



THE ORIGINAL HOLLOWAY FRIENDLY SOCIETY LIMITED

Annual Report 2020

for the year ended 31 December 2020

Keeping life colourful

Welcome from the Chair

Dear Members,

Welcome to the 2020 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.

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, which shows how we are able to share the value emerging with Members.

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

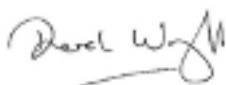
The fifth item is the report from the Independent Auditor.

The final item is the Financial Statements, including notes to explain their presentation.

The Society applied, in full, the Corporate Governance Code developed by the Association of Financial Mutuals for firms like ours.

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. All Directors make a point of being available to talk to Members at the Annual General Meeting ('AGM') and this is an excellent way for you to raise any matter with us. Other ways you can contact us are listed on the back cover of this report.

Yours sincerely,



Derek Wright
Chair
6 April 2021

Contents



Officers, Professional Advisers and Registered Office

Officers of the Society

The Board of Management ('Board') during 2020

Chair and Non-Executive Director	Derek Wright ¹ Martin Day ²
Senior Independent Non-Executive Director	John Holland
Independent Non-Executive Directors	Anna East Adrian Humphreys Graham Newitt Dave Cheeseman ³
Chief Executive and Executive Director	Stuart Tragheim
Chief Financial Officer and Executive Director	Paul Harwood
Chief Actuary	Emma Moon ⁴ Sally Butters ⁵
With Profits Actuary	Sally Butters ⁶
Company Secretary	Alison Poyner ⁷ Paul Harwood ⁸



1. approved on 5 Oct 2020
2. until 23 Jun 2020
3. first Appointed 15 Feb 2020, elected at 2020 AGM
4. designate from 12 Oct 2020, regulatory approval received on 26 Jan 2021
5. designate from 4 Oct 2019, regulatory approval received on 17 Feb 2020, until 25 Jan 2021
6. designate from 4 Oct 2019, regulatory approval received on 17 Feb 2020
7. from 1 Oct 2020
8. until 30 Sept 2020

Officers, Professional Advisers and Registered Office

Professional Advisers at 31 December 2020

With Profits Actuary⁶

Sally Butters, BSc, FIA
OAC plc
141-142 Fenchurch Street, London
EC3M 6BL

Internal Auditor

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

Fund Managers

LGT Vestra LLP
14 Cornhill
London
EC3V 3NR

Independent Auditor

BDO
55 Baker St
Marylebone, London
W1U 7EU

Bankers

Lloyds Bank
19 Eastgate Street
Gloucester
GL1 1NU

Registered Office

The Original Holloway Friendly Society Limited

Holloway House
71 Eastgate Street
Gloucester
GL1 1PW

The Original Holloway Friendly Society Limited is a friendly society registered and incorporated under the Friendly Societies Act 1992. The Board is the Committee of Management defined in the Act. 'Board', 'Board of Management' and 'Directors' are used interchangeably in this report.

The Society is governed by its Memorandum and Rules (the 'Rules'), which are available on its website, or free on request.

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

The Society has one subsidiary, HF Life Limited, which does not currently trade,

email: hello@holloway.co.uk
web: holloway.co.uk
telephone: 01452 526 238

and has no liabilities and no significant assets.

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 is a member of the Association of Financial Mutuals ('AFM'). It follows the Corporate Governance Code ('the Code') developed by the AFM for mutual firms.

Annual Report 2020

Chair's Overview

Chair's Overview

2020 vision signifies perfect vision! I don't believe that at the start of the year anyone could have foreseen what the year ahead would bring.

The year started much as 2019 had finished with strong sales and a growing Membership. But as it became obvious that coronavirus was going to have a significant impact on all our lives and the business, and particularly once we went into lockdown, plans had to change.

The Society responded quickly to protect service to Members and to protect our people. Within a week everyone was working from home, a fantastic team effort. We reacted quickly to ensure that our products remained appropriate and could be safely sold. We made changes to support Members in difficulty.

This is my first report to you, our Members, as Chair of the Society. I had not anticipated when I became Chair that I would not be able to meet face-to-face in the office or around the board table. Since March 2020, and still continuing, most board and committee meetings have been held virtually, as was the 2020 Annual General Meeting. (It is pleasing to report all our IT skills have improved over this year!)

As I write this report, we are in Lockdown 3.0 with no idea as to when we might be able to start moving

back to normal life again. It will probably be a few years before we really know how much the way we live our lives has changed but I am confident that the Society will adapt to ensure we continue to be there when our Members need us the most.

Delivering Benefits to Members

We now protect more Members than ever and, in practical terms, have paid out more in benefits, replacing the incomes of those who cannot work through illness and injury. Part of our purpose is to help our Members back to work. We have continued to do that as well as to promote our Member support benefits.

Bearing in mind reduced sales in 2020, Membership grew more slowly than expected. We never forget that the Society exists to serve you, our Members, especially in your time of greatest need. Despite the initial post-lockdown increase in claims activity we have striven throughout the year to ensure that we continue to pay valid claims and pay them promptly. Queues did build up at some busy times, but are now back to pre-pandemic service levels.

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

awarded the FT Advisor 4* Service Award in 2020 was a real recognition of that commitment.

Bonus

The rate of new regular and final bonuses for all Members with eligible plans were reduced in the year to reflect underlying performance. Full details are in the report on **Page 21**.

Regulation and Corporate Governance

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

Each year the Board reviews its succession plan and is satisfied that it remains appropriate. It is satisfying too that programmes are in place to ensure effective executive succession.

The Society continues to support the work of the James Hopkins Trust, a local children's hospice. It has matched the amounts raised internally, leading to a donation of £2,500.

Chair's Overview

Our Strategy

Our strategy is to grow by offering quality products to more people. Central to this strategy is the implementation of a new administration system, PRISM. I am delighted to note that PRISM was launched in early 2021 and new products are being administered on it. I look forward to seeing its benefits accrue over time.

Looking Ahead

This past year has been an extremely difficult one for us all. I am proud of the way that everyone in the Society adapted to the challenges brought about by coronavirus and the consistent focus on serving Members. During 2021 we will see the benefits of launching PRISM in enabling us to launch new products and to provide more options for current and future Members. And hopefully we will once again be able to return to the office.

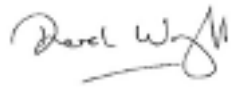
Thanks

All of this is only achieved through the hard work and dedication of the Society's people. On behalf of our Members and my fellow Directors, a big thank you to everyone at the Society for their part in ensuring our success and building the foundations for the Society's future.

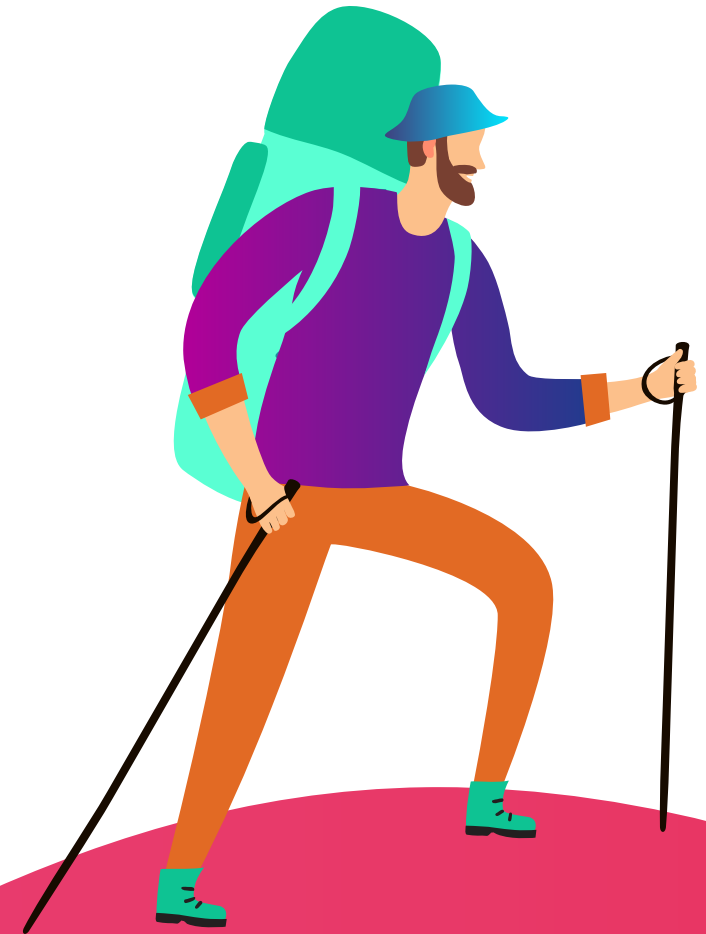
Thanks too to my predecessor, Martin Day, for all he did in his years as Chair and for bequeathing me a strong team of Directors. Finally, thank you to all of those Directors for making my role relatively straightforward – so far!!

I hope to see many of you at the AGM whether it be held in-person or, more likely, on-line. In the meantime, please keep yourselves and your families safe.

With best wishes,



Derek Wright
Chair
6 April 2021



Annual Report 2020

Strategic Report

Strategic Report

Chief Executive's Overview

As in last year's report, I would like to begin by extending my sympathies to all our Members and those we work with whose loved ones have been affected by coronavirus or who have been affected themselves. The Society exists to support working people in times of difficulty, but the last year's difficulties have been very different to those we expected.

As you will imagine, 2020 has been dominated by the pandemic. It continues to affect all of our lives to differing degrees. In this, my fifth report, I will describe how the Society has responded and how our strategy and its implementation have been affected.

Our strategy is to grow the Society's Membership by offering more products to more people, with value at their core. The pandemic has halted short-term growth, but we are confident that as restrictions lift, we will be well positioned to resume our growth plans. In particular, our new administration platform is in place, allowing us to extend the range of products that we offer to the market.

I am pleased that we have paid out more in benefits to Members than ever before. Helping our Members is the reason for our existence.

Sales are lower than in 2019, reflecting the pandemic impact, both of lockdown and of the defensive tactical action that we took to preserve

Member value. Even so, we are delighted that Member numbers overall are slightly higher at the end of the year. We took the opportunity to revise our assessment of future claims outflow in these new circumstances. Overall, recognising these effects, we have had to draw down on the Fund for Future Appropriations in 2020.

Our core product, income protection, is designed to support people who cannot work through sickness or injury. Our products are not designed to cover the impacts of lockdown or self-isolation. Indeed, the extent of the government support schemes shows how difficult it is to insure against the impacts of such an unusual and far-reaching phenomenon as a pandemic. Our task has been to ensure that, in the interests of all of the Membership, claims are paid that meet our declared purpose. This has not been easy, particularly in the early stages of the pandemic, when the government schemes had not yet become fully operational.

We are pleased that our market-leading stance of providing cover to those with a mild history of mental health problems has allowed more people to secure cover on better terms. One year on, we have not seen a deterioration in claims as a result.

Yet again, everyone at the Society has demonstrated their commitment to supporting Members and ensuring the future success of the Society. As the lockdown was announced, we moved to full working from home within a few days. Home working takes its toll and the year was pressured, but I am delighted to report that the business proceeded with very little interruption. I would like to thank everyone for their contribution in this most difficult of years.

The world changed in 2020 and while the recovery is in sight, we are not quite there yet. At a time full of uncertainties, I am confident that we at the Society will continue to strive to provide quality service and support for our Members. Please stay safe.



Stuart Tragheim
Chief Executive
6 April 2021

Strategic Report

Key Performance Indicators for 2020

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

Total Membership

the reason for our existence

New Sales

the lead indicator of our ability to attract new Members

Embedded Value

the long-term financial value of the Society to Members

Solvency Ratio

the financial strength to manage risks that materialise

Lapses

retention of Members is central to the Society's success

Engagement

a strong Society emerges from dedicated people



Strategic Report

2020 Business Review

Purpose

Our high-level purpose is to be there when you, our Members, need us most. In practical terms, this means protecting your income when you can't work because of sickness or accident. This is why we exist. Regularly reminding ourselves of our purpose helps ensure that all of us who work at the Society do so in the best interests of our Members and the wider public.

Strategy and Business Model, Key Performance Indicators

Strategy

Our strategy is to grow by offering useful and affordable products. New Members are introduced by Independent Financial Advisers, who recommend us to their clients. We have to be good at what we do to justify the Advisers' recommendations. In short, the Society grows because we look after our Members and Advisers are confident about recommending us.

Our strategy and business model (see next section) describe how we generate long-term sustainable value. The Board is responsible for ensuring that the strategy is clear and is implemented. It ensures that the strategy and our values support good behaviours and practices, properly balance short- and long-term results and discourage poor or unethical behaviour.

The Board manages any conflicts of interest within the strategy or business model and balances short-term targets and long-term aspirations.

Business Model

A business model describes how a business creates value over time. Our business model is to grow by providing products which are valuable and useful, are priced attractively and are presented to Advisers effectively. We build the products ourselves and administer them from start to finish. We provide excellent service to Members and Advisers. Some professional functions are outsourced because they can be provided more efficiently this way.

We outsource some systems development, including the building of PRISM 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. All outsourced functions are subject to a robust oversight process to ensure that they meet appropriate standards and regulations.

Important Trading Results

Earned Premiums net of reinsurance increased over the year by £1.717m to £10.367m (2019: £8.650m).

Sickness Claims paid, net of reinsurance, grew by over 40% to £3.419m (2019: £2.430m). The increase largely reflects greater Membership numbers. We have received relatively few coronavirus-related claims.

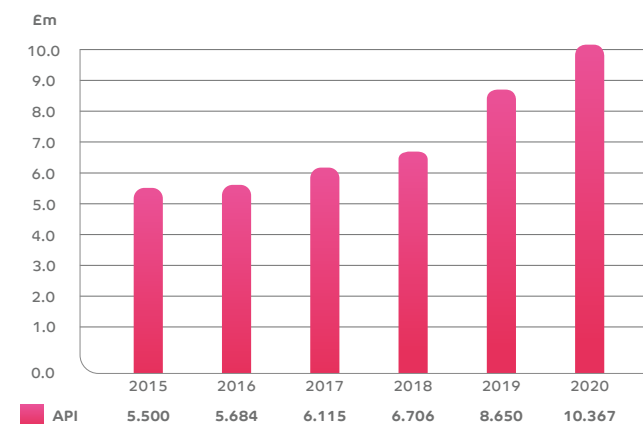
Net Operating Expenses reduced to £9.259m (2019: £12.587m). The reduction is due to lower sales and action taken to reduce expenses, both as a result of the pandemic.

The Fund for Future Appropriations, which is the friendly society term for net Member assets, has reduced in the year to £64.161m, from £76.018m. The change is driven by a reassessment of future claims and by changes in the economic environment.

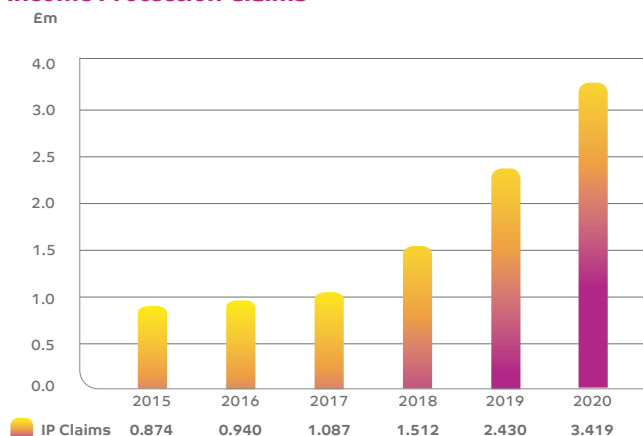
The value of the Society's investments fell from £31.196m to £26.585m. The change primarily reflects a drawdown of investments to meet the capital investment needs of the Society.

Strategic Report

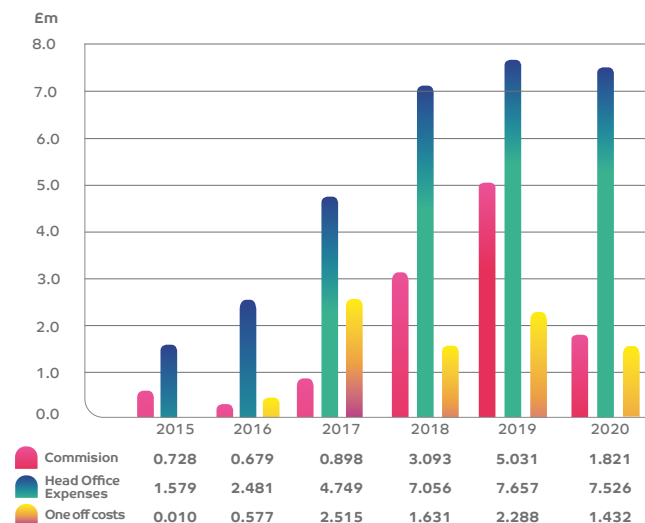
Net Earned Premium Income



Income Protection Claims



Society Expenses



For 2020, Net Operating Expenses = Head Office Expenses + Commission - Investment Expenses

Value-Tracking Principal Performance Indicators

Value added in 2020 has been significantly affected by the pandemic and a re-assessment of future claims cost.

Total Membership is a simple measure of success. The Society thrives, the greater its Membership. We currently have over 26,000 Members, around 1,000 more than at the end of 2019.

New Sales are measured by their annualised premium at the point of sale. We call this measure the Annual Premium Income or API. 2020 sales were lower than in 2019, at £1.535m API (2019: £3.418m).

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, then adding the assets, to give the Embedded Value of the Society. The Embedded Value depends in part on future plans, especially those relating to new products and new sales.

The Embedded Value measure allows the Board to assess the longer-term impact of what management does and helps avoid short-term thinking. Embedded Value has reduced this year, reflecting lower new sales and changes in assessments of future claims costs.

Risk-Tracking Principal Performance Indicators

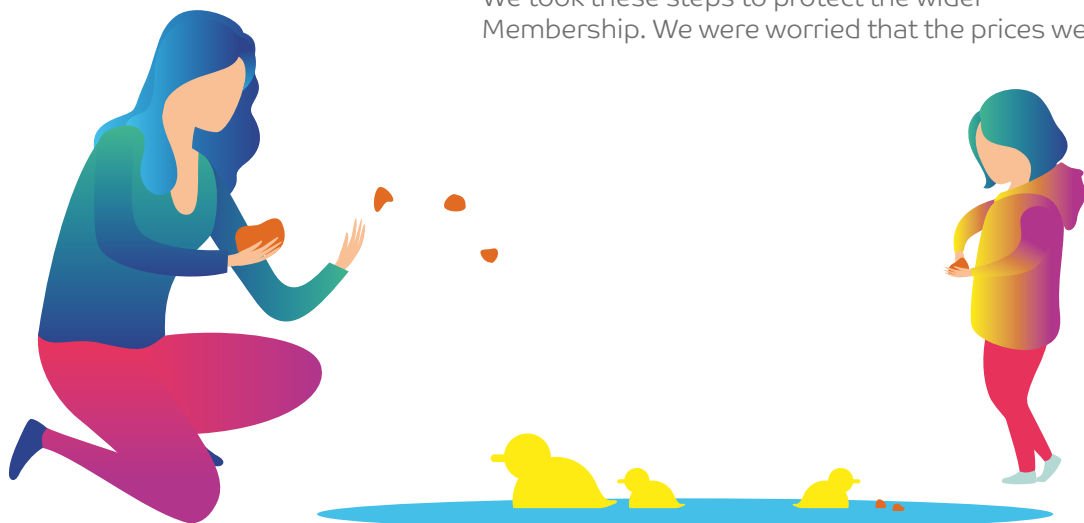
Solvency Ratio is a measure of the risks undertaken and the resources available to meet these risks. A high number is good because it means there are excess resources to meet any risks that materialise. The number can be too high, suggesting that assets are not being used effectively. The Solvency Ratio has fallen over the year for a number of reasons, including the re-assessment of future claims costs. There are other, technical, reasons for this number changing. The Board will continue to monitor the Solvency Ratio and take steps to ensure that risks accepted can be managed properly. The Solvency Ratio remains significantly ahead of regulatory requirements.

Strategic Report

Member- and Stakeholder-Tracking Principal Performance Indicators

Lapses continue to be monitored. Low lapses are good for the Society and the implementation of its strategy. Lapses in 2020 were broadly in line with assumptions.

Engagement covers how committed we are to supporting Members. We work hard to ensure that everyone working at the Society knows what is going on and how their contribution makes a difference to the service we provide. Our work in this area includes several different forms of regular communication. It is two-way, including surveys and less structured ways in which people can raise questions. Keeping in touch has been particularly important while people have been working from home.



Operating Practices as reflected in Performance from a Business Perspective

Our business performance in 2020 can be considered from three viewpoints: reacting to the pandemic, continuing to serve Members and building the future.

Reacting to the Pandemic

Our performance, financial and operational, was dominated by our reaction to the pandemic.

We reviewed our product range. We introduced a coronavirus exclusion for new business. This meant that we would not pay benefits to new Members if they were off work with coronavirus. We removed from sale some popular products.

We took these steps to protect the wider Membership. We were worried that the prices we

charge did not reflect the risk of being unable to work because of a coronavirus-related condition and that people might buy our plans intending to hold them only until the immediate danger passed. These changes did not affect Members who had bought their plans prior to the pandemic.

We altered our underwriting approaches at the start of lockdown by not seeking GP reports where other information could be used instead, and so relieving pressure on the NHS. As pressure receded, we were able to reintroduce our standard approaches. We are satisfied that this action did not create any new risks.

Operationally, we very quickly moved all of our people to home working. This required new technology, new management approaches and new oversight. In particular, we were careful to ensure that our systems and controls were not weakened because of the new way of working. Our planning for the pandemic ensured that the costs of this move were very low.

We were careful to monitor the mental health of all of our people. Home working was very different for most and could be lonely, especially for those living alone. We continually sought to ensure that everyone was well looked after and well managed.

We temporarily changed the work of our sales teams to supporting queries from Members.

Strategic Report

We decided that it would be inappropriate to have short- and long-term employee bonus plans in place during 2020. The Short-Term Incentive Plan was replaced with a much more modest, simpler bonus and the three-year Long-Term Incentive Plan commencing on 1 January 2020 was cancelled.

The Society chose not to use any of the government furlough schemes, preferring instead to reduce discretionary spending and redeploy people to support Members or progress the strategy.

Service to Members

This is vital for Members and the Society's growth. At the start of the lockdown, we were overwhelmed with queries from Members who were checking when their plans might provide a benefit. This led to longer queues than we would like and we re-deployed people from other areas to help. Even so, it took some time to restore service to normal.

Building the Future

PRISM development continued throughout 2020, alongside new product development work. This work will allow us to extend our product range early in 2021.

Year End Position, Trends and Factors

Our job is to replace the incomes, in part, of Members who cannot work through sickness or accident. In 2020, we paid out £3.419m in income protection (2019: £2.430m).

We received few coronavirus-related claims in 2020. There are some signs that the number of such claims is increasing as we move into 2021.

Year-end Position

A high-level summary of our position at the end of 2020 is as follows:

- the strategy and business model are appropriate
- the implementation of PRISM has been slowed by the pandemic
- overall, the resourcing is right across the Society
- PRISM will begin administering business from early 2021
- solvency is being actively managed
- pricing appears sound, although we will be reviewing the sickness assumptions
- sickness must be continually monitored
- the Sales team is effective
- the investment policy is fit for purpose
- controls are in place, working and improving
- the risk management system is effective
- governance is sound and the Board is effective
- management is strong and able, and
- there is an appropriate focus on people learning and development.

Sales were lower than expected. There are robust plans for sales in 2021 which are, to an extent, lockdown-dependent.

We have the right level of Executive and senior management in place for the strategy at the current time. In particular, we created an in-house actuarial team, including the recruitment of a Chief Actuary who is part of the Executive team.

PRISM is being phased in and we expect it to be fully embedded by the end of 2021.

The Remuneration Committee and Board considered the bonus pool generated from the 2017-2019 Long-Term Incentive Plan. This consideration was deferred, at my request, until the trading position stabilised.

Strategic Report

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

Trends

As a result of the pandemic, protection products appear to have become more valued. This is a positive trend for the Society.

Advisers do appear to be finding ways to secure business, despite lockdown and other measures.

The pandemic has introduced a discontinuity in previous trend lines. We do not know how quickly it will be before business returns to previous norms.

Factors

With PRISM launched, we will be able to develop new products for sale.

As with any new system, there may be teething problems that impede some activities. We are well resourced to fix these issues quickly.

We expect to refine our operating processes further over 2021 primarily driven by PRISM.

We are reviewing how people might work at home once all pandemic restrictions have been lifted. The home working experience may allow us to improve service and capacity in ways that previously had not been considered.

Any changes in the required response to the pandemic could affect the Society's performance.

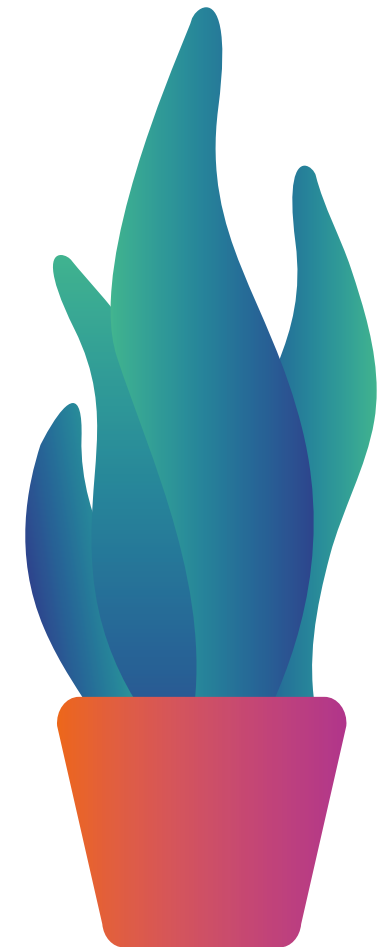
As expected, Brexit does not appear to have had a major impact on the Society's operations.

Responsibility to the Community

In 2020, we continued our support for the James Hopkins Trust, a local children's charity providing support for severely disabled under 5s and their families. While our support was limited by pandemic restrictions, we were nevertheless able to arrange some fund raising.

Following established practice, the Society was pleased to match and round up the amount raised in 2020, with the result that £2,500 in total was donated during the year.

We are thrilled to contribute 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. The coronavirus pandemic is a risk that has materialised very quickly, but very uncertainly in 2020. We consider the risks materialising as follows:

Coronavirus Pandemic

Strategic risks some recovery from the recent economic slowdown is hoped for in 2021. We continually review our plans in the light of experience and new information so that we can ensure that the Society remains financially healthy in the future. We expect the availability of our new products to help with 2021 sales.

Market risks we have a limited exposure to equities. As a result, changes in stock market levels have had a limited effect on the balance sheet. Most of our assets are invested in cash, cash funds, high-quality corporate bonds and gilts, which have substantially maintained their value as interest rates have fallen. We will review, but have no plans to change, our investment approach in 2021.

Operational risks are being managed. The risks arising from home working are being managed as business as usual. PRISM's implementation was affected by home working, but we were able to take steps to address and resolve this.

Claims Profile despite the pandemic, our claims profile was relatively unchanged in 2020. We have reviewed our claims assessment and strengthened it. We recognise that claims may emerge later.

Solvency risks have arisen because of the economic and social reaction to the pandemic. We cannot, for example, control interest rates. We continue to monitor these risks and take action where justifiable and appropriate.

Risk modelling will continue to be used to assess the impact on the Society of different pandemic scenarios and will use this information to support our decision making. Our current understanding of the coronavirus impact is such that we don't expect our long-term assumptions to change as a result. Of course, they may change for different reasons.

Risk Management in 2020

In 2020, 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 plans reach their maturity date. We also expect a proportion of the Membership to surrender their plans. This might happen for understandable reasons (for example, the plan may no longer be needed). Loss of any 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.

2020 has been unusual because sales have been much less than expected. Despite this, our Member numbers increased slightly, which is a positive result.

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 continue to apply high standards in processing the claims that we receive. Good claims management is at the heart of the Society's financial soundness. We use this information to set premium rates and to adjust underwriting and claim procedures. We regularly review claims in payment to assess what extra can be done to help a Member return to work.

Strategic Report

Product risks As we develop new products, we will become exposed to new and different products risks, which will be closely managed. We have recently reviewed our assessment of sickness risk and are satisfied that the revised approach is a better representation of the impact of future sickness on the Society.

Strategy Execution our strategy involves a significant amount of change. Of course, events do not always happen as planned, and this is a risk that is constantly managed.

PRISM's implementation is a major step forward in the execution of strategy. Our challenge now will be to add new products and benefit from the productivity improvements that PRISM provides.

Sales growth consumes capital in the short term, although reviewable-rate business consumes less capital. It is important that our products are appropriately priced, and that any new risks being accepted are well understood.

Recurring expenses may be too high. The Society has to balance the level of new sales with its recurring expenses. If recurring expenses are too high, profitability falls. If we spend too little, there is a danger we don't provide services to Members of the right quality. This risk is managed by careful budgeting and financial control, and monitoring service provision.

Underwriting changes are a risk. We have made changes based on research and expert opinion. If the actual outcome of the changes is very different to that expected, the costs to the Society of claims may be much higher than expected. This risk is managed through careful attention to emerging claims and being prepared to make further changes in future.

Solvency risks all of these risks may affect the Society's future solvency. Our current assessment is that solvency will remain in excess of the regulatory requirements. We will continue to assess the solvency position and take appropriate action to ensure regulatory compliance.

Governance risks as the Society operates in a heavily regulated environment, high standards are expected from those charged with overseeing and running insurers.

We seek 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 censure from the regulators.

This risk is managed by developing our governance functions, appointing of professional service providers and through continual review of work, together with appropriate liaison with regulators.



Strategic Report

Broader Matters Considered by Directors in Performing their Duties

Directors are generally obliged to consider a range of matters in discharging their duties. This Annual Report describes a number of specific matters. Directors are also expected to report on how they have considered broader matters. Specifically:

Likely consequences of any decision in the long term

The Directors always consider the long-term impact of the decisions that they discuss. Generally, the long-term impact means that strategy has to be considered, while short-term decisions are tactical. The Directors always consider whether tactical decisions might affect strategy, including possible unexpected consequences.

The interests of our people

Caring for those who work for the Society is central to our decision making. As a knowledge business, the Directors recognise that continuing high levels of service and developing the strategy require engaged, committed, well-trained and motivated people.

The need to foster the Society's business relationships with suppliers, Members and others

The Directors intend the Society to be a good corporate citizen. Treating customers well is central to our mission and strategy, as well as regulation, so is considered with all decisions. The Directors expect the Society to work properly and reasonably with Advisers, ensuring that regulations, especially regarding conduct, are followed in spirit and in deed. Decisions regarding sales are taken with particular focus on the short and the longer term and the expected outcomes for Members. The Directors expect the Society to work closely with its suppliers to ensure that there is a long-term, viable, mutually supportive relationship with all stakeholders and consider this in decisions that are made. More details are provided in the 'Operating Practices' section earlier.

The impact of the Society's operations on the community and the environment

The Directors seek to ensure that the Society is a responsible employer and supports its local community. It is active in supporting a local charity (see 'Responsibility to the Community' section earlier). The Directors always consider the community and environmental impact of decisions.

The desirability of the Society to maintain a reputation for high standards of business conduct

The Directors expect the highest standard of business conduct from all those working for the Society, congruent with regulatory obligations. Every decision is considered from this perspective by the Directors. More details are provided in the 'Governance' section earlier.

The need to act fairly between stakeholders

The Directors expect that all stakeholders are treated fairly and appropriately and expect to see that an appropriate balance has been struck between stakeholders for all decisions.

Coronavirus and Broader Matters

In responding to the coronavirus pandemic, we have had to make a number of decisions to ensure that our people are safe, that they continue to provide good service to Members, that terms for new business are appropriate and that valid claims are paid. We have regard to how our actions will be judged in future by our business partners and how our decisions will affect the Society's future.

Throughout the pandemic, we have maintained regular communications with business partners, including Advisers. We seek to strike a balance between growing the Society and ensuring that Members understand how our products can be used if someone cannot work due to a coronavirus-related condition.

Strategic Report

By behaving in this way, we think we will best serve our community and current and future Members. We are treating everyone fairly and maintaining our integrity in the market.

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 31 December 2020. This assessment was driven by an analysis of how the business might perform in a number of different circumstances, with proper allowance for the possible impacts of coronavirus. The resulting outcomes were discussed and helped to shape the development of the business plan.

As a result of these assessments, the Directors have a reasonable expectation that the Society can continue to progress over this time horizon, meeting all of its liabilities as they fall due, allowing for the impact of the coronavirus pandemic.

The Board has considered the effectiveness of the internal control and risk management systems. Both of these systems have continued to be monitored during 2020 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

The foundations of the Society's strategy are its strong service culture. The new products that PRISM allows us to offer are built on this service culture and mean that the Society is attractive to new Members and to Advisers everywhere.

While coronavirus has set back our plans, the Society is positioned well to capitalise on new opportunities as they emerge.

The Executive, senior management and all of our people remain enthusiastic about the Society's mission and are committed to taking the necessary steps to achieve it for the wider Membership. I look forward to the opportunity to continue this work into 2021 and beyond.



On behalf of the Board of Management
Stuart Tragheim
Chief Executive
6 April 2021



Annual Report 2020

Bonus Report

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 plan. The capital sum grows by the application of bonuses, which reflect a share in the Society's profits

Apportionment of surplus

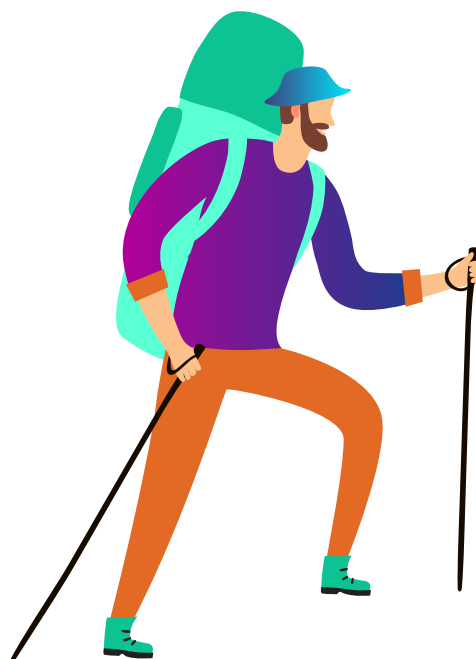
This is calculated as an annual amount per unit held which is added to the capital account of the Member. Based on the advice of our With Profits Actuary, the Board has declared a lower bonus rate for 2020, as follows:

Bonus Declarations		
Apportionment of Surplus	2020	2019
Holloway Old Tables	£1.10	£1.30
Holloway New Tables and Classic	£1.25	£1.50
Holloway New Classic Plan	£1.05	£1.25
Holloway Premier Plan	£0.15	£0.20
Holloway Classic Plus	£0.75	£0.90
Holloway Classic Plus – Guaranteed	£0.60	£0.75
Holloway Classic Plus – New Table	£0.25	£0.30
Provident Standard	£1.10	£1.30
Provident D13	£1.10	£1.30
Provident D26	£1.10	£1.30
Provident Commuted	£2.40	£2.40
Holloway Commuted	£1.55	£1.86

Compound bonus

Based on the advice of our With Profits Actuary, the Board has declared lower compound bonuses to be credited to Members' Accounts for 2020, as follows:

Credit to Members' Accounts	2020	2019
Compound Bonus	1.5%	2%



Final bonus

Final bonus is added to the capital sum immediately prior to the maturity of the plan, or in other specific circumstances.

The levels of current final bonus are available on request.

Final bonuses are kept under continual review and are declared by the Board based on the advice of our With Profits Actuary. If the value of the Society's surplus or investments changes suddenly or the numbers of Members claiming increases beyond expected levels, the final bonus may be changed before the next scheduled review.

On behalf of the Board of Management
Stuart Tragheim
Chief Executive
6 April 2021

Annual Report 2020

Report of the Board of Management

Report of the Board of Management

Introduction

The Board has pleasure in presenting the Annual Report of the Original Holloway Friendly Society Limited to its Membership for the year ended 31 December 2020.

Principal Activities and Objectives

Our principal activity is the provision of income protection insurance, including insurance based on Holloway principles, to people based in the UK and Isle of Man. The Society has a very small number of Members who live outside these areas. No activities have been carried on which are outside the Society's powers.

Our business is to sell protection products through Advisers to people who need the support that the Society's products provide.

Outcomes for Members

Bonuses to Members

The bonuses payable to Holloway plan Members are set out in the Bonus Report on **page 22**.

Service to our Membership, Feedback and Complaints

We continue to make every effort to provide a first-class service. We welcome feedback from Members and Advisers and act on the responses received.

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

Financial Position

The Society has maintained levels of solvency above its Solvency Capital Requirement (the regulatory requirement). Throughout this year, the Board has developed its understanding of the impact on solvency of a range of different outcomes. It has commissioned work to provide quarterly solvency updates, with regular monthly indicators of the solvency trend. As a result, the Board understands the risks of different possible business plans and can provide effective challenge.

PRISM Development

A Board sub-committee oversees PRISM's development. This sub-committee is chaired by the Senior Independent Director and includes the Society's Chair, the Chief Executive and the Chief Financial Officer. It considers all aspects of the project, including progress, budget and scheduling, reporting to the Board and making recommendations when needed. It met twelve times in 2020.

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 permanent Committees, including attendance by Committee members.

During the year, recognising the importance and development of the Society's corporate governance, the Board appointed Alison Poyner as Company Secretary.

Opportunity and Risk

The Board has considered and assessed how the Society can best create and preserve value over the long-term. In doing this, the Board considered tangible and intangible sources of value and the roles of stakeholders, together with processes for identifying innovation and entrepreneurship. The opportunities considered depend on the Board's attitude to risk and the Society's long-term strategy and prospects.

The Board is responsible for the Society's overall approach to strategic decision making and risk management. It has oversight of the risks faced by the Society and the plans for their management, including who is accountable to stakeholders for each risk. Most of this work is delegated to the Audit and Risk Committee, the Chief Risk Officer and the risk function, with appropriate reporting to the Board.

Report of the Board of Management

That said, the Board considers the annual Own Risk and Solvency Assessment, once it has been reviewed by the Audit and Risk Committee.

The Board has established its approach to managing the risks posed by conflicts of interest. Most of this work is delegated to the Nomination Committee, which reports on it to the Board.

The Board has established an internal control framework with clearly defined roles and responsibilities. Most of this work is delegated to the Audit and Risk Committee, which reports on it to the Board.

Remuneration

The Board has established a remuneration policy which recognises that appropriate and fair levels of reward are necessary to enable the Society to secure and retain high-quality people, be they Executives, senior managers, members of the sales team, operations or support and governance teams. In particular, the Board is satisfied that there is a strong alignment between the remuneration of Executives and the Society's performance, and that this alignment demonstrates shared purpose and common objectives. The alignment follows throughout the Society, based on the nature and seniority of each role.

The Remuneration Policy has been developed around principles which align with the Society's culture, values and long-term success, and include consideration of matters such as gender pay gap reporting.

The Remuneration Policy is transparent, as disclosed in this report. As a result, the Society is accountable to Members over remuneration matters. In determining the Policy, the Board has considered the Society's broader operating context including the pay and conditions of the wider workforce as well as the pay and benefits of Directors and senior management.

Most of this work is delegated to the Remuneration Committee, which reports on it to the Board.

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 Page 54.

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.

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 FRS 103 'Insurance Contracts', and applicable law).

Report of the Board of Management

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 2020 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 safeguarding the assets of the Society and 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.

Culture and Values

The Board is responsible for the Society's culture. The Society's values were developed by a group of our people in 2016. The Board has agreed that the values are appropriate.

The purpose and the values together inform the expected behaviours of all those who work for the Society. The values are integrated into the Society's different functions and operations, including internal audit, compliance and risk management functions.

The Directors recognise that a healthy corporate culture is critical to the Society's competitive advantage and is vital to the creation and protection of long-term value.

Activities to ensure that the agreed culture and values are embedded throughout the Society are largely delegated to the Chief Executive, who shares the work with his Executive and senior management.

Culture and values are not easy to manage or direct. Our approach is that by doing things right, the right culture should emerge. The Chief Executive leads by example, stressing the need for high quality Member service, mutual support, fairness, teamwork, honesty, wholeheartedness, innovation and continual improvement. These values and associated behaviours, consistently identified, used as the underpin for action, and implemented, should drive the right culture.

The policies and practices guiding behaviour and treatment at the Society are aligned with our purpose and values. They include clear procedures

for raising concerns, such as via several possible whistleblowing routes, which are reviewed regularly.

The Society measures culture primarily via a six-monthly survey. Results are shared with the Board.

Responsibility for the financial impact of climate change

The Directors take responsibility for assessing and managing the Society's interaction with its environment and the consequences for climate change seriously. They have regard for regulatory advice and guidance, but more importantly, are keen to treat the environment with respect.

Regulatory Guidance on Climate Change

Regulatory guidance deals with three aspects of climate change: the effect on an insurer's assets, the effect on liability-type insurances which the insurer may have written (we never have) and the effect of physical climate changes on the insurer's business.

The Society's assets are exposed to the market risks arising from climate change. They are primarily invested in a diversified portfolio of UK bonds of fairly short duration. Stress tests are performed every year to ensure that the Society can continue to meet its obligations in unfavourable markets. We will continue to monitor and assess the appropriateness of our assets.

Report of the Board of Management

The Society is exposed to the physical risks of climate change. Morbidity is the Society's most material risk and some studies have demonstrated a connection between increased temperature and increased morbidity. The Society reviews its morbidity assumptions every year and performs stress tests to ensure that it could meet its obligations if morbidity was worse than assumed.

Environmental Impact

As a relatively small firm providing a product (insurance) that is virtual rather than physical, the Society's direct impact on the environment is minimal. This notwithstanding, we are mindful of our responsibility to protect and tend our environment. As a Society, we want to play our part in sustaining a healthy planet for all to enjoy. We do not invest in thermal coal because of its high carbon emissions. We will continue to work with our investment managers to develop our investment strategy in line with these goals. Aside from investments, we have recently launched a sustainability initiative. This will consider the environmental impact of our activities and recommend steps we can take to improve our contribution to the environment.

Uncertainty involved in Estimates

Part of the Society's strategy is to extend its product range into new markets. Sales of any new product start low and build over time. We track the sickness and recovery of our Members to ensure that we have set our premium rates at the correct level. In doing this analysis, it is very difficult to distinguish between the underlying sickness level represented by the claims we receive and natural fluctuations that can distort the numbers. These natural fluctuations tend to dominate when there are only a few plans and even fewer claims.

Currently, we do not have enough claims to rely solely on the mathematics in deciding on our best estimate of future claims and recoveries. Instead, we rely on the judgement of our actuaries. This judgement is particularly important with rapid growth of a small business and when considering the small number of very long claims. The Board considers the advice of the Chief Actuary and challenges the assumptions that are proposed, including how they have been derived.

Having robustly considered the position, the Board is satisfied that its technical provisions are an appropriate long-term best estimate, with due allowance for current understanding of the impact of the pandemic. This assessment may change as the Society's business, or the understanding of the pandemic's implications, changes.

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 this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Members to assess the Society's performance, business model and strategy.

Appointment of Independent Auditor

A resolution to reappoint BDO LLP as the Society's Independent Auditor will be proposed at the forthcoming AGM.



Report of the Board of Management

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. The Board believes that diversity includes, but is not limited to, criteria such as gender, social and ethnic backgrounds, cognitive and personal strengths, and experience of different businesses. It strives, in its recruitment, to continually improve its diversity.

Appointments to the Board demonstrate efforts to establish an appropriate balance of expertise, diversity and objectivity. Appointments to the Board and succession planning take into account the Board's diversity policy.

Board Effectiveness

The Board is responsible for assessing its own performance and effectiveness. During early 2021, it commissioned two separate external professional reviews, one of Board character and one of Board materials, to assist in its development and self-assessment. The results of these reviews will be reported on in the 2021 report, together with actions taken as a result.

In 2020, the Board conducted a skills audit and the newly appointed Chair held formal evaluation meetings with each Director.

Overall, the Board demonstrates a high level of competence relevant to the Society's business needs and stakeholders. In particular, the Board is satisfied that it is of the size and is appropriately structured to meet the Society's strategic needs and challenges, and to enable effective decision making.

Board Disclosures

The Society maintained indemnity insurance against Directors' 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.

At the AGM, the Chief Executive presents the previous year's performance and describes our future plans. All Board Members expect to be available to answer Members' questions. The 2020 AGM was held by video conference and it is likely that the 2021 AGM will similarly either be entirely online or will allow online participation.

Stakeholder Relationships and Engagement

Mutual organisations create a social, economic and environmental impact, but they do not operate in a vacuum and they are not immune to changes in their markets or in the wider world. Sustainable business benefits the wider community. The Society has a responsibility to create and sustain long-term value for a variety of stakeholders including its impact on the environment.

The Society has identified the stakeholder relationships that are integral to its ability to generate and preserve value, including Members and those who work for the Society.

Progress on further Member engagement stalled during 2020 as a result of the pandemic. Focus instead was diverted to responding to those Members who needed help with claims enquiries. The number of Member contacts was significantly higher than in previous years.

Report of the Board of Management

The Society has a comprehensive programme of engagement with its people, primarily consisting of regular face-to-face meetings, but including more informal opportunities for a meaningful dialogue.

We maintain regular dialogue with important suppliers and Advisers. We demonstrate how we value these relationships by paying our bills promptly, working in a professional and productive manner and monitoring how contracts are fulfilled.

We value our local community as a material stakeholder, as evidenced in our selection of the James Hopkins Trust, a local children's hospice, as our supported charity.

Reporting to Members

This Annual Report is the primary way in which we seek to present to Members a fair, balanced and understandable assessment of the Society's position and prospects on an annual basis.

Applying the AFM Corporate Governance Code: Purpose and Leadership

The Directors recognise the need for them to act with integrity and to lead by example, particularly in the behaviours of the Executive Directors, which are more visible to all at the Society on a day-to-day basis.

The Directors recognise the need to build positive relationships with all stakeholders (regulators, Advisers, investment managers, consultancy firms, all those working for the Society, and Members). This year, Directors have been responsible for building relationships with each category of stakeholder. The Board ensures that the Society operates with a clear sense of purpose and a collective vision. Activities that promote the sense of purpose and the vision for all are largely delegated to the Chief Executive, who shares the work with his Executive and senior managers.

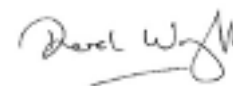
With this in mind, the Chief Executive meets monthly with all at the Society to discuss progress within the context of our purpose and vision. He meets separately with the Executive and senior management to discuss higher level and strategic objectives, again in the context of the Society's purpose and vision. This has been especially important and valued this year, as home working was the norm and business pressures mounted.

The purpose and vision are discussed with all stakeholders as appropriate.

As a result, the purpose and vision set the context for the decision-making process to achieve long-term sustainable success.

Thanks and appreciation

The Directors add their thanks to those of the Chair and Chief Executive, and formally note their appreciation of all those at the Society who continue to demonstrate dedication and hard work on behalf of Members and Advisers.



**On behalf of the Board of Management
Derek Wright, Chair
6 April 2021**

Report of the Board of Management

Corporate Governance Report

Accountability

The Board has established and maintained corporate governance practices that provide clear lines of accountability and responsibility to support effective decision making. These practices include an effective Committee structure, scheduled meetings, schedules for Board and Committee business, high-quality papers and input where appropriate from the risk management function. Business for the Board and its Committees includes consideration of the performance of business functions, led by the accountable Executive.

The Society's Rules, read in conjunction with the Friendly Societies Act 1992, the FCA Handbook and PRA Rulebook, set out the authority, accountability, role and conduct of Directors and the principal rights and responsibilities of Members.

About the Board, Its Role and Character and Organisation

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 agrees 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 an annual 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.

The Society complies in full with the AFM Corporate Governance Code.

The Value of Independent Challenge

The Society values the independence of thought and challenge that independent Non-Executive Directors can deliver in the context of overall Board composition and organisational structure. The Board continually seeks opportunities to promote independent thought in its decision-making processes. More than half of its Directors are considered to be independent. At the end of 2020, the Board comprised two Executive Directors and six Non-Executive Directors.

Independent challenge in Board and Committee decision making mitigates the risk of individuals having unfettered powers. Independent challenge allows for broader industry experience to be taken into account and improves the objectivity of decision making. It encourages constructive problem solving and tends to benefit firms in the long term.

Report of the Board of Management

Board Mechanics

The Board expects to meet formally at least six times every year together with two strategy and development days. Additional meetings, seminars and workshops are held as required to support the formulation of strategy, to address any emerging issues and for training or professional development purposes.

The letters of appointment for Non-Executive Directors are available to Members free on request. The Company Secretary is the secretary to the Board and is responsible for advising the Board on all governance matters and for helping ensure that the Board acts in an orderly and effective fashion.

The Board as a whole considers the appointment and removal of the Company Secretary.

Integrity of Information

The Board has confidence in the quality and integrity of the information used for decision making and reporting within the Society. There are formal and robust internal processes to ensure that systems and controls are operating effectively. Information sources used and shared are broad as well as deep.

Board papers are expected to be high quality and to generate appropriate discussion and challenge leading ultimately, where necessary, to well-documented and effective decision making.

From time to time, the Board Chair, the Chairs of the Committees and the Company Secretary meet to review the governance processes and to confirm that they remain fit for purpose. They consider initiatives which could strengthen the Society's governance and more detailed matters such as the quality of Board papers and the structure of meetings.

The Chair, Chief Executive and Senior Independent Director

There are role profiles for the Chair, Derek Wright, the Chief Executive, Stuart Tragheim, and the Senior Independent Director, John Holland, which describe the duties of each role.

The Chair's priority is leadership of the Board and ensuring its effectiveness. He ensures that all Directors have appropriate information and he facilitates constructive discussion. The Chair was considered independent on appointment.

The Chief Executive's priorities are the formulation of strategy, its execution and the management of the Society overall.

The Senior Independent Director's priority is to act as an alternative person to whom stakeholders can raise concerns, to serve as an intermediary for the other Directors or Members and, with other Directors, to evaluate the Chair's performance.

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

The Senior Independent Director holds annual meetings with the Board, the Chair being absent, to discuss the Chair's performance. He then meets privately with the Chair to discuss the findings.

Report of the Board of Management

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 helping to develop proposals on strategy. The Executive Team is led by the Chief Executive and prepares and presents business to be conducted by the Board and its Committees. The majority of the Directors on the Board are Non-Executive.

Using commonly applied tests, the Society's Non-Executive Directors are deemed independent except that they, along with the Executive Directors, have plans with the Society, making payments on an arms-length basis. The Board, having considered the matter, considers that all of its Non-Executive Directors are independent in character and judgement.

All Directors are subject to regular re-election.

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, information technology, 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, our people, regulators and Advisers) and the wider industry. The combination of skills, backgrounds, experience and knowledge of the Board members promotes accountability and incorporates objective thought, which in turn provides constructive challenge to achieve effective decision making. The Board is appropriately balanced, and by being so, promotes effective decision making and supports the delivery of the Society's strategy.

Conflicts of interest can arise and could compromise decision making. The Board has agreed that any relationship or circumstance that is likely to affect, or could appear to affect, a Director's judgement should be 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 earlier on request.

Profile of Directors

The following Directors are expected to be serving on the Board after the AGM in 2021. We have shown the details of those that are offering themselves for election at the 2021 AGM first, followed by all other Directors.



Report of the Board of Management

Offering themselves for election at the 2021 AGM:

John Holland, Senior Independent Non-Executive Director

John joined the Board in 2011 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. He chairs the PRISM sub-committee.

John is retiring by rotation and is offering himself for re-election for a one-year term. He has served on the Board for more than nine 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. John's contribution is important to the Society's long-term success because of his broad knowledge and experience in insurance matters and his expertise in systems development and IT project delivery.

Anna East, 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.

Anna is retiring by rotation and is offering herself for re-election for a one-year term. Anna's contribution is important to the Society's long-term success because she brings a legal perspective and experience in conduct and risk management, as well as broad insurance management experience, to the Board and its Committees.

Adrian Humphreys, Independent Non-Executive Director

Adrian joined the Board in November 2015. His previous roles include chair of the protection business within JLT Benefits Consulting practice. He is a specialist in corporate healthcare and risk provision. Adrian is an Independent non-executive director of Benenden Healthcare. Adrian previously spent 15 years of his career working for Western Provident Association ('WPA'), a not-for-profit health insurer. For 10 years, he was the Managing Director of WPA's Corporate Division. Prior to this he worked for the management consultant Arthur D. Little Inc.

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

Adrian chairs the Society's Investment Committee. During the year, he stepped down from the Nomination & Remuneration Committees.

Adrian is retiring by rotation and is offering himself for re-election for a one-year term. Adrian's contribution is important to the Society's long-term success because he brings commercial experience and investment-focused challenge to Board and Committee discussions.

Report of the Board of Management

Paul Harwood, Chief Financial Officer, Chief Risk Officer and Executive Director

Paul joined the Board in November 2017, having joined the Society 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.

During the year, Paul stepped down from the Society's Investment Committee. He was the Society's Company Secretary until 30 September 2020.

Paul is retiring by rotation and is offering himself for re-election for a three-year term. Paul's contribution is important to the Society's long-term success because, as Chief Financial Officer and Chief Risk Officer, his technical knowledge of finance, actuarial and risk matters and his broader insurance management and executive experience is important in developing the Society's detailed plan, budgets, pricing and forecasting, as well as presenting results to the Board and its Committees and stimulating appropriate discussion and challenge.

Directors serving within their elected term

Derek joined the Board in 2017. He 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 and a non-executive director of Schroders Pension Management Ltd. He chairs the Insurance Accounting Committee of the International Actuarial Association.

Derek was appointed as the Society's Chair in October 2020 following regulatory approval. During the year, he was appointed to the Nomination and Remuneration Committees. He is a member of the PRISM sub-committee and a Director of HF Life Limited. During the year, he stepped down from the Audit & Risk Committee and the Investment Committee.

Derek's contribution is important to the Society's long-term success because of the broad knowledge and experience in technical and commercial insurance matters and the financial and actuarial expertise that he brings to Board and Committee discussions.

Report of the Board of Management

Dave Cheeseman, Independent Non-Executive Director

Dave joined the Board in February 2020. Dave has over 30 years' experience in the life insurance industry. He brings a strong mix of financial, actuarial and operational skills to the Board. During the last 12 years he has been a board member of a number of different life companies. From 2010 to 2016 he served as chief finance officer of AXA UK Life and between 2017 and 2019 he performed the same role for Phoenix Life.

Dave is an actuary with a degree in Mathematics from Nottingham University. During the year, following regulatory approval, Dave was appointed Chair of the Audit and Risk Committee, having been a member since joining the Board. During the year, Dave was appointed to the Investment Committee.

Dave's contribution is important to the Society's long-term success because of the financial expertise he brings to the Society, including detailed knowledge of the regulatory framework.

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.

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

Graham's contribution is important to the Society's long-term success because he brings significant distribution, product and proposition experience, as well as wide operational expertise and a track record of delivering successful strategic change in a range of different organisations.

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 sits on the Board of the AFM, is a member of the PRA Practitioner Panel Insurance sub-committee and a member of the Board of the Investment and Life Assurance Group. Stuart is a Member of the Association of British Insurer's Protection Board.

Stuart is a Member of the Society's Nomination Committee. He is a Director of HF Life Limited and serves as Chair of that company. During the year, Stuart stepped down from the Investment Committee.

Report of the Board of Management

His contribution is important to the Society's long-term success because, as Chief Executive, he is the architect of the current strategy and the Executive most accountable for its successful implementation. These roles stem from his knowledge and experience of the mutual sector and the insurance industry gained in a number of roles in executive, general, distribution and marketing management.

Attendance

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

Board and Committee Meetings 2020									
	Board		Audit and Risk Committee		Nomination and Remuneration Committees		Investment Committee		
Name	Attended	Out of	Attended	Out of	Attended	Out of	Attended	Out of	
Dave Cheeseman*	9	9	6	6			1	1	
Martin Day	4	4			1	1			
Anna East	10	10	7	7	3	3			
Paul Harwood	10	10					2*	2	
John Holland	10	10			3	3	3	3	
Adrian Humphreys	10	10			2*	2	3	3	
Graham Newitt	10	10	7	7			3	3	
Stuart Tragheim	10	10			3 ¹	3	2*	2	
Derek Wright	10	10	4*	4	2	2	2*	2	

* A Director or Committee member for part of 2020. More details in the biographies section.

¹ Nomination Committee only

Report of the Board of Management

Matters Considered by the Board and its Committees

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 2020 have been described in the Strategic Report. In particular in 2020, the Board considered the tactical and strategic responses to the development of the pandemic, including ensuring that the controls were being maintained throughout in the home working environment, overseeing how services were being maintained and confirming that vulnerable customers were not exposed to harm.

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.

Broadly, decisions needed to achieve the agreed plan, strategy, conduct, culture and risk management are delegated to the Chief Executive, while decisions to set the plan, strategy, required conduct, culture and risk management are made by the Board.

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

Board Committees

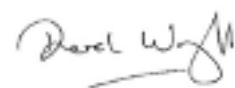
The Board has established four Committees to assist it in discharging its responsibilities. They cover Audit and Risk, Nomination, Remuneration and Investment, matters. These Committees are important constituents of the Society's governance arrangements. There is a temporary sub-committee which considers matters relating to PRISM development.

Each Committee has written terms of reference, which are available on the Society's website under the Governance section or can be mailed

free on request. These documents include the role and responsibilities of each Committee. They 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 Board retains ultimate responsibility for all decisions made.

The Company Secretary or her 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 Board performance review.



On behalf of the Board of Management
Derek Wright, Chair
6 April 2021

Report of the Board of Management

Report from the Audit and Risk Committee

Membership

At the end of 2020, the Committee comprised three independent Non-Executive Directors.

Matters Considered by the Committee

Independent Audit

PricewaterhouseCoopers LLP served as Independent Auditor until 12 Aug 2020 and was judged by the Committee to be effective in its role.

During 2020, the Committee oversaw a competitive tender for its Independent Auditor and, following due process, appointed BDO LLP as its Independent Auditor from 6 Aug 2020.

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.

Throughout 2020, the Committee considered the range of impacts which the pandemic could have

on its business and how each scenario would be dealt with while ensuring the security of Member benefits and the long-term financial health of the Society.

Independent Auditor Performance and Independence

The Committee assessed the performance, independence and objectivity of PWC LLP and the effectiveness of the audit process leading up to the issue of financial statements in 2020. A key component of this assessment was 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 policies and procedures regarding independence and quality control, including an annual confirmation of its independence in line with industry standards.

Every year, the Committee considers whether its auditor is independent and objective, in line with industry standards. The Committee was satisfied that BDO LLP was independent and objective on appointment and will review this assessment during 2021.

Re-appointment of the Independent Auditor

The Committee proposes that BDO LLP be re-appointed at the next AGM.

Oversight of Fees payable to the Independent Auditor

The fees payable to BDO LLP for the year ended 31 December 2020 amounted to £100,250 (2019: £nil) for the statutory audit. The fees payable to PWC LLP during the year ended 31 December 2020 amounted to £23,512 (2019: £130,167) and were for the 2019 statutory audit. Neither firm undertook non-audit services for the Society during 2020 (2019: £nil).

Oversight of the Actuarial Function

The Committee considered the valuation methodology and assumptions 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.

Report of the Board of Management

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. The plan was updated after the first lockdown, to ensure an appropriate focus on maintaining controls and data security while home working and ensuring that regulatory guidance was being appropriately followed. Towards July, the activities of the function reverted to the more standard compliance work.

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

Oversight of the Risk Function

The Committee oversaw the continuing evolution of the Risk Management System and the Internal Control System. It oversaw work to assure the quality of controls following the onset of home working. It oversaw the further development of the risk appetite statement.

The Committee considered the proposed risk tolerance statements and the Own Risk and Solvency Assessment ('ORSA') policy and recommended it to the Board. It drove the 2020 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

The Internal Audit function has been provided by EY LLP since 1 January 2018. In 2020, the Committee determined to extend this contract until the end of 2021, and to hold a competitive tender for internal audit services from 2022.

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

Dave Cheeseman, Chair of the Audit and Risk Committee.

6 April 2021

Report of the Board of Management

Report from the Nomination and Remuneration Committees

Membership

At the end of 2020, the Remuneration Committee comprises two independent Non-Executive Directors and the Chair, while the Nomination Committee comprises two independent Non-Executive Directors, the Chair and the Chief Executive.

Matters Considered by the Committees

Remuneration Committee

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 and other senior personnel.

The Committee considered the awards to be made under the Short Term Incentive Plan and the Sales Incentive Plan and the accruals appropriate for the two Long Term Incentive Plans in operation, all in relation to performance in 2019 or earlier.

Reflecting the onset of the pandemic, the Committee considered the proposal from management to replace the 2020 Short Term Incentive Plan and the 2020 Sales Incentive Plan with a more modest, simpler plan. It considered the proposed cancellation of the proposed 2020-2022 Long Term Incentive Plan for the same reason.

It considered the bonus pool generated from the completed 2017-2019 Long Term Incentive Plan and agreed to defer payment pending other discussions, in the light of continuing uncertainty.

The Directors' Remuneration Report on **Page 43** has more details about the Society's remuneration arrangements.

Diversity and Skills

The Society seeks to attract and retain individuals who contribute through their diversity of thought, attitude and background. This approach is applied throughout the Society. It is particularly important at Board and senior management level. The primary concern is always the skills brought by new recruits and how these skills complement those of others, at Board or other level.

Nomination Committee

Board Performance Evaluation

The Committee supported the Chair in the performance evaluations of the Board and its Committees. It conducted a Board skills audit. The Board and its Committees perform a self-evaluation each year, the results of which were considered by the Committee.

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. Succession plans extend to cover the loss of members of senior management.

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.

The Committee completed the process for the appointment of the Chair.

Report of the Board of Management

Director and Executive Director Evaluation, Development and New Director Induction

The Chair led individual evaluations with all Directors. These evaluations include a review of objectives and of development needs and a confirmation that each Director has sufficient time to devote to the affairs of the Society. They demonstrate whether each Director continues to contribute effectively and whether she or he has access to adequate support.

Separately, the Senior Independent Director led the Directors in an evaluation of the performance of the Chair.

The Society is committed to the ongoing professional development of the Board. There is a policy on the continuing professional development of all Directors and a range of development opportunities are provided or supported. During the year, Directors attended a number of development events, mostly run online. As a result, Non-Executive Directors have sufficient current and relevant knowledge and experience to understand the main activities and risks in the Society's business model.

Anna East
Chair of the Nomination and
Remuneration Committee
6 April 2021



Report of the Board of Management

Report from the Investment Committee

Membership

At the end of 2020, the Committee comprises four independent Non-Executive Directors.

Matters Considered by the Committee

Investment Policy

The Committee considered the investment policy and determined that it remained appropriate.

Investment Performance

The Committee continued to consider reporting from the asset managers concerning investment performance. In the early stages of the pandemic, the Committee monitored the portfolio more closely, given market volatility and interest rate changes. As markets stabilised, monitoring reverted to the more usual frequency.

Unit-linked Portfolio

Having considered the position, the Committee recommended to the Board that the unit-linked portfolio be transferred to and be managed by LGT Vestra, according to a separate mandate from the other LGT-Vestra-managed assets. The Board decided to follow the recommendation and the transfer was concluded by the end of 2020.

Investment Risk

The Committee considered regulatory statements on the Prudent Person Principle and liquidity management and took steps to ensure that the requirements were met.

Adrian Humphreys
Chair of the Investment Committee
6 April 2021



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 Remuneration Policy is built on the following principles:

- to enhance Member benefits and interests
- to attract and retain people with the skills and experience for their jobs
- to compete effectively for talent given the employment market
- to support the development of individuals, in line with the Society's ambitions
- to provide rewards that reflect individual performance as well as overall results, including the demonstration of the Society's values.
- to avoid rewarding executive, management or individual failure
- to provide termination arrangements that are fair to all
- to meet all relevant regulatory requirements regarding remuneration
- to be consistent with the Society's policies and practices on gender, equality and diversity
- to develop remuneration that is simple to explain, understand and calculate
- to be consistent with the Society's risk appetite, and
- 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 enjoy broadly similar benefits and performance incentives at a level of participation that reflects individual roles and responsibilities. It is designed to ensure that Member interests and the future viability of the Society are aligned primarily with the interests of 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.

Report of the Board of Management

Executive Director remuneration

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.

Key features of the remuneration of Executive Directors include:

- **basic pay** the level of basic pay takes account of individual skills and experience, pay across the Society and published information from comparable firms in the financial services sector
- **pension** up to 10% of basic pay
- **other insurances** health, dental and life insurances
- **Short Term Incentive Plan** or **annual bonus plan** up to 50% of basic salary (60% CEO) depending on performance against a number of measures and targets, adjusted for individual performance as decided by the Remuneration Committee, and
- **Long Term Incentive Plan** this plan pays a bonus depending on performance against target over three years as measured by Embedded Value, subject to satisfactory solvency. Embedded Value is a measure of the value locked into the Society by the plans it has sold. Solvency refers to the capital that the Society has available to ensure the reliable payment of Member benefits. This bonus scheme is therefore designed to encourage the growth of the business while maintaining the security of Member benefits. Payments are staged: 50% payable following the end of the third year, 25% one year later and 25% one further year later. Subject to agreement, a new three-year plan begins each year.

The effectiveness of all Executive bonus plans is continually reviewed. All Executive bonus schemes (including the rules, awards and payments) are at the discretion of the Remuneration Committee and are subject to clawback if performance is later found to have been misstated, if misconduct or significant management failure is discovered, or for any other reason that leads to damage to the Society's reputation.

Non Executive Director remuneration

Non-Executive Directors are paid an annual fee depending on their role. Fees are reviewed every three years. There is no limit on their level, but they are set with reference to similar organisations in the same sector. No other benefits are provided.

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.

Report of the Board of Management

Other employees

All other employees are entitled to the pension, health, dental and life insurance benefits mentioned above and also participate in the Annual Bonus Scheme (up to 40% of salary) or a Sales Incentive Scheme depending on their role.

Governance of the Remuneration Policy

This Policy is agreed and administered by the Remuneration Committee, which comprises two independent Non-Executive Directors and the Society's Chair. A copy of the policy can be obtained from the Company Secretary.

Application of this Policy in 2020

The onset of the pandemic, in particular its economic effects, were very uncertain in early 2020. Early on in the first lockdown, the Executive proposed that the Annual and Sales bonus plan in place would be inappropriate and proposed that a more modest, simpler plan be put in place. Further, the Executive determined that it would be inappropriate to establish a new three-year Long Term Incentive Plan. These proposals were accepted by the Committee.

As a result, while the Remuneration Policy is unchanged from last year, the amounts paid in bonuses are much lower than in previous years.

Consultation with Members

The Society is committed to open dialogue with its Members on its Remuneration Policy. The Policy is submitted to the AGM for Member approval every three years or more frequently if the board wishes to make significant changes. It was last approved at the 2019 AGM.

Recruitment of Executive Directors and 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. Notice periods are twelve months for the Chief Executive and six months or less for other Executives.

Recruitment of Non Executive Directors

Non-Executive Directors are appointed following a rigorous recruitment and selection process.

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 Non-Executive Director letter 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.

Report of the Board of Management

Directors' Emoluments

The table below sets out the emoluments to all Directors during 2020.

Directors' Emoluments, £						
Director	Salary or Fees	Bonuses	Benefits	Pension	Total 2020	Total 2019
Dave Cheeseman ¹	20,064				20,064	
Martin Day ²	16,250		906		17,156	34,333
Anna East	24,000				24,000	24,000
Paul Harwood	130,750	5,500	9,459	21,432	167,141	177,102
John Holland	24,000				24,000	24,000
Adrian Humphreys	24,000				24,000	24,000
Graham Newitt	19,000				19,000	19,000
Stuart Tragheim ³	195,817	5,500	9,104	-	210,421	242,547
Derek Wright	29,250				29,250	26,000
Total	483,131	11,000	19,469	21,432	535,032	570,982

¹ from 16 February 2020

² to 23 June 2020

³ receives an enhancement of 10% of salary (shown in Salary) in lieu of pension contributions

On behalf of the Board of Management

Anna East

Chair of the Nomination and Remuneration Committee

6 April 2021



Annual Report 2020

Independent auditors' report to the Members of The Original Holloway Friendly Society Limited

Opinion on the financial statements

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2020 and of its deficit for the year then ended
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the Friendly Societies Act 1992.

We have audited the financial statements of The Original Holloway Friendly Society Limited (the "Society") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, the Statement of Financial Position and Notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and Financial Reporting Standard 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities

under those standards are further described in the Auditor's 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

Following the recommendation of the audit committee and the board, we were appointed by the Society on 12 August 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent periods. The period of total uninterrupted engagement including retenders and reappointments is 1 year, covering the year ended 2020.

We remain independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Society.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the

Society's ability to continue to adopt the going concern basis of accounting included:

- review and challenge of the Society's budgets, challenging growth assertions and ensuring that movements were in line with justifiable assumptions and movements
- reviewing the basis of solvency projections for the next 12 months and ensuring that an appropriate mechanism for calculating solvency had been applied, and
- challenge and discussion around the latest Own Risk and Solvency Assessment provided by the Society. In addition we have reviewed the solvency projections, reconciling current positions to the financial statements and challenged management as to the future assumptions embedded within the model.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Opinion on the financial statements

Overview

Key audit matters		Materiality
Valuation of technical provisions	2020	Financial statements as a whole
	✓	£605,000 based on 1.5% of the fund for future appropriations (FFA) excluding members bonus accounts.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Society and its environment, including the Society’s system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our 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) that we identified, 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. This matter was 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 this matter.

Opinion on the financial statements

Description of Key Audit Matter	
<p>Valuation of technical provisions</p> <p>The Society financial statements include a technical provision asset of £34.1 million (2019: £42.3 million), which represents future income and the estimated costs arising from the settling of benefits and claims associated with income protection products. This is set out in further detail in Note 7.</p>	<p>We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Society's results and because of the high degree of assumptions and estimation uncertainty underpinning the calculation, which can be highly subjective.</p> <p>This risk is heightened due to the growth of the Society over the previous years and the evolving claims volumes experienced.</p>
How the scope of our audit addressed the key audit matter	
<p>In assessing the valuation of the long-term technical provisions, we performed the following procedures:</p> <ul style="list-style-type: none"> we have utilised an independent external actuary to report to us on the appropriateness of the methodology and assumptions that underpin the calculation of the provision and the accuracy of the calculation itself we have obtained and reviewed the actuarial reports prepared by the Society's actuary and our reviewing actuary and checked that all relevant judgements and estimates have been considered in forming our conclusion on the appropriateness of the valuation our actuarial experts have reviewed the morbidity, mortality and lapse rate assumptions used by managements actuary and checked these are in line with industry practice and the exposures of the underlying risks insured we have reviewed and assessed changes to the assumptions used in the technical provisions to check these are reasonable and in line with acceptable parameters we have reviewed and reconciled the data used by management's actuary in their projections to that used by the audit team and extracted from the underlying member systems, to check completeness and accuracy, and we have challenged the conclusions arrived at by our independent actuary and checked that processes are in accordance with both Technical Actuarial Standards (TAS) and industry practices. 	
<p>Key observations:</p> <ul style="list-style-type: none"> as a result of the procedures performed, we did not identify any matters to suggest that the technical provisions are materially misstated. 	

Opinion on the financial statements

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

Society financial statements 2020, £000	
Materiality	605
Basis for determining materiality	1.5% of fund for future appropriations
Performance materiality	365
Basis for determining performance materiality	60% of Materiality

The principal determinant in this assessment was the Society’s Fund for future appropriations (excluding member bonus funds), which we consider to be the most relevant benchmark, as it reflects a key measure of the performance of a mutual friendly society and is used to assess the level of free reserves and in determining solvency.

We have taken the approach of excluding the member bonus funds from our materiality measure in order to provide a clearer picture of the Society’s free reserves. As can be seen from note 10 of the accounts this fund includes member balances which are allocated funds that members are entitled to draw upon exiting the Society.

Performance Materiality

We selected 60% as this was reflective of our perceived risk of the financial statements containing misstatements, and the fact that this is our first year auditing the Society.

Reporting threshold

We agreed with the Audit Committee that we would report to them any misstatements in excess of £12,100 that we identified through the course of our audit, together with any qualitative matters that warrant reporting.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report, other

than the financial statements and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinion on the financial statements

Other Friendly Societies Act 1992 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Friendlies Societies Act 1992 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors’ report	Matters on which we are required to report by exception
<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none">the information given in the Strategic report and the Directors’ report for the financial year for which the financial statements are prepared is consistent with the financial statements, andthe Strategic report and the Directors’ report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors’ report.</p>	<p>We have nothing to report in respect of the following matters in relation to which the Friendlies Societies Act 1992 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none">adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us,the financial statements are not in agreement with the accounting records and returns,certain disclosures of Directors’ remuneration specified by law are not made, orwe have not received all the information and explanations we require for our audit.

Opinion on the financial statements

Responsibilities of directors

As explained more fully in the Board Responsibilities Statement set out on **page 25**, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 directors are responsible for assessing the 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 directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- agreement of the financial statement disclosures to underlying supporting documentation
- our responses to significant audit risks (technical provisions and management override of controls) are intended to sufficiently address the risk of fraudulent manipulation. In particular we engaged an independent external actuary as auditor's expert to review the assumptions and methodology applied by the Society in the valuation of technical provisions to check the methods utilised are appropriate
- enquiries of management
- review of minutes of board meetings throughout the period
- obtaining an understanding of the legal and regulatory framework applicable to the Society's operations

- obtaining an understanding of the control environment in monitoring compliance with laws and regulations
- review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA), and
- review of the Society's Own Risk and Solvency Assessment (ORSA).

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed 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 are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Opinion on the financial statements

Use of our report

This report is made solely to the Society's members, as a body, in accordance with the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Thomas Reed, Senior Statutory Auditor
For and on behalf of BDO LLP, Statutory Auditor
London, UK

BDO LLP is a limited liability partnership
registered in England and Wales (with the
registered number OC305127)

07th April 2021



Annual Report 2020

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Statement of Comprehensive Income for the year ended 31 December 2020	Note	2020	2019
		£	£
TECHNICAL ACCOUNT: LONG-TERM BUSINESS			
Gross premium written		10,426,965	8,720,804
Outward reinsurance premiums		(60,302)	(70,741)
Net earned premium income		10,366,663	8,650,063
Investment Income and realised gain/(loss)	5	250,935	2,436,480
Unrealised gain/(loss) on investments		284,144	809,449
Other income		-	(329)
Total technical income		10,901,742	11,895,663
Gross claims incurred		5,220,396	4,659,013
Reinsurance recoveries		(6,439)	(13,963)
Claims incurred net of reinsurance	6	5,213,957	4,645,050
Change in technical provisions	7	8,198,189	(22,469,341)
Net operating expenses	8	9,258,975	12,587,572
Investment expenses and charges		87,909	100,567
Tax attributable to long-term business	9	-	-
		22,759,030	(5,136,152)
Net (deficit)/surplus for the year		(11,857,288)	17,031,815
Transfer from/(to) the fund for future appropriations	10	11,857,288	(17,031,815)
Balance on Technical Account: Long-Term Business		-	-

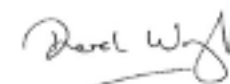
The above results relate wholly to continuing activities. The Society had no other comprehensive income or expenditure and has elected not to prepare separate analysis using a non-technical account.

The Society has not presented a Statement of Changes in Equity. There are no equity holders in the Society, which is a mutual organisation.

Financial Statements

Statement of Financial Position for the year ended 31 December 2020	Note	2020	2019
		£	£
ASSETS			
Intangible assets	11	4,249,389	2,874,838
Investments			
Land and buildings	12	775,000	800,000
Other financial investments	13	26,585,280	31,196,152
		27,360,280	31,996,152
Assets held to cover linked liabilities	14	746,342	795,408
Debtors			
Other debtors		90,278	12,310
Other Assets			
Tangible assets	15	119,888	143,321
Stock		10,689	12,039
Cash at bank and in hand		629,064	1,312,237
		759,641	1,467,597
Prepayments and accrued income			
Accrued interest and rent		166,182	195,095
Other prepayments and accrued income		104,658	94,829
		270,840	289,924
Technical provisions	7	34,079,433	42,326,688
		67,556,203	79,762,917
LIABILITIES			
Fund for future appropriations	10	64,160,834	76,018,122
Technical provision for linked liabilities	7	746,342	795,408
Creditors			
Arising out of reinsurance operations		6,965	8,477
Claims outstanding		293,833	205,752
Other creditors (inc tax and social security)	16	2,348,229	2,735,158
		2,649,027	2,949,387
		67,556,203	79,762,917

The financial statements on pages 55-71 were approved by the Board of Management on 6 April 2021 and were signed on its behalf by:-



Derek Wright
Chairman and Director



Stuart Tragheim
Chief Executive and Director



Alison Poyner
Company Secretary

Notes to the Financial Statements

Note 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.

The Society operates, and prepares these statements, using Great British Pounds (£).

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 2020. No depreciation has been applied during the year.

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. 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 2020 and a similar valuation as at 31 December 2019 or, where purchased during 2020, the purchase price.

Accounting for operating expenses

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.

Notes to the Financial Statements

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 13**, 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:

Amortisation	
Computer software	25% on a straight-line basis
Plan 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:

Asset Depreciation	
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 plans includes bonuses paid or payable. Reinsurance recoveries are accounted for in the same period as the related claim.

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

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 plan allocations and bonuses

The long-term business technical account assumes that all bonuses are maintained at current rates.

Notes to the Financial Statements

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, as permitted by FRS 103. The provision is determined in accordance with Solvency II rules as specified by the European Insurance and Occupational Pensions Authority ('EIOPA') and UK regulations.

Accounting for reinsurance

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 'Outward reinsurance premiums' when due.

Accounting for financial assets

Financial assets, other than investments and derivatives, including other debtors, are initially measured at transaction price including transaction costs and subsequently held at amortised cost less any impairment.

Accounting for financial liabilities

Financial liabilities are classified according to the substance of the financial instrument's contractual obligations rather than its legal form. They are initially measured at transaction price after deducting transaction costs and subsequently held at amortised cost.



Notes to the Financial Statements

Note 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. The more critical areas where accounting estimates and judgements are made are set out below.

Fair value of buildings

The valuation of the property is subjective and is subject to a degree of uncertainty. The valuation is based on assumptions which may not prove to be accurate.

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 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 Society'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. For a fast-growing firm, there is more uncertainty around variability of future, relative to past, experience.

The assumptions used are described in [Note 4](#).

Notes to the Financial Statements

Note 3. Capital management

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

The capital management objectives are:

- to ensure that the strategy can be implemented and sustained
- to maintain the financial strength at an appropriate level for the risks of the business
- to give confidence to Members 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 was 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 the Solvency II Standard Formula. The Society complied with the prudential requirements regarding capital and technical provisions throughout 2020. It is not, and has not been in 2020, 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	2020 £000s	2019 £000s
Total capital resources before deductions*	64,161	76,018
Adjustments to assets**	(4,354)	(2,970)
Total available capital resources	59,807	73,048

* the Fund for Future Appropriations

** includes intangible assets and prepayments

Drivers of the change are described under Analysis of Change in [Note 4](#).

Notes to the Financial Statements

Note 4. 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.

The Board has set target capital levels and, should solvency levels fall, have trigger levels which would require management actions to address the position.

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 or matching adjustment, as specified by the Prudential Regulatory Authority as at 31 December 2020. Selected rates are shown below and the full set are on the Bank of England website.

Selected Discount Rates, %, As dictated by the Prudential Regulatory Authority	
Duration (year)	31 Dec 2020
1	-0.110
2	-0.079
3	-0.019
4	0.035
5	0.083
10	0.289
15	0.415
20	0.469
25	0.476
30	0.468
50	0.362

Expenses

Maintenance expenses are set allowing for new business in accordance with the Society's business plans for the period 2021-2022. Thereafter, expenses are assumed to increase in line with an expense inflation assumption and with reference to the planned growth in the business. The expense inflation and RPI (used to inflate benefits) assumptions are shown in the table below.

Inflation Rate Assumption, % pa, 31 December 2020	
Expense inflation	3.0%
RPI Inflation	3.5%

Morbidity

For sickness products, a sickness inception and recovery approach is used, based on a multiple of the industry standard CMIR12 rates table. Inception assumptions vary by product and are set considering experience over the last 4 years. Allowance is made within the calculation of the liabilities to account for plans with different deferred periods. The recovery rates vary by claim duration and are set based on experience over the last 4 years (over 8 years for long-duration claims). Other aggregate adjustments are made so that projected claims more closely match claims paid in practice. The assumptions are reviewed annually to allow for emerging experience.

Lapses

The lapse assumptions are set based on recent experience adjusted for any trends that are observed. The assumptions vary by product and by how long plans have been in-force. Experience over the last 2 to 3 years is used to set the assumptions. For some products, and some durations, experience is very sparse or does not exist. In these cases, assumptions from alternative products or the assumptions used to price the product are used. The assumptions are reviewed annually to allow for emerging experience. In line with Solvency II regulations, all unit-linked contracts are assumed to lapse at the valuation date as they have passed their maturity date.

Mortality

Assumptions are set by reference to standard actuarial tables: for healthy lives, 50% of AMC00 and for sick lives 100% of CMIR12.

Notes to the Financial Statements

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 2020.

Analysis of Change, 2020, £000s		
2020	Change	Capital
Available capital at start of year		73,048
In-force business movements	751	
New business	(419)	
Risk-free yields	1,514	
Equity, corporate bond and other market movements	(459)	
Assumption, bonus and management action changes	(14,387)	
Other	(241)	
Available capital at end of year		59,807

Available capital has reduced following changes to the calculation approach (principally how future claims are allowed for), falls in asset movements and due to capital consumption from writing new

business. It has increased due to a fall in the risk-free rate, a change to the future management action plan and profits emerging from in-force business.

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, and

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

Sensitivity of the results to changes in principal risks

The following describes the sensitivity of the Society's results to changes in principal risks, as measured by changes in assumptions. The changes used reflect reasonably possible ranges:

Sensitivity of Results to Assumption Changes, £000s		
Available capital at 31 Dec 2020		59,807
Assumption	Change	Impact
Morbidity inceptions	+10%	(5,431)
Morbidity recoveries CMIR12)	-10%	(13,531)
Mortality	-10%	(882)
Lapses	+10%	(5,032)
Lapses	-10%	4,996
Renewal expenses	+10%	(1,779)
Risk-free yields	+100bps	(5,601)
Risk-free yields	-50bps	2,607
Corporate bond asset values	-10%	(1,519)
Equity asset values	-10%	(285)
Inflation	-50bps	(1,496)

Notes to the Financial Statements

The principal risks are described in more detail below.

Insurance health risks

The Society is exposed to a range of insurance risks through its insurance plan liabilities. Principally, these are morbidity, lapse and expense risks. In all three cases, if the risk materialises, profitability will be reduced. These risks are inherently part of the Society's business.

The Society regularly reviews its claims experience to ensure that any changes required can be fed into pricing and underwriting. Its underwriting and claims-handling processes are monitored to ensure they remain effective.

Lapse risk is difficult to manage. The Society has enhanced its service by implementing a programme to support Members who are considering lapsing their plans, ensuring that the full range of options are communicated and supporting whatever choice the Member makes.

Expense risk is closely monitored.

New business risks

Lower-than-expected new business is a risk. The Society needs a healthy and increasing stream of quality 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. It is important that there is sufficient regulatory capital to allow the business to be written. 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, credit and liquidity) 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. Appropriate sensitivities are shown on **page 64**.

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 stock exchange. The Society has a defined investment policy which sets limits on its exposure to equities in aggregate terms and by currency and counterparty. All assets held in equities are GBP-denominated, higher quality equities.

Interest rate risk

Interest rate risk arises from the value of the Society's insurance liabilities and in the fair value of risk-free asset values. A flat 100 basis point increase in risk-free yields would result in a reduction in surplus of £5.6m. A 50 basis point decrease in risk-free yields would result in an increase in surplus of £2.6m.

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 ensures 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 balance the risks against the rewards.

Notes to the Financial Statements

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, and
- reinsurers' share of insurance and investment contract liabilities.

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. Such risks are subject to regular review.

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

	Market Value £000	
	2020	2019
Investment grade	23,508	19,465
Non-investment grade	323	-
Non-rated	-	321
	23,831	19,786

Investment grade assets are those with S&P ratings of BBB- or higher.

The assets reported above exclude assets backing unit-linked insurance contracts. The holders of these contracts bear the credit risk arising from them.

The assets reported above include those held in the With Profits funds where the Society is able to transfer part of the credit risk arising from them 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 most 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 plans 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 Members to be met as they fall due.

With Profits insurance plans 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 bonus payable on early surrender.

Operational risks

Operational risks cover the impact of failed, missing or inadequate processes, people or infrastructure, and 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. Its risk officer works 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 connected to the management of conduct risk and culture.

Notes to the Financial Statements

Note 5. Investment income and realised gain/(loss)

Investment income and realised gain/(loss)	2020 £	2019 £
Income from Investments:		
Interest income (cash deposits)	13,294	46,009
Interest income (UK government securities)	143,843	116,673
Interest income (other fixed interest securities)	347,908	378,423
Dividend income	93,950	294,298
	598,994	835,403
(Loss)/gain on realisation of investments	(348,059)	1,601,077
Investment income and realised gain	250,935	2,436,480

Note 6. Claims incurred net of reinsurance

Claims incurred net of reinsurance	2020 £	2019 £
Sickness benefit	3,425,613	2,443,939
Reinsurers' share	(6,439)	(13,963)
	3,419,174	2,429,976
Unit-linked encashments	50,105	119,618
Withdrawals and maturities	1,744,678	2,095,456
	1,794,783	2,215,074
Claims incurred net of reinsurance	5,213,957	4,645,050

Note 7. Technical provisions

Technical provisions	Unit Linked Liabilities £	Other Liabilities £	Total 2020 £	Total 2019 £
Balance at 1 January	795,408	(42,326,688)	(41,531,280)	(19,061,939)
Movement	(49,066)	8,247,255	8,198,189	(22,469,341)
Balance at 31 December	746,342	(34,079,433)	(33,333,091)	(41,531,280)

Note 3. 'Capital management' and Note 4. 'Risk management and control' provide information about the valuation assumptions and risk approach associated with the technical provisions. The change in technical provisions over the period is part of the analysis of change in available capital set out in Note 4. The technical provisions increased following changes to the calculation approach (principally how future claims costs are allowed for) and capital consumption from writing new business, partly offset by a change to the future management action plan.

Notes to the Financial Statements

Note 8. Net operating expenses

Net operating expenses	2020 £	2019 £
Acquisition expenses	6,641,103	10,234,103
Administrative expenses	2,617,872	2,353,469
Net operating expenses	9,258,975	12,587,572
Net operating expenses include the following:		
Fees* payable to the Society's auditor:		
Audit 2019 (PWC LLP)	23,512	130,167
Audit 2020 (BDO LLP)	100,250	-
Other charges:		
Depreciation on tangible fixed assets	51,918	44,845
Operating lease rental charges	283	1,772
* All fees are exclusive of VAT.		
Employee benefits expense:		
Salaries and wages	4,019,885	4,305,279
Social security costs	426,597	431,952
Pension costs	450,446	289,072
	4,896,928	5,026,303
Number of employees:		
Board and senior management	10	9
Acquisition and Member contact	36	36
Administration	48	37
	94	82

Numbers include Executive Directors and are a monthly average.

Note 9. Taxation

No tax is due in 2020 or 2019.

Note 10. Fund for future appropriations

Fund for future appropriations	General Reserve £	Life and Endowment £	Total 2020 £	Total 2019 £
Balance at 1 January	75,731,802	286,320	76,018,122	58,986,307
Transfer to/(from)	(11,857,288)	-	(11,857,288)	17,031,815
Balance at 31 December	63,874,514	286,320	64,160,834	76,018,122

Member balances	2020 £	2019 £
Balance as at 1 January	18,078,241	18,696,187
Apportionment of surplus	713,337	917,564
Compound bonus	253,240	347,437
Final bonus	139,120	212,509
Balance plus bonuses	19,183,938	20,173,697
Withdrawals	1,705,218	2,074,987
Forfeitures and lapses	23,546	20,469
Total withdrawals	1,728,764	2,095,456
Balance as at 31 December	17,455,174	18,078,241

Notes to the Financial Statements

Note 11. Intangible assets

Intangible assets	Administration System £	Computer Software £	Total 2020 £	Total 2019 £
Cost				
At 1 January	2,758,094	160,211	2,918,305	1,448,092
Additions	1,393,484	10,069	1,403,553	1,470,213
Disposals	-	-	-	-
At 31 December	4,151,578	170,280	4,321,858	2,918,305
Amortisation				
At 1 January	-	43,467	43,467	18,261
Charge for year	-	29,002	29,002	25,206
Eliminated on disposals	-	-	-	-
At 31 December	-	72,469	72,469	43,467
Net Book Value at 31 December	4,151,578	97,811	4,249,389	2,874,838

Note 12. Land and buildings

Land and buildings	2020 £	2019 £
Cost/Valuation		
At 1 January	800,000	800,000
Increase/(Decrease) in valuation	(25,000)	-
Disposals	-	-
At 31 December	775,000	800,000

The 'Land and buildings' item refers to the Society's Head Office property, which is freehold and is included at market value as at 31 Dec 2020. A valuation was carried out by Richard Clark MRICS, Dip Law, FNARA of Alder King property consultants in November 2020. The Head Office is fully occupied by the Society and was valued on an existing-use basis. Valuations are carried out every three years.

Note 13. Financial assets

Financial assets – fair value through income	Market Value 2020 £	Cost 2020 £	Market Value 2019 £	Cost 2019 £
Shares, other variable yield securities and unit trusts				
UK Listed	2,679,935	2,859,933	3,201,811	2,854,610
Debt securities and other fixed income securities:				
GBP denominated	21,530,934	21,067,931	24,747,881	24,269,124
	24,210,869	23,927,864	27,949,692	27,123,734
Deposits with credit institutions, including cash funds:				
GBP denominated	2,374,411	2,374,411	3,246,460	3,246,460
	26,585,280	26,302,275	31,196,152	30,370,194

All financial assets are level 1. No level 2 or 3 assets were held.

Notes to the Financial Statements

Note 14. Assets to cover linked liabilities

Assets to cover linked liabilities	Market Value 2020 £	Cost 2020 £	Market Value 2019 £	Cost 2019 £
Financial assets – fair value through income: Shares, other variable yield securities and unit trusts				
UK Listed	437,527	396,028	451,951	402,084
Debt and fixed income securities	274,831	262,230	327,643	302,110
	712,358	658,258	779,594	704,194
Financial assets – at amortised cost:				
Deposits with credit institutions	33,984	33,984	15,814	15,814
	746,342	692,242	795,408	720,008

Note 15. Tangible assets

Tangible assets	Office Equipment £	Computer Equipment £	Total 2020 £	Total 2019 £
Cost				
At 1 January	130,161	129,617	259,778	213,533
Additions	6,969	21,516	28,485	46,245
Disposals	-	-	-	-
At 31 December	137,130	151,133	288,263	259,778
Depreciation				
At 1 January	81,666	34,791	116,457	71,612
Charge for year	35,187	16,731	51,918	44,845
Eliminated on disposals	-	-	-	-
At 31 December	116,853	51,522	168,375	116,457
Net Book Value as at 31 December	20,277	99,611	119,888	143,321

Note 16. Other creditors

Other creditors	2020 £	2019 £
Other creditors including taxation and social security:		
Taxation and social security	221,992	103,952
Amounts due to retired Members	780,113	731,487
Amounts due to extra contributions	92,033	94,084
Other creditors	1,254,091	1,805,635
	2,348,229	2,735,158

Notes to the Financial Statements

Note 17. Capital commitments

At 31 December 2020, the Society had no capital commitments (2019: nil)

Note 18. Financial commitments

Financial commitments	2020			2019		
Non-cancellable operating commitments	<1 year £	2 - 5 years £	> 5 years £	<1 year £	2 - 5 years £	> 5 years £
Operating lease commitments	1,461	254	0	2,790	1,715	0

Note 19. Particulars of business

All the Society's business relates to direct insurance business, being income protection, specialist critical illness and friendly society ten-year plans, written for residents of the UK or the Isle of Man.

Note 20. Related parties

All Board members, some members of senior management, and some family members have plans with the Society and pay premiums on an arm's length basis. The total face value of these plans does not exceed £4,000. There are no other related party transactions.

Note 21. With Profits Actuary

The With Profits Actuary was Sally Butters, FIA, of OAC plc. The Society requested her to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mrs Butters confirmed that neither her nor her family were Members of the Society, nor have they any financial or pecuniary interests in the Society with the exception of fees paid to OAC plc for professional services, which amounted to £253,463 in 2020 (2019: £292,327). The majority of the fees paid to OAC plc were for the provision for Chief Actuary services (to 12 October 2020), pricing and other actuarial services.

Note 22. 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 in accordance with the relevant Technical Actuarial Standards published by the Financial Reporting Council.



We welcome and invite feedback from you, our Members and owners.
You can contact us in a number of different ways, as follows:

In person, by attending the Annual General Meeting.

By email, using hello@holloway.co.uk

By telephone, on 0800 0931 535

By letter, by writing to Holloway Friendly, Holloway House,
71 Eastgate Street, Gloucester, Gloucestershire, GL1 1PW

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