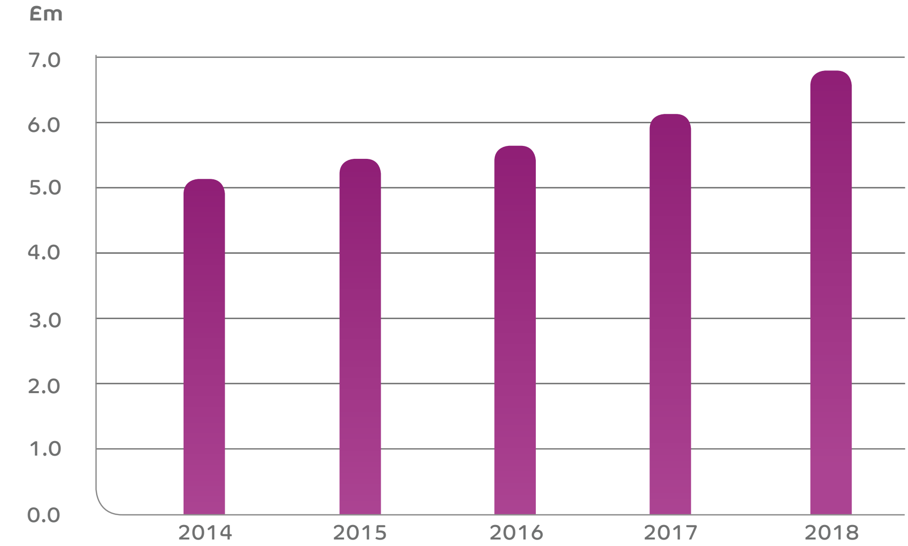
Sickness Claims paid grew by over 40% to £1.539m (2017: £1.094m).

Net Operating Expenses grew significantly to £10.661m (2017: £7.777m). This change largely reflects commission and other sales-related expenses incurred.

The Fund for Future Appropriations has grown in the year to £58.921m, from £51.340m. The increase reflects the value of the new sales made, and shows that the Society has been able to meet the increased expenditure of its strategy and still increase the Society's value.

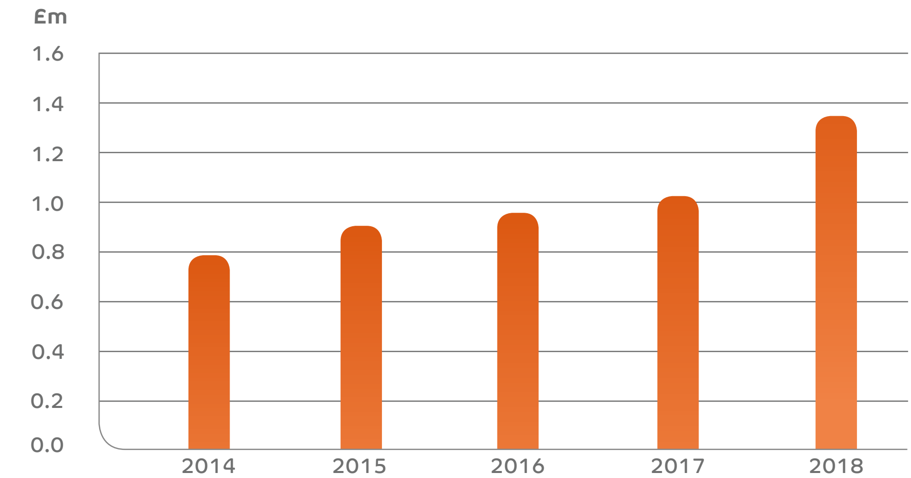
The value of the Society's investments fell from £47.256m to £37.882m. The change was a result of investments being realised to meet new sales, the Society's running expenses and the investment in the Society's strategy. Performance also reflects a sharp fall in equity values towards the end of 2018.

Net Earned Premium Income



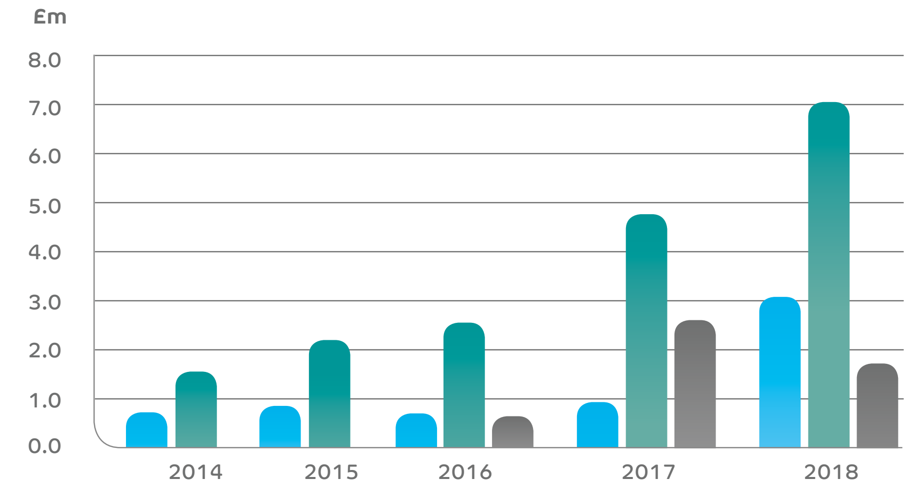
	2014	2015	2016	2017	2018
API	5.226	5.500	5.684	6.115	6.706

IP Claims



	2014	2015	2016	2017	2018
IP Claims	0.793	0.874	0.940	1.087	1.512

Society Expenses



	2014	2015	2016	2017	2018
Comission	0.691	0.728	0.679	0.898	3.093
Head Office Expenses	1.605	1.579	2.481	4.49	7.056
One off Costs	0.024	0.010	0.577	2.515	1.631

Member and Stakeholder KPIs

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

Business Performance

Our business performance in 2018 can be considered from three viewpoints: market presence, service to Members and building the future.

Market Presence

Our financial performance is dominated by our improved new business sales during 2018.

Higher sales are hard to achieve. The right products have to be available at the right price through the right intermediaries. We have taken steps in 2018 in all three areas. In 2018, we improved our Purely and Short-term Income Protection products so that they are now rated as 5* (the highest possible rating) by Defaqto, an industry leader in product assessment. We carefully monitor the prices of competing products in the market to ensure we remain able to offer good value. We have invested heavily in our sales and marketing team, to ensure that the right intermediaries are invited to consider recommending our products. We then work hard to ensure that their recommendations are justified, encouraging intermediaries to continue to recommend us.

In 2018, we were pleased to be Highly Commended by Moneyfacts for Best Protection Service and for Income Protection, and at the Cover Excellence awards, for Best Individual Income Protection. STOP PRESS! We have just won the prestigious Best Underwriting Approach and Systems award from LifeSearch, the national Independent Financial Adviser.

Our rebrand is an important component of our market presence, as is the technical marketing support that we provide to intermediaries in print and through social media.

Service to Members

Service is critical to retaining the support of Members and intermediaries alike. We have developed and maintained a focus on service levels, and are proud to offer industry leading turnaround times for many routine transactions.

By way of example, in 2018, our average processing time from application to decision was less than 4 hours, and 3 out of 5 of our claim decisions were made within 7 hours.

We continue to seek new ways to be easier to work with. We introduced electronic signatures this year, to further speed up processing.

We recently partnered with RedArc Nurses to provide physical and mental health support to our claiming Members. We aim to offer our Members more than just a replacement income.

Building the Future

A significant part of 2018 activity has been the development of PRISM. This new, modern system will allow service improvements, self-service, new product developments and better control. Work done now is an investment in the Society’s future.

The run-off of the Optimal business has progressed smoothly. Optimal’s liabilities should be fully discharged by early 2019.

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

Finance

Our job is to replace the incomes, in part, of Members who cannot work through sickness or injury. In 2018, 438 (2017: 256) new claims began payment, alongside 188 (2017: 178) claims that were already in payment at the beginning of the year. By 31 December, the Society was replacing the income of 299 (2017: 188) Members, having paid £1.538m in Member claims over the year (2017: £1.094m).

Year-end Position, Trends and Factors

Year-end Position

We have the right level of Executive and Senior Leadership management in place for the strategy at the current time. We are always mindful of the service being provided to Members and recognise the need to employ more people to handle greater volumes of work in the new business and claims handling areas. We recognise the strategic importance of implementing PRISM effectively and that this may require more resource during 2019 to avoid being penny wise and pound foolish.

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

We plan to grow the Society in coming years, by competing in the protection sector of the insurance market serviced by intermediaries. To do this we must offer competitively priced products and be able to provide an appropriate service to our Members and intermediaries.

We expect the sales momentum to continue.

We expect to refine our underwriting processes further over 2019.

The PRISM implementation will take up significant management time during 2019. We need to be careful that service to Members and intermediaries does not worsen during this time.

It is very difficult to anticipate the impact that Brexit will have on the wider UK economy and on the Society. We have very few Members living in the EU, and will respond appropriately to any changes in circumstances that arise from any change in status. Brexit has the potential to affect many factors that drive the Society's health, including share prices, interest rates, currencies, sales and lapses. We are poised to take appropriate action once the impacts become clear.

Responsibility to the Community

We continued our support for the James Hopkins Trust in 2018, a local children's charity providing support for severely disabled under 5s and their families. Our support ranges 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 £2,100 in total was donated during 2018.

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

STRATEGIC REPORT
Risks to the Strategy and Risk Management

We face a number of risks, some of which are common to all insurers and some of which are specific to us. During the year, the Directors carried out a robust assessment of all the 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 (for example, the policy may no longer be needed). Loss of every Member tends to weaken the Society, because their contribution to the Society's value is lost. If more Members than expected take this step, we may be financially weaker than expected.

We monitor Member numbers continually. We are pleased with the results of a scheme introduced in 2018 to address issues raised when Members first suggest that they might leave the Society, and will use the results gathered in future Member communications and Member-related processes.

Claims Profile
We expect 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 last for longer than expected, we pay 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 and claim procedures. We review regularly claims in payment to assess what extra can be done to help a Member return to work.

Strategy Execution
Our strategy involves a significant amount of change and assumes that a number of activities will happen as expected. Of course, events do not always happen as planned.

The development of PRISM is a major project 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 by employing an experienced programme manager, by using an already-working system as a foundation, through designing fixed-cost contracts where possible, and by paying close attention to the design of the system we are building and its testing.

Sales growth is a risk. If we grow too fast, there may be a concern that our products are priced wrongly, being underwritten inappropriately, or that the resulting sales are not of appropriate quality. Some of our products have guaranteed premiums at outset. This increases their capital requirements, and hence the impact of sales being higher than expected. These risks are managed by careful oversight of all aspects of the sales and marketing activity, complementary investment activity and attention to emerging results.

We have launched one2protect, a level premium reviewable product, on a test-and-learn basis. This is a new style of product for us. There is a risk that the product is not priced correctly. Too expensive and there will be too few sales to learn about the market, too cheap and there is a risk of excess sales that do not provide an appropriate return. It is important that the balance is right. By monitoring the sales, we can manage this risk. The reviewability of the premiums reduces the risk of mispricing.

Any change to product, underwriting and claims management has an associated risk. 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 sickness as it arises.

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 action by 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.

Directors' Assessment

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 (the current business plan period). 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 continued to be monitored during 2018 and risk and control effectiveness information has been provided, in the context of the Society's business plan.

The Board has received independent assurance over 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

We are well on the way to achieving our 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 2019 and beyond.

On behalf of the Board of Management
Stuart Tragheim
Chief Executive
24 April 2019

Diana’s story continued...

I enjoyed my job as Director of Music in a prestigious school with lots of responsibility, but I knew I was suffering from stress. I ignored the warning signs and didn’t take a step back.

Bonus Report

Apportionment of surplus, compound and final bonus

Traditional Holloway plans 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 a way of sharing the sickness experience. The amount of the surplus depends on the claims made by all Members as a group. Fewer claims mean higher surplus to be shared. It is calculated as an annual amount per unit held, which is added to the capital account of the Member.

Compound bonus

This is a way of sharing investment income. The amount of the bonus is smoothed over the duration of each policy. It is calculated as a percentage of the Members' opening capital balance after adjustment for any movements during the year.

Final bonus

This is a way of sharing investment gains. The amount of the bonus is based on the accrued capital value and term that the policy has been in force. It is affected by changes in the capital value of the Society's investments. The final bonus is added to the capital sum immediately prior to the maturity of the plan.

Bonus Rates

Based on the advice of our With-Profits Actuary, the Board is pleased to declare an unchanged apportionment of surplus in respect of 2018 performance as follows:

Bonus Declarations		
Apportionment of Surplus	2018	2017
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

Bonus Declarations		
Apportionment of Surplus	2018	2017
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 is pleased to declare unchanged compound bonuses to be credited to Members' Accounts in respect of 2018 performance as follows:

Credit to Members' Accounts	2018	2017
Compound Bonus	2%	2%

Based on the advice of our With-Profits Actuary, and in light of the investment market falls at the end of 2018, the Board declares final bonuses to be credited to Members' Accounts on maturity or earlier surrender during 2019-2020 as follows:

Final Bonus

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

Policy Term	2019-2020	2018-2019
0 to 4 years	Nil	Nil
5 to 9 years	5%	5%
10 to 14 years	7.5%	10%
15 to 19 years	10%	12.5%
20 to 24 years	15%	17.5%
Over 25 years	20%	22.5%

On behalf of the Board of Management
Stuart Tragheim
Chief Executive
24 April 2019

Diana's story continued...

One Monday I went to work but had to go home soon after. I saw the doctor that day who was sympathetic and signed me off for 2 weeks.

I still didn't rest, I continued to work from home and during my phased return to work my father suffered a catastrophic stroke and that was it - another burnout.

Report of the Board of Management

The Board has pleasure in presenting the Report and Financial Statements of the Original Holloway Friendly Society Limited to its Membership for the year ended 31 December 2018.

Principal Activities

The principal activity of the Society is the provision of income protection insurance, including insurance based on Holloway principles. 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 18.

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 are always keen to hear from Members and intermediaries, and take all feedback seriously.

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

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 44-59.

The Society's Rules and UK law require the Board to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Society, and of its results for that period. In preparing those financial statements, and in carrying out the business of the Society, the Board 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, disclosing and explaining any material departures, and

» prepare the financial statements 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 2018 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 and are 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).

The Board is responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board is responsible for the maintenance and integrity of the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 Auditor

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

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. It conducted a full external appraisal in 2017. This year, in line with its understanding of best practice, the Board conducted a skills audit and the Chair held formal appraisals with each Director prior to the signing of the financial statements. The Senior Independent Director held a meeting with the Board, the Chair being absent, to discuss the Chair's performance. He then met privately with the Chair to discuss the findings.

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

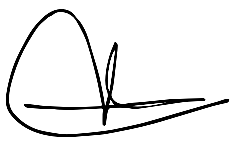
The Board is committed to its Membership, which represents the Society's owner and customer. Communication with Members is encouraged via letters, email, the website, telephone, survey responses and an invitation to the AGM.

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 Directors would like to add their 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
24 April 2019

REPORT OF THE BOARD OF MANAGEMENT
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.

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 www.holloway.co.uk.

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 funds. 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 2018, 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. The SID's priority 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, as expected by the Code.

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:

» all Non-Executive and Executive Directors have policies with the Society and pay premiums on the same terms as all other Members.

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 judgement are disclosed and recorded in the register of conflicts of interests. 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 Committees.

Martin will have served on the Board for nine years at the AGM. As a result, in line with the Code, his candidature was considered particularly carefully. The Board determined that Martin remains independent minded and is satisfied that his continued service leading the Board will be of benefit to Members, bringing continuity during the changes arising from the implementation of the agreed strategy. During the next year, a replacement Chair will be sought with whom Martin will work to ensure a smooth transition.

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 Committees and Investment Committee.

John has served on the Board for more than six years. As a result, in line with the Code, his candidature was considered particularly carefully. The Board determined that John remains independent minded and is satisfied that his continued service on the Board will be of benefit to Members, particularly given his expertise in the delivery of IT projects.

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. He currently sits on the Board of the Association of Financial Mutuals and is a member of the Prudential Regulation Authority ('PRA') Practitioner Panel Insurance Sub-committee. Stuart has previously chaired the Investment and Life Assurance Group and was a Member of the Association of British Insurer's Distribution and Regulation Committee.

Stuart is a Member of the Society's Nomination and Remuneration Committees and Investment Committee. He is a Director of HF Life Limited (Optimal) and serves as Chair of that company.

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. 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 Committees 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 2017. 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. He is a governor of King William's College based on the Isle of Man.

Paul is a member of the Society's Investment Committee. He is the Society's Company Secretary.

Adrian Humphreys, Independent Non-Executive Director

Adrian joined the Board in November 2015. Until the beginning of 2019 he was the Chairman of the Group Protection business within 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. 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. In 2018, he joined the Nomination and Remuneration Committees.

Graham Newitt, Independent Non-Executive Director

Graham joined the board in July 2018. Graham has extensive experience in the Life and Pensions market, including periods at Aviva and then Legal and General where he was a Business Unit Managing Director in both their Protection and Wealth Divisions. More recently Graham ran his own strategic consultancy business where he undertook a wide range of strategic consultancy projects for firms such as Scottish Widows, Zurich Life, FNZ and Friends Life.

In 2018, Graham joined the Society's Audit and Risk committee, and Investment Committee.

Derek Wright, Independent Non-Executive Director

Derek is an actuary and has worked in the life insurance industry as a practitioner 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. He represents the UK actuarial profession on the Insurance Accounting Committee of the International Actuarial Association.

Derek joined the Board in 2017. He chairs the Audit and Risk Committee. In 2018, he joined the Investment Committee. He is a Director of HF Life Limited (Optimal).

Attendance

The table below shows the attendance of the Directors at Board and Committee meetings.

Board and Committee Meetings 2018								
	Board		Audit and Risk Committee		Nomination and Remuneration Committees		Investment Committee	
Name	Attended	Out of	Attended	Out of	Attended	Out of	Attended	Out of
Martin Day	7	7	6	6	3	3	-	-
Kevin Wiltshire*	4	4	4	4	-	-	2	2
Anna East	7	7	5	6	3	3	-	-
John Holland	7	7	-	-	3	3	3	3
Adrian Humphreys	5	7	-	-	1*	1*	3	3
Graham Newitt	3*	3*	1*	1*	-	-	1*	1*
Stuart Tragheim	7	7	-	-	3[1]	3[1]	3	3
Derek Wright	7	7	6	6	-	-	0*	1*
Paul Harwood	7	7	-	-	-	-	3	3

* a Director or Committee member for part of 2018. More details in the biographies section.
[1] Nomination Committee only

Matters Considered by the Board

The Board has a number of important responsibilities that 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 2018 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 on request.

Board Committees

The Board has established three committees to assist it in discharging its responsibilities. Specifically the Committees cover Audit and Risk, Nomination and Remuneration, and Investment 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. These documents include the role and responsibilities of each Committee. The terms of reference 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.

During the year, the Board resolved that the Executive Committee, the primary purpose of which was to support the Chief Executive, ought not to be a Board Committee. Consequently, details of the activities of this Committee are not reported here.

On behalf of the Board of Management
Martin Day
Chair
24 April 2019

Risk Committee

Membership
The Committee comprises four independent Non-Executive Directors. In 2018, Graham Newitt joined the Committee and Kevin Wiltshire stepped down.

Matters Considered by the Committee

Independent Audit
PricewaterhouseCoopers LLP ('PwC') served as Independent Auditor throughout 2018. The Committee judged PwC to be effective in its role.

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 the future financial position. The Committee considers carefully the assumptions used to project these risks. Judgement is important in these assessments, particularly for insurance risks, such as sickness (both inception and duration) and lapse rates.

Independent Auditor Performance and independence
The Committee assessed the performance, independence and objectivity of PwC and the effectiveness of the audit process during 2018. 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.

Every year, the Committee has to be satisfied that PwC is independent and objective, in line with industry standards.

Re-appointment of the Independent Auditor
The Committee proposes that PwC be re-appointed at the next AGM.

Oversight of Fees payable to the Independent Auditor
The fees payable to PwC for the year ended 31 December 2018 amounted to £73,300 (2017: £60,800) for the statutory audit. The increase reflects a change in regulatory requirements. PwC performed no non-audit services during 2018 (2017: £16,700).

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.

During the year, the Committee reviewed the provision of its actuarial services, including the roles of Chief Actuary and With-Profits Actuary. After due consideration, the Society re-appointed OAC plc as its actuarial function and Christopher Critchlow as its Chief Actuary and With-Profits Actuary.

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 2018 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 the 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

Internal Audit has been provided by Ernst and Young LLP ('EY') throughout 2018.

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

Derek Wright
Chair – Audit and Risk Committee
24 April 2019

Report from the Nomination and Remuneration Committees

Membership

The Remuneration Committee comprises three independent Non-Executive Directors and the Chair. The Nomination Committee comprises three independent Non-Executive Directors, the Chair and the Chief Executive. Adrian Humphreys was invited to join both Committees during 2018.

Matters Considered by the Committees

Remuneration

The Committee considered the remuneration of the Society as a whole in general, and specifically the remuneration of the Chief Executive and Chief Financial Officer.

The Committee considered the awards to be made under the Short Term Incentive Plan and the accruals appropriate given performance for the Long Term Incentive Plan.

The Remuneration Report on pages 29-33 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. This approach exists throughout the Society, and is particularly important at Board and senior management level. While there is genuine diversity in approach, common backgrounds of the Directors might be thought to impede a broader 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

The Committee oversaw a number of changes following the 2017 external Board appraisal. It supported the Chair and SID in the performance appraisals of the Board and its Committees. It conducted a Board skills audit.

Succession Planning and New Director Appointments

The Board is actively engaged in succession planning for both Executive and Non-Executive roles to ensure that the 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 2018, Graham Newitt was recruited as a new 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

- 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.

Director and Executive Appraisal, Development and New Director Induction

The Chair led individual appraisals with all Directors. Separately, the SID led the Directors in an appraisal of the performance of the Chair.

There is a formal tailored 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. The Committee oversaw the induction programme for Mr Newitt.

Anna East
Chair – Nomination and Remuneration Committee
24 April 2019

Report from the Investment Committee

Membership

The Committee comprises four independent Non-Executive Directors, the Chief Executive and the Finance and Risk Director. Graham Newitt and Derek Wright were invited to join the Committee during 2018. Kevin Wiltshire stepped down from the Committee.

Matters Considered by the Committee

Investment Policy

In 2017, the Committee secured external advice on the nature of its investment policy. In 2018, the advice was considered and led to a tender process to appoint new investment advisors to the Society. As a result of this process, LGT Vestra LLP was selected. Between June and July, assets were transferred to LGT Vestra LLP.

During 2019, the Committee will oversee further development of its investment policy.

Investment Performance

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

Adrian Humphreys
Chair – Investment Committee
24 April 2019

REPORT OF THE BOARD OF MANAGEMENT
Directors' Remuneration Report

Remuneration Policy

The Society's strategy describes how long-term success and value will be created for Members. Its values describe the behaviours and culture expected to flourish in parallel. The Executive Directors, led by the Chief Executive, are responsible for developing and implementing the strategy, including leading the Society's management team.

A number of factors contribute to the Society's successful future growth. Proper reward is one of them. The Remuneration Policy describes how the Board encourages success, teamwork, value generation for Members and implementation of its strategy in a collegiate, measured and effective way. It is designed to encourage behaviour in line with the Society's values and risk appetite, and to ensure conduct that is appropriate for a modern financial services organisation.

Principles of the Remuneration Policy

The Society's Renumeration policy is built on the following principles:

(1) to enhance Member benefits and/or interests

(2) to attract and retain people with the skills and experience for their jobs

(3) to compete effectively for talent given the employment market

(4) to support the development of individuals, in line with the Society's ambitions

(5) to provide rewards that reflect individual performance as well as overall results, including the demonstration of the Society's values.

(6) to avoid rewarding executive, management or individual failure

(7) to provide termination arrangements that are fair to all

(8) to meet all relevant regulatory requirements regarding remuneration

(9) to be consistent with the Society's policies on gender, equality and diversity

(10) to develop remuneration that is simple to explain, understand and calculate

(11) to be consistent with the Society's risk appetite, and

(12) to avoid conflicts between individual interests and those of the Society's Members.

The Remuneration Policy is applied consistently to all employees. It enables all to benefit from broadly similar benefits and performance incentives at a level of participation that reflects individual roles and responsibilities. It is designed to ensure that the interests of Members and the future viability of the Society are aligned primarily with the interests of all those who contribute to the Society's success.

To achieve this, a competitive salary and benefit package is balanced with appropriate performance-related bonuses. The relative size of the bonus depends on the size of an individual's responsibilities. For example, for Executive Directors, remuneration is designed so that the performance-related components are a significant proportion of the total.

The table shows the Remuneration Policy Design by components for different roles: Chief Executive, other Executive Director, other Colleagues and Non-Executive Directors.

Consultation with Members

The Society is committed to open dialogue with its Members on its Remuneration Policy. Thus, and in compliance with the Annotated Code, this policy is subject to a binding vote at the AGM every three years.

Remuneration Policy Design				
Component	**Chief Executive**	**Other Executive Directors**	**Other Colleagues**	**Non-Executive Directors**
Basic Pay	Basic pay takes account of skills and experience of individual candidates, pay across the Society and published information from comparable organisations in the financial services sector. Pay is usually reviewed annually with changes implemented from 1 January each year. While there is no limit on basic pay, all pay must be proportionate and deserved. In determining an increase, the market rate for the role will be considered, as will the rate of increase generally applied throughout the Society and the performance of the individual. Increases will reward personal growth, skill and experience, as well as achievements in the year.			Annual fee, depending on role. Fees are reviewed every year. There is no limit on their level, but they are set with reference to similar organisations in the same sector. Fees are not performance related.
Benefits	The Society provides a benefits package in line with the market. The benefits offered take account of published information from comparable organisations in the financial services sector. There is no specific limit on the value of the benefits provided, but the value must be proportionate. Benefits are not generally subject to performance, but they may reflect seniority. Benefits are reviewed from time to time, with changes implemented as necessary.			Not available
Pension	10% of Basic Pay	10% of Basic Pay	5-10% of Basic Pay	Not available
Holiday	29 days per annum		27-28 days per annum	Not available
Cash Plan	For employee, spouse and dependent children.	Provided to all		Not available
Dental Plan		For senior employees	Not available	Not available
Health Care	For employee, spouse and dependent children on application, after six months service.		For employees on application, after six months service. Family may be included on request at the prevailing rate.	Not available to new Directors. Benefit available to Directors pre-2016.
Life Insurance	4 x Basic Pay is payable on death			Not available
Annual Bonus Plan	Max 60% of Basic Pay	Max 50% of Basic Pay	Max 40% of Basic Pay	Not available
	Available to all, except for those subject to the Sales Incentive Plan. This plan pays a bonus depending on performance against a number of numeric and activity measures, adjusted for individual performance. Bonuses for the Chief Executive and very senior Executives are decided individually by the Remuneration Committee. For Other Colleagues, the bonus pool is decided by the Remuneration Committee, and then allocated by management. Bonuses are subject to performance. They are reviewed from time to time, with changes implemented as necessary. Bonuses for more senior people are subject to clawback if performance is later found to be misstated, if misconduct or significant management failure is discovered, or for any other reason that leads to damage to the Society's reputation.			

Remuneration Policy Design				
Component	**Chief Executive**	**Other Executive Directors**	**Other Colleagues**	**Non-Executive Directors**
Sales Incentive Plan	Not available		Available to members of the sales team. Max of 100% of Basic Salary. This plan pays four bonuses each year based primarily on quarterly sales performance adjusted for early lapses and personal performance. A fifth bonus may be earned, based on the performance over the year. In all cases, the bonus payable is adjusted for individual performance.	Not available
LTIP	A new three-year LTIP begins each year. There are currently two such plans in operation. The plans pay a bonus depending on performance as measured by the Embedded Value, subject to satisfactory solvency. Bonuses are decided individually by the Remuneration Committee and are subject to clawback or later adjustment if performance is later found to be misstated, if misconduct or significant management failure is discovered, or for any other reason that leads to damage to the Society's reputation.		Not available	
	Max 60% (part deferred)	Max 50% (part deferred)*		
	Payments are staged: 50% on agreement by the Remuneration Committee, 25% one year later, and 25% one further year later.			
Notice Period	12 months	6 months	1-3 months is standard. There are some individuals with longer notice periods (up to 6 months).	1 month

Chief Executive & Executive Directors

The Society wants to attract and retain Executive Directors with the vision, passion and drive necessary to achieve its strategy for the long-term benefit of its Members. While attitude is the most important characteristic in all of its recruitment, the Society recognises that industry and sector knowledge and experience is important, as is the willingness to act in line with its values. The Society recognises that it is part of the financial services industry and the mutual movement, and that its remuneration must be considered in this light.

The Society balances what it can offer prospective Executive Directors on appointment with plans that reward success. It balances payment now with payment later, bearing in mind that the impact of achievements may not be fully realised for some time. Part of this balance is ensuring that failure is not rewarded.

Recruitment of Executive Directors & Service Contracts

Once an Executive Director has been appointed, she or he must stand for election at the next AGM.

Executive Director service contracts include the principle that individuals must mitigate their own damages in the event of the early termination of a service agreement.

Long-Term Incentive Plans

The Society provides a Long-Term Incentive Plan for the Chief Executive, other Executive Directors and other nominated members of the Executive team. The Plans operate over a three-year performance period, and a new Plan ordinarily begins every year. There are two Plans in operation as at 31 December 2018, covering the periods 2017-2019 and 2018-2020.

A bonus is generated from the Plan if the Embedded Value and Solvency exceed acceptable levels. The Embedded Value is a measure of the value locked into the Society by the policies that it has sold. Solvency refers to the capital that the Society has available to ensure the reliable payment of Member benefits. In this way, the beneficiaries are encouraged to grow the value of the business through sales while maintaining the security of Member benefits. If the target Embedded Value is not exceeded at the end of each year, the entire Plan for that performance period is, subject to the discretion of the Remuneration Committee, sacrificed.

Following the end of each performance period of each Plan, the Remuneration Committee uses its discretion to determine the bonuses that have been earned. Once awarded, the bonuses are subject to clawback if performance is later found to be misstated, if misconduct or significant management failure is discovered, or for any other reason that leads to damage to the Society's reputation.

Other Colleagues

Members of the sales team are eligible for the Sales Incentive Plan. All other colleagues are eligible for the Annual Bonus Plan. No employee is a member of both plans for the same period of performance.

Non Executive Directors

Letters of Appointment

Non-Executive Directors are appointed with a Letter of Appointment.

Having been appointed by the Board, each Director must stand for election at the subsequent AGM. The initial term of office is three years from the 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 subject to rigorous review and an assessment of the need for refreshing of the Board.

The Letters of Appointment sets out the time commitment expected of each Non-Executive Director in the performance of their duties. The notice period for Non-Executive Directors is one month and there is no provision for loss-of-office or exit payments.

Reviewing of Fees and Benefits

The review of fees for Non-Executive Directors (other than the Chair) is delegated to the Executive Directors, who may take advice from external remuneration consultants if deemed appropriate. The proposals are presented to the Remuneration Committee.

The Remuneration Committee Chair proposes the fees for the Chair, which are considered by the Remuneration Committee with the Board Chair standing down when this item is discussed.

Some long-standing Directors have medical cover for themselves and their spouses. This benefit is no longer offered to Non-Executive Directors.

Governance of the Remuneration Policy

This Policy is agreed and administered by the Remuneration Committee, which comprises Non-Executive Directors who are all independent and the Society Chair.

The Remuneration Committee may agree to tailor benefits to the needs of individuals providing that the overall economic and other impacts are not altered.

Following the end of the financial year, once the results have been determined, the Remuneration Committee uses its discretion to decide on the bonuses earned under the Annual Bonus Plan, the Sales Incentive Plan and the Long-Term Incentive Plan.

The Committee reviews the Annual Bonus Scheme and its associated measures, and the other incentive plans every year. It considers whether to allow new plans to be introduced and, if so, their terms.
Payments under these plans are discretionary. They are always subject to approval and oversight by the Remuneration Committee. Any awards can be amended by the Remuneration Committee if unintended consequences are believed to have occurred.

Application of this Policy

The application of this Remuneration Policy is unchanged from last year. Pages 30-31 show how it was implemented in 2018 with Note 10 setting out additional information.

Directors' Emoluments

The table below sets out the emoluments to all Directors during 2018.

Directors' Emoluments, £						
Director	Salary or Fees	Bonuses	Benefits	Pension	Total 2018	Total 2017
Stuart Tragheim[1]	166,445	61,200	8,442		236,087	221,720
Paul Harwood	110,295	42,000	8,759	18,216	179,270	38,631
Martin Day	28,550		3,383		31,933	31,077[2]
Anna East	22,440				22,440	22,000
John Holland	22,440				22,440	22,000
Adrian Humphreys	22,440				22,440	22,000
Derek Wright	22,440				22,440	11,400
Kevin Wiltshire[3]	9,180				9,180	20,000
Graham Newitt[4]	8,677				8,677	0
Bob Perks						10,500
Martin Collins						206,263
Total	**412,907**	**103,200**	**20,584**	**18,216**	**554,907**	**605,591**

[1] receives an enhancement of 10% of salary (shown in Salary) in lieu of pension contributions
[2] 2017 total has been corrected from £32,655 in the 2017 financial statements
[3] To 12 June 2018
[4] From 9 July 2018

On behalf of the Board of Management,
Anna East
Chair of the Nomination and Remuneration Committees
24 April 2019

Diana's story continued...

My adviser helped me submit my claim to Holloway Friendly.

Holloway Friendly arranged for me to see a psychiatrist. I had a proper diagnosis and a formal treatment plan involving medication and talking therapy. There was a 9 month waiting list, so Holloway Friendly stepped in and fast tracked my treatment privately.

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 2018 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 and Accounts (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 2018; 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

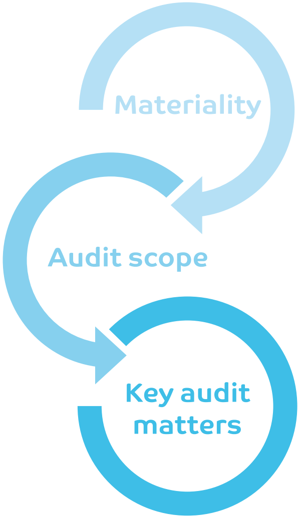
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance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

We have provided no non-audit services to the Group or Society in the period from 1 January 2018 to 31 December 2018.

Our audit approach

Overview



- Overall Group materiality: £590,000 (2017 £513,000) based on 1% of the Fund for future appropriations.
- Overall Society materiality: £590,000 (2017 £487,000) based on 1% of the Fund for future appropriations.

- For the one significant component, we tested all material balances and line items in the financial statements.

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK and European regulatory principles, such as those governed by the Prudential Regulation Authority and the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements of the Group and Society. We also considered those laws and regulations that have a direct impact on the financial statements of the Group and Society such as the Friendly Societies Act 1992, UK tax legislation and the Prudential Regulation Authority’s regulations. We evaluated management’s incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce expenditure or increase the capital position of the Group and Society, and management bias in accounting estimates and judgemental areas of the financial statements such as the valuation of life insurance contract liabilities. Audit procedures performed by the engagement team included:

- Discussions with the Board, management, internal audit, senior management involved in the Risk and Compliance function, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading key correspondence with and reports to the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Audit and Risk Committee;
- Reviewing data regarding policyholder complaints, the Group’s and Society’s register of litigation and claims, internal audit reports, compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of life insurance contract liabilities described in the related key audit matters below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of commission payments;
- Testing disclosure note 3 affected by the regulatory solvency requirements.

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. Also, 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.

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	How our audit addressed the key audit matter
Lapse 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 and one of the most sensitive is the choice of assumption regarding policyholder lapse rates. When valuing future cashflows of income protection contracts, an assumption needs to be made regarding the proportion of existing policies that will remain in-force in future time periods. This is known as the lapse rate and small changes in the lapse assumptions could have a material impact on the valuation. There is inherent judgement in choosing the lapse assumptions and therefore there is a risk that they could be inappropriate. The Directors' best estimate lapse assumptions are derived with reference to the Group's historical experience, applying expert judgement to account for potential current or future changes in policyholder behaviour. We focused our audit work on these key judgements adopted by the Directors in setting their lapse assumptions. Refer to the Report from the Audit and Risk Committee on page 26 and note 3 on page 49.	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 accuracy of the data used in the experience investigation and where applicable, ensured it is consistent with the data used in the previous year's valuation; » the calculation of historical lapse (the experience investigations), including any methodology changes since the prior year; » the reasonableness of expert judgements applied to the assumptions derived from the experience analysis to determine future likely rates of lapse. In doing this we applied our industry knowledge and experience; » the evidence of review and challenge, ensuring adequate sign off for changing assumptions; and » the input of the lapse assumptions into the valuation models used to value the liabilities. Through the procedures detailed above, we have found the lapse assumptions used to value the liabilities for IP contracts were supported by the evidence obtained.

Key audit matter	How our audit addressed the key audit matter
Morbidity assumptions used in the valuation of liabilities for income protection ("IP") contracts (Group and Society) Another assumption that creates particular sensitivity in the valuation of liabilities for IP contracts is the assumed rates of policyholder morbidity. When valuing future cashflows of income protection contracts, an assumption needs to be made regarding the proportion of existing policies that will make a claim in future time periods, known as claim inception rates, and the rates at which existing policyholders with claims-in-payment recover and claims are terminated, known as claim recovery rates. These two assumptions together are referred to as policyholder morbidity and small changes in the policyholder morbidity 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 26 and note 3 on page 49.	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 accuracy of the data used in the experience investigation for claim inception rates and recovery rates and where applicable, ensured it is consistent with the data used in the previous year's valuation; » the calculation of historical morbidity rates (the experience investigations); » the reasonableness of expert judgements applied to the assumptions derived from the experience analysis to determine future likely rates of morbidity. To do this we took into account factors likely to influence future rates of policyholder morbidity by applying our industry knowledge and experience; » the evidence of review and challenge, ensuring adequate sign off for changing assumptions; and » the input of the morbidity assumptions into the valuation models used to value the liabilities. 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.

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 in the year. In relation to the audit of the Group consolidated financial statements there is only one significant component on which we focus 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	£590,000 (2017: £513,000).	£590,000 (2017: £487,000).
How we determined it	1% of the Fund for future appropriations.	1% 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.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £29,500 for the Group and Society (2017 Group: £25,000, 2017 Society £24,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

» the Board of Management's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

» the Board of Management have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Society's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Society's trade, customers, suppliers and the wider economy.

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 pages 15-16 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 pages 15-16 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 they have applied the Code, we are required to report to you if, in our opinion:

» The statement given by the Board of Management, on page 21, 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 26 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, 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 intend 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. The period of total uninterrupted engagement is 2 years, covering the years ended 31 December 2017 to 31 December 2018.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
24 April 2019

Diana's story continued...

Holloway Friendly's income protection plan took away the financial worry of having to pay the mortgage when I didn't have a job, which was a real relief.

After 3 months of therapy my self-confidence was returning, I was back to playing my bassoon in concerts, I felt motivated to get back out in the garden and return to running.

Financial statements

The Original Holloway Friendly Society Limited
Consolidated Statement of Comprehensive Income for the year ended 31 December 2018

	Notes	Group 2018	Society 2018	Group 2017	Society 2017
		£	£	£	£
TECHNICAL ACCOUNT - LONG-TERM BUSINESS					
Gross premium written	5	6,894,289	6,878,718	7,375,457	7,114,604
Outward reinsurance premiums		(172,395)	(172,395)	(999,159)	(999,159)
Net earned premium income		6,721,894	6,706,323	6,376,298	6,115,445
Investment income and realised gain/(loss)	6	710,208	710,208	2,590,650	2,590,650
Unrealised (loss)/gain on investments	7	(2,142,405)	(2,142,405)	629,666	629,666
Other income		36,195	36,195	166,673	166,673
Total technical income		**5,325,892**	**5,310,321**	**9,763,287**	**9,502,434**
Gross claims incurred		3,772,275	3,772,275	4,094,045	4,094,045
Reinsurance recoveries		(183,944)	(183,944)	(916,982)	(916,982)
Claims incurred net of reinsurance	8	3,588,331	3,588,331	3,177,063	3,177,063
Change in technical provisions	9	(16,722,715)	(16,722,715)	1,486,432	1,486,432
Net operating expenses	10	10,661,315	10,531,958	7,777,319	7,516,466
Investment expenses and charges		213,106	213,106	165,529	165,529
Tax attributable to long term business	11	-	-	-	-
Allocated investment return transferred to the non-technical account		3,726	3,726	3,480	3,480
Transfer to/(from) the fund for future appropriations	12	7,582,129	7,695,915	(2,846,536)	(2,846,536)
Total technical expense		**5,325,892**	**5,310,321**	**9,763,287**	**9,502,434**
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		3,726	3,726	3,480	3,480
Other charges, including value adjustments		(3,726)	(3,726)	(3,480)	(3,480)
Excess of income over expenditure for the financial year		-	-	-	-

Included in the above are the results of HF Life Limited (Optimal), a discontinued operation with a post-tax loss of £101,327 (2017 post –tax profit of £41,966), for further information refer to note 22.

The Group had no recognised gains and 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 planned. 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 2018

	Notes	Group 2018	Society 2018	Group 2017	Society 2017
		£	£	£	£
ASSETS					
Intangible assets	13	1,429,831	1,429,831	480,164	480,164
Investments					
Land and buildings	14	800,000	800,000	800,000	800,000
Other financial investments	15	37,882,278	37,882,278	47,256,382	47,256,382
		38,682,278	38,682,278	48,056,382	48,056,382
Assets held to cover linked liabilities	16	915,026	915,026	1,124,316	1,124,316
Reinsurers share of technical provisions		-	-	77,205	77,205
Debtors	17				
Arising out of reinsurance operations		-	-	97,200	97,200
Other debtors		16,088	198,059	53,839	250,537
		16,088	198,059	151,039	347,737
Other assets					
Tangible assets	18	141,921	141,921	181,084	168,015
Stock		24,084	24,084	11,860	11,860
Cash at bank and in hand		651,650	533,997	612,821	176,484
		817,655	700,002	805,765	356,359
Prepayments and accrued income					
Accrued interest and rent		192,219	192,219	484,155	484,155
Other prepayments and accrued income		95,863	95,863	105,924	105,924
		288,082	288,082	590,079	590,079
Technical provisions	9	19,976,965	19,976,965	3,361,225	3,361,225
		62,125,925	**62,190,243**	**54,646,175**	**54,393,467**
LIABILITIES					
Fund for future appropriations	12	**58,921,989**	**58,986,307**	**51,339,860**	**51,290,392**
Technical provisions for linked liabilities	9	915,026	915,026	1,022,334	1,022,334
Creditors					
Arising out of direct insurance operations		-	-	108,000	108,000
Arising out of reinsurance operations		7,010	7,010	97,794	97,794
Claims outstanding		168,673	168,673	112,190	112,190
Other creditors including tax & social security	19	2,113,227	2,113,227	1,965,997	1,762,757
		2,288,910	2,288,910	2,283,981	2,080,741
		62,125,925	**62,190,243**	**54,646,175**	**54,393,467**

The financial statements on pages 44-59 were approved by the Board of Management and were signed on its behalf by:-

M J Day
Chairman
and Director
24 April 2019

S J Tragheim
Chief Executive
and Director
24 April 2019

Paul Harwood
Company Secretary
and Director
24 April 2019

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 ('FRS') 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 Society meets its day-to-day working capital requirements through its own resources. The Society's forecasts 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 Society therefore continues to adopt the going concern basis in preparing its financial statements.

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 or losses on investments

Realised gains or 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, any unrealised gains or losses brought forward are reversed.

Unrealised gains or losses on investments are accounted for as the difference between a fair value at 31 December 2018 and a similar valuation as at 31 December 2017 or, where purchased during 2018, 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

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

Accounting for pension

Contributions to the Society's defined contribution pension schemes are charged to the net operating expenses in the period in which the liability is accrued.

Accounting for the tax attributable to long-term business

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

Accounting for investments

Assets held to cover linked liabilities 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 Society 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 techniques	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	25% on a straight-line basis
Policy Administration System	No amortisation applied as asset not complete

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 include 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.

Unit-linked benefits are accounted for when realised. They are equal to the assets held to meet them.

Accounting for the fund for future appropriations

The fund for future appropriations represents the excess of assets over and above the long-term value of 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 long-term business provision is 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 could differ from estimates.

Long-term business provision

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 Society'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 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.

The assumptions used are described in Note 3.

3. Capital Management

The Group maintains an appropriate level of capital to ensure the payment of existing policyholder benefits in accordance with the Solvency II Solvency Capital Requirements.

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 of the regulator.

Details of the Society's objectives and its strategy to achieve them are provided in the Chief Executive's Statement on page 10.

The strategy is set for a five-year period beginning on 1 January 2017. The work to achieve the strategy is typically described in annual plans which take into account the immediate 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 risks materialising.

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

The Solvency Capital Requirement is calculated in accordance with EIOPA's standard formula. Following the 2018 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 2018. It is not, and has not been in 2018, subject to any externally imposed capital requirements.

Capital Statement

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

The Society does not write with-profits business at the scale required to necessitate a realistic balance sheet. So, the capital statement covers all of the Society's life 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.

Life business UK non-participating	2018 £000s	2017 £000s
Total capital resources before deductions	58,986	51,290
Adjustments to assets	(1,526)	(586)
Total available capital resources	**57,460**	**50,704**

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 them, should this be necessary to maintain solvency.

Long-term insurance liability valuation assumptions

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 2018.

Expenses Maintenance expenses are set allowing for new business in accordance with the Society's business plans for the period 2019-2021. Thereafter, expenses are assumed to increase in line with an expense inflation assumption of 3.25% per annum (2017: 3.10% 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, 115% recovery rate for weeks 4-13 of sickness, 175% recovery rate for weeks 13-26, 250% recovery rate for weeks 26-52 and 150% thereafter (2017: 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). The rates are reviewed annually to allow for emerging experience.

Lapses The lapse assumption for the Society's income protection contracts and commuted Holloway insurance contracts have been updated from the previous valuation and are summarised in the table below. In line with Solvency II regulation all unit linked contracts are assumed to lapse at the valuation date (2017: unchanged).

Mortality Assumptions are set by reference to standard actuarial tables. At the end of 2018, mortality in line with 50% of AMC00 Ultimate was assumed for healthy lives (2017: unchanged) and 100% CMIR12 mortality rates for sick lives (2017: 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 table below presents the movement in the Society's available capital over 2018.

Analysis of Change, 2018, £000s

2018	Change	Available Capital
Available capital at start of year		**50,704**
New business	6,399	
Model changes	5,344	
Final bonus	720	
Assumption changes	128	
Change in risk margin	117	
Policy cash flows	(3,343)	
Investment (losses)/gains	(1,460)	
Change in admissibility	(940)	
Change in current liabilities	(208)	
Available capital at end of year		**57,461**

Available capital has grown with new business and following changes to the calculation approach. It has been reduced by higher policy outflows, including as a result of higher sickness claims. Investment losses (realised and unrealised) also reduced available capital.

<table>
<tr><th colspan="7">Lapse Rates, pa</th></tr>
<tr><th rowspan="2">Duration</th><th colspan="2">Purely</th><th colspan="2">STIP</th><th colspan="2">one2protect</th></tr>
<tr><th>2018</th><th>2017</th><th>2018</th><th>2017</th><th>2018</th><th>2017</th></tr>
<tr><td>1st year</td><td rowspan="3">10%</td><td rowspan="8">7.5%</td><td>20%</td><td>20%</td><td>10%</td><td rowspan="8">n/a</td></tr>
<tr><td>2nd year</td><td>17.5%</td><td>17.5%</td><td>9%</td></tr>
<tr><td>3rd year</td><td>15%</td><td>15%</td><td>8%</td></tr>
<tr><td>4th year</td><td>11%</td><td>12.5%</td><td>12.5%</td><td>7%</td></tr>
<tr><td>5th year</td><td>10%</td><td rowspan="4">10%</td><td rowspan="4">10%</td><td rowspan="2">5%</td></tr>
<tr><td>Years 6-9</td><td rowspan="2">9%</td></tr>
<tr><td>Years 10-15</td><td rowspan="2">3%</td></tr>
<tr><td>Years 16+</td><td>4%</td></tr>
</table>

The assumed lapse rates for Holloway commuted plans is 2.5% pa (2017: 2.5%pa)

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 (health) risks

The Society is exposed to a range of insurance risks through its financial assets, financial liabilities, reinsurance assets and insurance contract holders liabilities. Morbidity, lapse and expense are principal risks. 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 manage. The Society is developing a programme to monitor lapse risk more closely and to communicate the value of its products, 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 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 carries the risk that important strategic work cannot then progress.

The Society is actively and continually managing these risks.

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

The Society is exposed to a range of financial risks.

Market risk

Market risk is the risk of changes in the value of investments. It primarily arises from changes to the price of equities and interest rates. The Society has a 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 are monitored in order to ensure they fall within the Society's agreed counterparty limits. 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% (2017: 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 £0.8m (2017: £1.0m).

Interest rate risk

Interest rate risk arises from investments in fixed interest securities. An increasing amount of risk now also arises from the value of the Society's insurance liabilities.

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.

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 £7.8m (2017: £3.8m). The prescribed decrease in EIOPA's risk-free yields (averaging 47 basis points (2017: 40) over the next 25 years) would result in an increase in surplus of £3.8m (2017: £1.7m).

Managing market risk

The Society has an Investment Committee which oversees market risk, The Committee recommends the investment policy to the Board, receives reporting, oversees 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 by the Society.

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	
	2018	**2017**
Investment grade	15,360	18,422
Non investment grade	680	772
Non rated	1,535	1,398
	17,575	**20,592**

The table above now includes cash assets directly held in collective investment schemes. As a result, the 2017 total of £20,592,000 is £271,000 higher than reported last year. Investment grade assets are those with S&P ratings of B or higher.

The concentration of credit risk is substantially unchanged compared to prior year. No credit limits were exceeded during the period. No financial assets are in arrears or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

The assets reported above include £0.915m (2017: £1.124m) 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.

Operational risks

Operational risks cover the impact of failed, missing or inadequate processes, people or infrastructure, or include the impact of failures of strategy and a damaged reputation. For a business that is changing so quickly, the Society is vulnerable to operational risks of many different types. Loss of data and cyber-threats are common concerns for financial services organisations.

The Society takes operational risk seriously. It has a small team of specialists who work with managers and supervisors across the business to minimise the incidence and impact of operational risk, to analyse actual and near-miss incidents and to ensure that any errors that arise are properly dealt with. The management of operational risk is closely connected to the management of conduct risk and to the Society's culture.

Sensitivity of the results to changes in key assumptions

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

Sensitivity of Results to Assumption Changes		
Available capital at 31 Dec 2018		**57,461**
Assumption	**Change**	**Impact (£000s)**
Morbidity inceptions (%CMIR12)	+10%	(1,267)
	-10%	+1,267
Morbidity recoveries (%CMIR12)	+10%	+3,812
	-10%	(5,600)
Expense allowances	+10%	(1,019)
	-10%	+1,019
Mortality (%AMC00)	+10%	+240
	-10%	(253)
Risk-free yields	EIOPA shock up	(6,630)
	EIOPA shock down	+3,273
Fixed interest asset value	-10%	(1,848)
Equity values	-10%	(1,592)
Fall in property values	-10%	(94)
Lapse rates	+10%	(7,213)
	-10%	8,287

The Impact column shows the change in available capital

5. Gross premiums written

	Group 2018 £	Society 2018 £	Group 2017 £	Society 2017 £
Income protection business - regular premiums	6,676,385	6,676,385	5,822,650	5,822,650
Life cover business - regular premiums	217,904	202,333	1,552,807	1,291,954
Gross premium written	**6,894,289**	**6,878,718**	**7,375,457**	**7,114,604**

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

6. Investment Income and realised gain/(loss)

	Group and Society	
	2018 £	2017 £
Net rental (loss)/gain from investment properties	(3,583)	5,891
Income from investments:		
Interest income (cash deposits)	57,034	61,401
Interest income (British government securities)	115,536	138,408
Interest income (other fixed interest securities)	393,023	593,771
Dividend income	410,948	561,690
	972,958	1,361,161
(Loss)/gain on realisation of investments	(262,750)	1,229,489
Investment income and realised gain/(loss)	**710,208**	**2,590,650**

7. Unrealised (loss)/gain on investments

	Group and Society	
	2018 £	2017 £
Investments at fair value through income:		
	(2,142,405)	629,666
Unrealised (loss)/gain on investments	**(2,142,405)**	**629,666**

8. Claims incurred net of reinsurance

	Group and Society	
	2018 £	2017 £
Death claims paid	174,787	1,129,098
Reinsurers' share	(157,308)	(910,211)
	17,479	218,887
Sickness benefit	1,538,554	1,094,114
Reinsurers' share	(26,636)	(6,771)
	1,511,918	1,087,343
Unit-linked encashments	106,974	70,828
Withdrawals and maturities	1,951,960	1,800,005
	2,058,934	1,870,833
Claims incurred net of reinsurance	**3,588,331**	**3,177,063**

9. Technical provisions

	Group and Society			
	Unit-Linked Liabilities £	Non Unit-Linked Liabilities £	Total 2018 £	Total 2017 £
Balance at 1 January	1,022,000	(3,361,224)	(2,339,224)	(3,825,656)
Movement	(106,974)	(16,615,741)	(16,722,715)	1,486,432
Balance at 31 December	**915,026**	**(19,976,965)**	**(19,061,939)**	**(2,339,224)**

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.

An adjustment has been made to the 2017 closing balance of £334.

10. Net operating expenses

	Group 2018 £	Society 2018 £	Group 2017 £	Society 2017 £
Acquisition costs	8,327,174	8,327,174	4,299,127	4,133,898
Administrative expenses	2,334,141	2,204,784	3,478,192	3,382,568
Net operating expenses	**10,661,315**	**10,531,958**	**7,777,319**	**7,516,466**
Net operating expenses include the following:				
Fees payable to the Society's auditor:				
Audit	73,300	73,300	60,800	60,800
Audit-related services	-	-	16,700	16,700
Other services:				
Actuarial fees for valuation/consultancy	279,508	279,508	241,351	241,351
Depreciation on tangible fixed assets	37,218	37,218	44,789	34,274
Operating lease rental charges	1,800	1,800	3,060	3,060

Employee benefits expense	Group 2018 £	Society 2018 £	Group 2017 £	Society 2017 £
People Expenses:				
Salaries and wages	3,224,647	3,205,176	2,429,428	1,947,036
Social security costs	360,080	359,034	242,232	191,199
Pension costs	235,996	235,319	248,743	194,876
	3,820,723	**3,799,529**	**2,920,403**	**2,333,111**

Number of employees	Group 2018	Society 2018	Group 2017	Society 2017
Board and senior management	10	10	11	10
Acquisition and member contact	30	30	23	19
Administration	29	29	24	19
	69	**69**	**58**	**48**

The numbers include Executive Directors and are calculated on a monthly average basis.

Aggregate Remuneration of Executive Directors	Group and Society	
	2018 £	2017 £
Salaries and wages	354,177	451,384
Social security costs	46,569	39,819
Pension costs	18,216	73,867
	418,962	**565,070**

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 pages 29-33.

11. Tax attributable to long term business

No taxation is due for 2018 or 2017.

12. Fund for future appropriations

Group	General Reserve £	Life & Endowment £	Total 2018 £	Total 2017 £
	Fund for future appropriations			
Balance at 1 January	51,053,540	286,320	51,339,860	54,186,396
Transfers to/(from) fund for future appropriations	7,582,129	-	7,582,129	(2,846,536)
Balance at 31 December	**58,635,669**	**286,320**	**58,921,989**	**51,339,860**

Society	General Reserve £	Life & Endowment £	Total 2018 £	Total 2017 £
	Fund for future appropriations			
Balance at 1 January	51,004,072	286,320	51,290,392	54,136,928
Transfers to/(from) fund for future appropriations	7,695,915	-	7,695,915	(2,846,536)
Balance at 31 December	**58,699,987**	**286,320**	**58,986,307**	**51,290,392**

Member balances	2018 £	2017 £
Balance at 1 January	19,136,455	19,349,861
Apportionment of surplus	978,450	1,048,980
Compound bonus	356,607	362,988
Terminal bonus	176,634	174,631
Balance plus bonuses	20,648,146	20,936,460
Withdrawals	(1,841,903)	(1,673,070)
Forfeitures and lapses	(110,056)	(126,935)
Total withdrawals	(1,951,959)	(1,800,005)
Balance at 31 December	**18,696,187**	**19,136,455**

13. Intangible assets

		Policy Administration System £	Computer Software £	2018 Total £	2017 Total £
		Group intangible assets			
Cost:	As at 1 January	269,624	291,772	561,396	162,136
	Additions	1,089,051	47,664	1,136,715	492,373
	Disposals	-	(250,019)	(250,019)	(93,113)
	As at 31 December	1,358,675	89,417	1,448,092	561,396
Amortisation:	As at 1 January	-	81,232	81,232	95,213
	Charge for year	-	9,839	9,839	79,132
	Eliminated on disposals	-	(72,810)	(72,810)	(93,113)
	As at 31 December	-	18,261	18,261	81,232
Net Book Value as at 31 December		**1,358,675**	**71,156**	**1,429,831**	**480,164**

14. Land and Buildings

	Group and Society	
	2018 £	2017 £
Cost/Valuation:		
As at 1 January	800,000	750,000
Increase in valuation	-	50,000
Disposals	-	-
As at 31 December	**800,000**	**800,000**

Land and buildings are freehold and are included at market value at 31 December 2017. The Directors have determined that the fair value has not changed significantly from the most recent valuation. The valuation was carried out by Richard Clark MRICS, Dip Law, FNARA of Alder King property Consultants. The office property is fully occupied by the Society and was valued on an existing use basis. Valuations are carried out every three years.

15. Other financial investments

	Group and Society			
	2018		2017	
	Market Value £	Cost £	Market Value £	Cost £
Financial assets – fair value through income:				
Shares, other variable yield securities and unit trusts:				
UK Listed	8,178,520	10,569,411	14,212,917	12,909,757
UK Unlisted	-	-	-	-
Overseas listed	7,922,467	7,681,319	5,698,455	4,007,691
Debt securities/fixed income securities	14,236,344	14,245,571	13,842,372	12,533,658
Deposits with credit institutions	7,544,947	7,538,401	13,502,638	13,502,638
	37,882,278	**40,034,702**	**47,256,382**	**42,953,744**

	Group and Society	
	2018 Level 1 Active quoted prices £	2017 Level 1 Active quoted prices £
Group financial assets:		
Shares, variable yield securities, holdings in collective investment schemes	24,762,476	19,911,372
Debt securities and other fixed income securities	4,582,510	13,842,372
Deposits with credit institutions	8,537,292	13,502,638
Total group financial assets held at fair value through profit and loss	**37,882,278**	**47,256,382**

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

16. Assets held to cover linked liabilities

	Group and Society			
	2018		2017	
	Market Value £	Cost £	Market Value £	Cost £
Financial assets – fair value through income:				
Shares, other variable yield securities and unit trusts				
UK Listed	495,109	485,692	647,831	589,165
Debt and fixed income securities	378,352	326,229	447,646	386,096
Financial assets – at amortised cost:				
Deposits with credit institutions	41,565	41,565	28,839	28,839
	915,026	**853,486**	**1,124,316**	**1,004,100**

17. Debtors

	Group 2018 £	Society 2018 £	Group 2017 £	Society 2017 £
Arising out of reinsurance operations	-	-	**97,200**	**97,200**
Accounts receivable	16,088	15,654	53,084	20,519
Loans	-	-	755	755
Amounts due from Subsidiary	-	182,405	-	229,263
Other debtors	**16,088**	**198,059**	**53,839**	**250,537**

18. Tangible assets

		Group tangible assets			
		Office Equipment £	Computer Equipment £	2018 Total £	2017 Total £
Cost:	As at 1 January	123,403	132,279	255,682	233,317
	Additions	5,405	5,719	11,124	152,600
	Disposals	-	(37,013)	(37,013)	(130,235)
	As at 31 December	128,808	100,985	229,793	255,682
Depreciation:	As at 1 January	14,672	59,926	74,598	166,365
	Charge for year	33,161	17,126	50,287	38,467
	Eliminated on disposals	-	(37,013)	(37,013)	(130,234)
	As at 31 December	47,833	40,039	87,872	74,598
Tangible Assets (Group)		**80,975**	**60,946**	**141,921**	**181,084**

		Society tangible assets			
		Office Equipment £	Computer Equipment £	2018 Total £	2017 Total £
Cost:	As at 1 January	123,403	79,006	202,409	180,044
	Additions	5,405	5,719	11,124	152,600
	Disposals	-	-	-	(130,235)
	As at 31 December	128,808	84,725	213,533	202,409
Depreciation:	As at 1 January	14,672	19,722	34,394	136,677
	Charge for year	33,161	4,057	37,218	27,952
	Eliminated on disposals	-	-	-	(130,235)
	As at 31 December	47,833	23,779	71,612	34,394
Tangible Assets (Society)		**80,975**	**60,946**	**141,921**	**168,015**

19. Other creditors

	Group 2018 £	Society 2018 £	Group 2017 £	Society 2017 £
Other creditors including taxation and social security:				
Taxation and social security	95,917	95,917	105,919	105,919
Amounts due to retired members	680,532	680,532	630,222	630,222
Amounts due for extra contributions	96,894	96,894	98,634	98,634
Other creditors	1,239,884	1,239,884	1,131,222	927,982
Other creditors including taxation and social security	**2,113,227**	**2,113,227**	**1,965,997**	**1,762,757**

20. Capital commitments

At 31 December 2018, the Society had no capital commitments (2017: nil).

21. Financial commitments

Non-cancellable operating commitments.

	2018			2017		
	<1 year £	2 - 5 years £	> 5 years £	<1 year £	2 - 5 years £	> 5 years £
Group	1,772	2,215	-	16,994	7,174	-
Society	1,772	2,215	-	2,594	7,174	-

22. Discontinued operations

	2018			2017		
	Continuing operations £	Discontinued operations £	Total £	Continuing operations £	Discontinued operations £	Total £
Gross Premiums written	6,676,385	217,904	6,894,289	5,854,592	1,520,865	7,375,457
Outward reinsurance premiums	-	(172,395)	(172,395)	-	(999,159)	(999,159)
Net earned premium income	6,676,385	45,509	6,721,894	5,854,592	521,706	6,376,298
Investment income	710,208	-	710,208	2,590,650	-	2,590,650
Unrealised (loss)/gain on investments	(2,142,405)	-	(2,142,405)	629,666	-	629,666
Other income	36,195	-	36,195	166,673	-	166,673
Total income	**5,280,383**	**45,509**	**5,325,892**	**9,241,581**	**521,706**	**9,763,287**
Gross claims incurred	3,597,488	174,787	3,772,275	2,964,947	1,129,098	4,094,045
Reinsurance recoveries	(26,636)	(157,308)	(183,944)	(6,771)	(910,211)	(916,982)
Claims incurred net of reinsurance	3,570,852	17,479	3,588,331	2,958,176	218,887	3,177,063
Change in technical provisions	(16,722,715)	-	(16,722,715)	1,486,432	-	1,486,432
Net operating expense	10,531,958	129,357	10,661,315	7,516,466	260,853	7,777,319
Investment expenses and charges	213,106	-	213,106	165,529	-	165,529
Allocated investment return transferred to the non-technical account	3,726	-	3,726	3,480	-	3,480
Transfer to the fund for future appropriations	7,683,456	(101,327)	7,582,129	2,804,570	41,966	(2,846,536)
Total expenses	**5,280,383**	**45,509**	**5,325,892**	**9,241,581**	**521,706**	**9,763,287**

23. 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.

24. Related parties

Details of the Remuneration paid to Directors is provided in the Directors' Remuneration Report on pages 29-33. Some Board members and senior management have policies with the Society and pay premiums on an arm's length basis. The total value of policies held by Directors and their families does not exceed £1,770. All transactions with related parties were undertaken at arm's length under commercial terms of business. The Society is exempt from disclosing related party transactions with other companies that are wholly owned within the Group. There are no other related party transactions.

25. 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 pecuniary interests in the Society, with the exception of fees paid to OAC for professional services, which amounted to £279,508 in 2018 (2017: £241,351).

26. 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.

Diana’s story continued…

I’m really happy now. I’m working as a school office administrator and retraining as a counsellor and during this time Holloway Friendly is continuing to support me financially.

I was in a really grey place when I was ill, but now the colour has returned to my life.

Holloway Friendly