

Annual Report

2019

Annual Report
for the year ended 31 December 2019

Keeping life colourful

Welcome from the Chair

Dear Members,

Welcome to the 2019 Annual Report for the Original Holloway Friendly Society, which includes our Strategic Report and Financial Statements. There are six parts to this report.

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

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

Third, the bonus report, 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 the Corporate Governance Code developed by the Association of Financial Mutuals for firms like ours. This Code was new this year. We have applied it in full.

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 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,



Martin Day
Chair
6 April 2020

Contents



Officers, Professional Advisers and Registered Office

Officers of the Society

The Board of Management ('Board')

Chair and Non-Executive Director

Senior Independent Non-Executive Director

Independent Non-Executive Directors

Martin Day

John Holland

Anna East

Adrian Humphreys

Graham Newitt

Derek Wright

Dave Cheeseman¹

Stuart Tragheim

Chief Executive and Executive Director

Chief Financial Officer, Executive Director and Company Secretary

Paul Harwood

¹First appointed 15 Feb 2020, to be offered for election at 2020 AGM



Officers, Professional Advisers and Registered Office

Professional Advisers

Chief Actuary and With Profits Actuary

Christopher Critchlow, BSc, FIA¹
Sally Butters, BSc, FIA²
OAC plc
141-142 Fenchurch Street, London
EC3M 6BL

¹Until 3 Oct 2019

²from 4 Oct 2019 with regulatory approval granted on 17 Feb 2020

Internal Auditor

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

Fund Managers

LGT Vestra LLP
14 Cornhill
London
EC3V 3NR

Independent Auditor

PricewaterhouseCoopers LLP
2 Glass Wharf
Bristol
BS2 0FR

Bankers

Lloyds Bank
19 Eastgate Street
Gloucester
GL1 1NU

Tilney Investment Management
Services Ltd
Royal Liver Building, Pier Head
Liverpool
L3 1NY

Registered Office

The Original Holloway Friendly Society Limited
Holloway House
71 Eastgate Street
Gloucester
GL1 1PW

email: hello@holloway.co.uk

web: holloway.co.uk

telephone: 01452 526 238

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

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

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

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

The Society is a member of the Association of Financial Mutuals ('AFM').

How we started

In 1875 George Holloway wanted to do something that would protect his workers financially if they were ever too ill or injured to work, so they and their families would still have an income. That year, he invented income protection and the Holloway Friendly Society was formed.

We've been here for nearly 150 years supporting our Members when they need us the most and we're still going strong.

What we've changed over the last few years

We've been breaking the mould of income protection. Making it available to more people and helping them financially should they be unable to work due to illness or injury. We did this by increasing our BMI limits, covering amateur sports, considering type 2 diabetes, no automatic medical underwriting limits at any age, and in 2019 we changed our underwriting approach for people with previous, or existing, mental health conditions. We've seen our Membership grow to over 25,500 by the end of 2019 from only 14,000 a few years before.

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Chair's Overview

Chair's Overview

2019 has been a very challenging but ultimately successful year for the Society. Our sales momentum has continued throughout 2019. Membership has again increased significantly, bringing income protection to ever greater numbers of people. Yet again, the Society made a significant contribution to the Fund for Future Appropriations of over £17m. Increases in this Fund show the value added for Members, similar to the value that might be earned for shareholders. The larger this Fund, the greater the resources of the Society. Being able to grow the Fund is central to our strategy of creating future value for our Membership.

2019 was the third year in our current five-year plan. I am delighted to report that your Society is increasingly being recognised as a leader in its market, as demonstrated by the five different industry awards won this year including for service, for underwriting and for claims handling. We are proud too that our Head of Marketing was recognised by the Women in Protection awards as Most Inspiring Returner.

This will be my last report to you, our Members, as Chair of the Society. In line with governance guidelines, I will not be seeking re-election at the forthcoming AGM. By this time, I will have served on the Board for ten years, including seven years as Chair. While I am sad to be standing down, I look back on the significant changes made while

I have been Chair and the success of our current strategy with a great deal of pride. Our Board has been almost completely refreshed over the last five years and I am confident that it has the knowledge, skills and attitude needed to govern the Society effectively in an increasingly regulated environment, while making the most of the opportunities available to allow the Society to flourish.

At the time of writing, we are working through the economic and operational difficulties introduced by the coronavirus pandemic. These are very uncertain times, but I am confident that the Board, management and all at the Holloway will react to these challenges with their by-now-established calm and discipline to ensure the Society's future success.

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.

Our Membership again grew significantly during 2019. We never forget that the Society exists to serve you, our Members, especially in your time of greatest need.

We have continued our focus on existing Members. We were delighted with the response to our Member survey, which we conducted towards the end of the year. We are now working through the responses and considering how we use the information collected to improve our support and service. Our new sales have been significantly higher than we expected. This is great news, but it brings additional pressure. We have striven throughout the year to ensure that we continue to pay valid claims and pay them promptly, but queues have built up at some busy times.

This commitment to serving Members is at the heart of our attractiveness in the market. Intermediaries can be confident in recommending us because we treat potential and existing Members as we would like to be treated ourselves. The awards won are important because, as well as recognising our progress, they demonstrate our standards and professionalism to the wider market.

Chair's Overview

Bonus

I am pleased to report that regular and final bonuses for all Members with eligible policies have been maintained. Full details are in the report on [pages 26-27](#).

Results

Policy sales during 2019 have consistently exceeded our expectations. We continue to review our market position and the nature of products being sold.

New sales are the lifeblood of a friendly society. New sales capture value, which in turn supports further investment or expansion in Member support.

PRISM

The Society's single greatest investment is its new administration platform, called PRISM. We have continually stressed that PRISM must be implemented safely. We have a rigorous test programme which must be completed in full before we will be comfortable allowing our business and your data to be transferred. We recognise that making changes is significantly easier and cheaper before launch than after, so we are not rushing. We believe that a hasty launch would not preserve, let alone create, value for Members.

The other side of this coin is the development cost. The Executive team is continually focused on ensuring that the development and testing costs are appropriate and reasonable. The Board regularly and routinely challenges the decisions that are proposed.

Regulation

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.

Corporate Governance

The Society has continued to develop its corporate governance. On 1 January 2019, a new Corporate Governance Code, developed by the AFM, came into force. I am pleased to note that we did not have to make any changes to our practices to meet the Code's principles.

Recognising that my term as Board Chair was coming to an end, the Nomination Committee considered how to select the Society's next Board Chair. Valuing continuity, the Directors concluded that Derek Wright, an existing independent Non-

Executive Director, should be appointed, subject to his re-election to the Board of Directors by Members at the forthcoming AGM. As you would expect, and in line with good practice, I took no part in this process.

This appointment created a new vacancy for a Non-Executive Director and Chair of the Audit and Risk Committee. The Nomination Committee oversaw an appropriate process and I am delighted to report that Dave Cheeseman joined the Board in February 2020. Dave's biography is later in this report and, as required, he is offering himself for election at the 2020 AGM.

The Board reviewed its succession plan and is satisfied that it is appropriate. It is satisfied 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 by colleagues, leading to our greatest donation yet of £17,500.

Coronavirus

Recent events have caused the Board to review the soundness of the Society in these very uncertain times. The Board has commissioned work to satisfy itself that the Society can support Member benefits and continue to thrive. While there is no doubt that

Chair's Overview

the future will be more difficult and that our plans may yet have to be reviewed, the Directors are satisfied that the Society can continue to meet all of its obligations as they fall due. The environment is changing very fast and we endeavour to be continually ahead of events. We will continue, as a Board, to be focused on ensuring the future financial health of your Society.

Looking Ahead

I am proud to be signing off as Chair after a year of record sales, a healthy addition to the Fund for Future Appropriations, excellent progress on PRISM, market leading underwriting changes and increasing external recognition. All of these indicators suggest that the Board's strategy is working.

Results like these are only achieved through the hard work and dedication of the Society's people. On behalf of our Members and my fellow Directors, I would like to thank my colleagues at the Society for their part in ensuring our success and building the foundations for the Society's future.

Serving as the Society's Chair is, and has been, an enormous privilege. I have sought to be responsible to you for ensuring that the Society has you at its heart. This was the driving force for the current strategy, to grow Membership, to grow value and to grow in relevance in our chosen markets. The results so far are very promising.

I would especially like to thank my Board colleagues, current and past, for their part in supporting the Society's evolution.

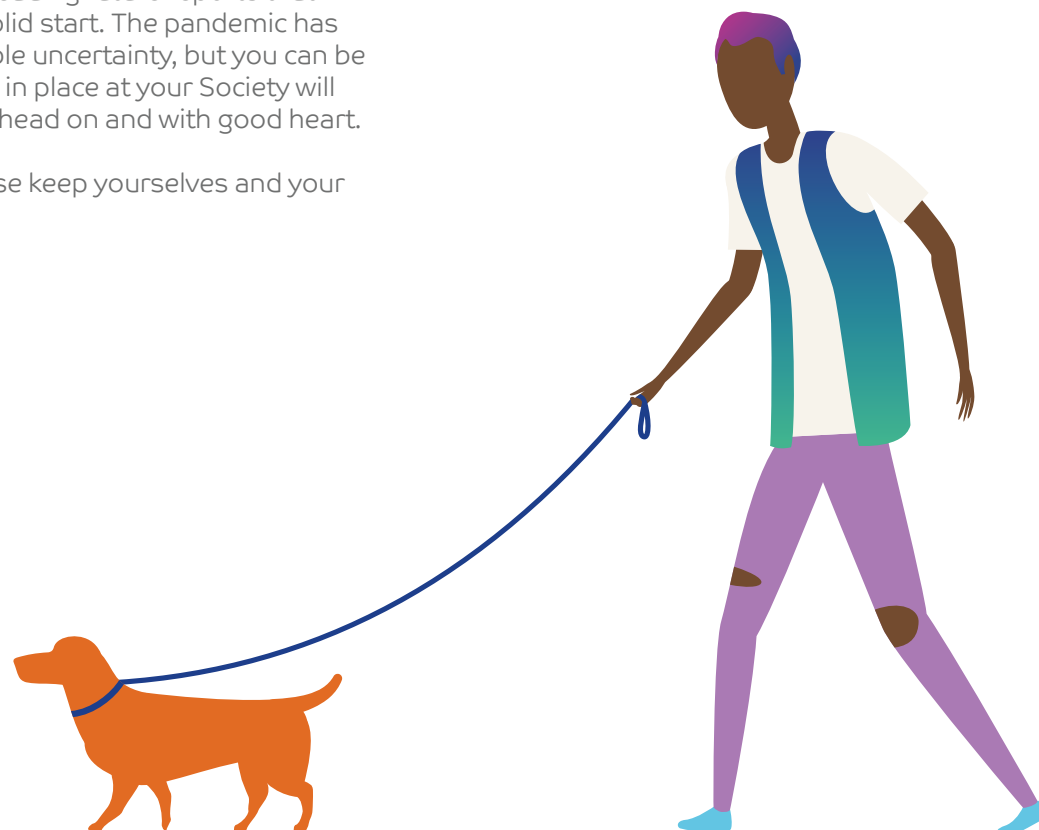
I am confident that the Society is in good hands and I look forward to reading future reports that build upon this very solid start. The pandemic has introduced considerable uncertainty, but you can be assured that the team in place at your Society will face these challenges head on and with good heart.

In the meantime, please keep yourselves and your families safe,

With best wishes,



Martin Day
Chair
6 April 2020



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Strategic Report

Strategic Report

Chief Executive's Overview

Before setting out the Strategic Report on behalf of the Board, I would like to extend my sympathies to all our Members and colleagues whose lives have been touched by coronavirus. We never forget at the Society that we exist because of real people doing real work, and the scale and suddenness of this pandemic has affected us all.

Turning to 2019, it has been a difficult, frustrating, but ultimately successful and rewarding, year for the Society. I am delighted to be able to share our progress in my fourth report to Members.

We are a purpose-led organisation. Our purpose is to be there when you need us. To do this reliably, we need knowledge and we need to grow. We need knowledge about the market, your needs and the risks that we can afford to run. We will grow if we have better systems, a wider product range and are better known. My job is to make sure that we gather the knowledge, put it to good use and therefore become a larger Society, more valuable to its Members.

Turning to what we have actually achieved, in 2019 we have achieved our purpose. The Society has more Members and we have helped more of you. This help includes paying benefits to replace, in part, your income and helping to get you back to work where this is possible. Paying more benefits is our most important success.

Being better known by intermediaries is important, because it is these intermediaries who introduce new Members, and this underpins our growth. We will only be recommended if intermediaries know who we are, what we do and how well we do it. We have to continually show that we look after our Members, so an intermediary can recommend us with confidence. I am delighted to report that we are being recognised more and more by intermediaries. This is a massive factor in our current and future success.

What do we have to prove? Intermediaries need to be confident that we will provide efficient service, will treat claiming Members sensibly and compassionately and that we run our business to high standards. Winning so many industry awards in a year is remarkable: winning an FT Adviser 5 Star Service Award, which is voted for by intermediaries on the basis of service received, and being the only friendly society with such an award, is an independent assessment of how well thought of we are. Success in the eyes of others is important for our future.

Market recognition has turned into new business. Sales have grown by 82% during 2019. The number of intermediaries who choose to recommend us time and time again has also grown. Repeat business has always been at the heart of our strategy. Membership at the end of 2019 stood at over 25,000, an increase of more than 40% over last year.

Financially, our success is reflected by the growth in the funds that support Member claims. In 2019, we added more than £17m to the Fund for Future Appropriations, increasing the amount available to support our wider Membership.

Ultimately, as a mutual, our success is measured by the number of Members that we help through their time of need, ideally helping them return to work. I am pleased that we have paid benefits to more people in 2019. That said, the increases in new business and in claims have created capacity concerns. Training new underwriters and claims handlers is a time-consuming process, and we are mindful of the need to ensure we have sufficient capacity. Thus, we know what we have to improve on in 2020 and beyond.

Mutual organisations work by sharing. Member premiums are shared in a pool, out of which benefits are paid. Managing the pool is very important. My colleagues consider each and every claim on its merits, recognising that we are in the business of paying claims, but we are also charged with preserving value for all Members. As the business has grown, the number of claims that we are obliged to turn down has increased to market levels. We use the knowledge gained about why claims cannot be paid in our reviews of documents, letters etc. and of our processes so that we can try to ensure that Members understand the nature of mutuality and the terms of

Strategic Report

the products offered. It is frustrating that despite our best endeavours to explain how the mutual pooling works, sometimes we have to turn down claims. We hope to improve our communications to reduce the number of claims that we cannot accept, and turn this frustration into a success.

We have used our knowledge to improve the market. Late in 2019, we announced a change to how we consider new applications from people who have suffered mild and temporary mental illness when, for example, someone close has died. Typically, income protection was not available in these circumstances. We have researched this subject using expert advice and are proud to have been able to present a new approach to the market which opens up the possibility of providing cover. This move has been widely welcomed. We made a change because it seemed to be the right thing to do. We will monitor experience carefully.

Great progress has been made on the development of our new administration system, PRISM, during 2019. It is frustrating that the launch of PRISM has not yet begun. That said, I am confident that allowing extra time for more testing is the right decision. Deferral is frustrating because the launch of new products is deferred. On balance, I am satisfied that the current plan, to continue to test and to launch when ready, is the best way to preserve Member value. A sensible launch of PRISM is the major success driver for the Society.

A business like ours relies on its people. I am proud to work with lively, caring and professional colleagues who see our Members at the heart of everything that they do. We treat claiming Members as we would like to be treated, we spend money as if it were our own and we behave as if our parents were watching all the time. The result is a pressured work environment with high standards, but one in which colleagues help and support one another. I want the Society to be the best place that each of my colleagues has ever worked, and with this in mind, we actively listen to input about changes that are needed to achieve that goal. Why bother? Because we are a people-centred business, and engaged, professional, dedicated people will enable that business to flourish. I would like to thank all of my colleagues for their work during 2019, often during difficult circumstances, but always carried out with humour, professionalism and pride.

2020 has already provided new challenges. I am confident that all at the Society will rise to respond to these new challenges, with good spirit, empathy and concern for our Membership. Please keep safe in these uncertain times.



Stuart Tragheim
Chief Executive
6 April 2020



Strategic Report

Key Performance Indicators for 2019

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

Embedded Value

the long-term financial value of the Society to Members

Solvency Ratio

the financial strength to manage risks that materialise

Annual Premium Income

the lead indicator of our ability to attract new Members

Total Membership

the reason for our existence

Number of Lapses

retention of Members is central to the Society's success

Colleague Engagement

a strong Society emerges from dedicated people



Strategic Report

2019 Business Review

Purpose

Our high-level purpose is to be there when our Members need us most. To achieve this, we need to understand the needs of our Members and to have a sufficiently large pool of Members to provide good value and appropriate products. Thus, we need knowledge and we need to grow our business. We need to be organised to gather this knowledge and to use it to grow.

In practical terms, our purpose is to protect your income when you can't work because of sickness or an accident. We think it is important that more people protect their income, insulating themselves and their families from the financial consequences of being unable to work. Growth naturally follows when more intermediaries recommend our products to more people, which in turn means that we must offer attractive and appropriately priced products. We want to be known as a market leader for the types of business that we choose to sell.

The governance code suggests that, by writing down our purpose, we establish the rationale for our existence and help ensure that we operate in the best interests of our Members, those working at Head Office and in the field, and the wider public.

Strategy and Business Model, Key Performance Indicators

Strategy

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

In short, the Society grows because we look after our Members, using the knowledge we have about what people want and the knowledge we have about how to provide it.

We have developed the strategy and business model ([see next section](#)) to describe how we propose to generate long-term sustainable value. The Board is responsible for ensuring that its strategy is clearly articulated and implemented throughout the Society, and that the strategy, along with the Society's values, supports appropriate behaviours and practices. This includes discouraging misconduct and unethical practices and promoting behaviour that balances short- and long-term requirements.

The Board manages any conflicts of interest arising from the strategy or business model and a balance is struck between short-term targets or needs and long-term aspirations.

Business Model

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

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

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

Strategic Report

Value-Tracking Principal Performance Indicators

Embedded Value is an economic measure of the Society's long-term value to Members. It is calculated by projecting forward the Society's business allowing for a number of assumptions about lapses, sickness claims, expenses etc. and discounting the future surpluses or deficits. The result is a single number which, when added to the assets, gives an economic value of the Society. 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 grown significantly this year, buoyed in part by successful sales growth, despite an increase in claim rates for some products.

Total Membership is a simple measure of success. The Society thrives, the greater its Membership. We currently have around 25,000 Members. In 2019, we established over 10,000 new policies for Members, an increase of over 80% on the prior year.

New Sales We measure new sales by their annualised premium at the point of sale and call this measure the Annual Premium Income or API. 2019 sales were higher than in prior years, at £3.418m API (2018: £1.878m), a significant increase.

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. But the number could be too high. It may suggest that assets are not being used effectively. The Solvency Ratio has fallen over the year for a number of reasons, including the high levels of new business and the increase in claims rate for some product types. There are other, technical, reasons for this number changing. The Board will continue to monitor the Solvency Ratio in 2020 and take steps to ensure that risks accepted can be managed properly.

Important Trading Results

Earned Premiums net of reinsurance increased over the year by £1.950m to £8.656m (2018: £6.706m).

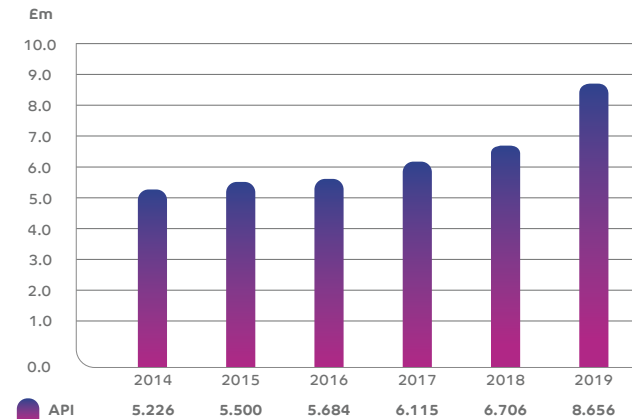
Sickness Claims paid, net of reinsurance, grew by over 60% to £2.430m (2018: £1.512m).

Net Operating Expenses grew to £12.587m (2018: £10.532m). This change largely reflects higher commission paid in 2019.

The Fund for Future Appropriations has grown in the year to £76.018m, from £58.986m. The increase reflects the value of the new sales made.

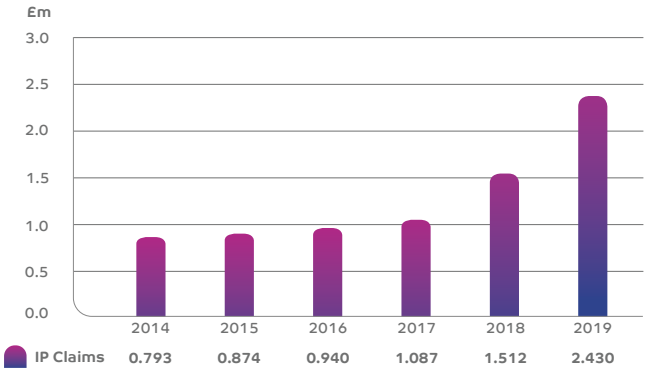
The value of the Society's investments fell from £37.882m to £31.196m. The change was a result of investments being realised to meet new sales, the Society's running expenses and the investment in the Society's strategy.

Net Earned Premium Income

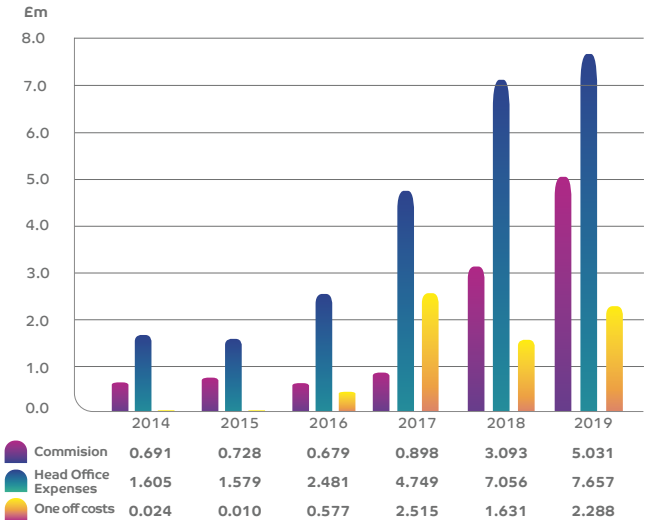


Strategic Report

IP Claims



Society Expenses



Member- and Stakeholder-Tracking Principal Performance Indicators

Lapses

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

Operating Practices as reflected in Performance from a Business Perspective

Our business performance in 2019 can be considered from three viewpoints: market presence, service to Members and building the future.

Market Presence

Our financial performance is dominated by our improved new business sales during 2019.

Higher sales are hard to achieve. The right products have to be available at the right price through the right intermediaries. Our success in sales terms suggests that our prices are competitive. We reviewed our prices towards the end of 2019 and adjusted them to fit our desired sales profile better. We expect to see the results of this work in 2020.

In July, we launched Kaleidoscope, an intermediary portal that supports training and knowledge sharing about the income protection market, as well as allowing intermediaries to satisfy their

regulatory training obligations. Kaleidoscope has had a fantastic response, introducing new intermediaries to the Society and establishing us as a leader in the market. Intermediaries do not have to place business with us to access Kaleidoscope.

We're winning awards

In 2019 we won 6 industry awards. They were for our claims service, underwriting and the services we provide to you, our Members and Intermediaries. We are always looking to improve what we do and offer to our Members and Intermediaries.

We have grown our specialist claims team to make quicker decisions on claims and to give you more help throughout a claim and beyond.

We've updated and changed how we review applications so more people can have income protection, protecting the UK's work force. Especially the self-employed who can't receive statutory sick pay. We've introduced e-signatures reducing the need for paper forms and we now accept photo evidence for claims.

2019 was a big year for winning awards, for a range of different qualities:



Winner

Nov 2019

Women in Protection Awards:
Georgia d'Esterre, Head of Marketing,
Holloway Friendly - Most Inspirational Returner



Winner

Nov 2019

FT Adviser 5 Star Service Award



Winner

Oct 2019

Cover Excellence Awards
Best Individual Income Protection



Winner

Jul 2019

Protection Review Awards
Underwriter of the year



Winner

Sep 2019

L&P MoneyFacts Awards
Best Protection Claims Service



Winner

Mar 2019

LifeSearch Awards
Best Underwriting Approach and System

Strategic Report

Service to Members

Service is critical to retaining the support of Members and intermediaries alike. We have continued to focus on ensuring speedy response times. The high levels of new business and claims have meant that in some cases, turnaround times have not been as quick as we would like. We continue to develop ways of ensuring that we can maintain a high-quality service.

Building the Future

A significant part of 2019 activity has been the development and testing of PRISM, and the planning for the migration from the old administration system. PRISM will allow service improvements, self-service, new product developments and better control. Work done now is an investment in the Society's future.

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 2019, 676 (2018: 438) new claims began payment, alongside 299 (2018:188) claims that were already in payment at the beginning of the year. By 31 December, the Society was replacing the income of 468 (2018:299) Members, having paid £2.430m in Member claims, net of reinsurance, over the year (2018: £1.512m).

Year-end Position

A high-level summary of our position at the end of 2019 is as follows:

- the strategy and business model are appropriate
- overall, the resourcing is right across the Society
- pricing appears sound, although some lapse assumptions will need to be reviewed
- we will continue to monitor sickness to ensure that we have properly allowed for the level and duration of the claims that we receive
- the Sales team is effective
- there is some strain in operating areas
- resource elsewhere is fit for purpose
- the investment policy is fit for purpose
- controls are sufficient and are 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 have been higher than expected, and reviewable-rate product sales have grown steadily. New business consumes capital, which is a counter

to higher sales. We expect to be monitoring all aspects of sales and the impact on capital in 2020.

We have the right level of Executive and Senior Leadership management in place for the strategy at the current time. During the year, we identified that the Society would be better served by employing a dedicated in-house Chief Actuary as the demands for knowledge about the business increased. We embarked upon recruitment, overseen by the Nomination Committee. We expect that we will transition from OAC plc to our internal candidate during 2020, subject to regulatory approval. OAC plc will continue to provide our With Profits Actuary.

We are always mindful of the service being provided to Members and recognise the need to employ more people to handle greater volumes of work in the new business and claims handling areas.

We recognise the strategic importance of launching PRISM effectively. We recognise too that PRISM, once launched, will bring its own challenges. In both cases, we expect to require resource to ensure a smooth launch, uninterrupted service and to build on the benefits that then become available to us.

The liabilities of Optimal, the Society's group life subsidiary, were fully discharged in 2018. The Society remains technically liable for any claims that emerge, but given the nature of the business written, the chance of any such claims is low.

Strategic Report

Notwithstanding the results achieved, in recognition of the uncertainties created by the coronavirus pandemic, I, and my fellow participant in the Long Term Incentive Plan, have concluded that it would be inappropriate for the Society to consider awards under the completed 2017-2019 Plan until the future is more certain and have asked that consideration of this matter be deferred.

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

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

We expect the sales momentum to continue. When PRISM is implemented, we expect to extend the product range.

We expect to refine our underwriting processes further over 2020.

The PRISM implementation will take up significant management time during 2020. We will ensure that service to Members and intermediaries does not worsen during this time.

The pandemic in 2020 has the potential to dramatically change how the Society's business is conducted. It has already resulted in all of our people working from home. We are consulting with industry groups and others to ensure that there is clarity over the claims triggers and are monitoring new business carefully to ensure that new Members understand the benefits available from our products. We are spending significant amounts of time advising existing worried Members. The Government's support schemes are most welcome and we are carefully working out how these schemes will affect our claims payments. We expect higher claims and an increased focus on rehabilitation as a result of coronavirus. It is too early to assess the impact overall at the time of writing because matters are changing daily. We do not know whether the economic disruption will last a short time or will extend over a period of years. We have to be prepared for both.

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

Responsibility to the Community

In 2019, we continued our support for the James Hopkins Trust, a local children's charity providing support for severely disabled under 5s and their families. Our support ranges from fundraising to giving time to smarten up the grounds. On fundraising, the Society was pleased to match the amount raised by colleagues, with the result that £17,500 in total was donated during 2019.

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



Strategic Report

Risks to the Strategy and Risk Management

We face a number of risks, some of which are common to all insurers and some of which are specific to us. The coronavirus pandemic is a risk that has materialised very quickly in 2020. We consider the risks materialising as follows:

Coronavirus Pandemic

Strategic risks the dramatic economic slowdown arising from the pandemic is expected to be short lived. To date, there is no indication that our business plan will be impacted in the long term. If the economic slowdown lasts longer, we will need to review our plans to ensure that the Society remains financially healthy in the future.

Market risks we have a limited exposure to equities (around 12% of assets as 31 Dec 2019). As a result, the recent stock market falls have had a limited effect on the Society's balance sheet. Most of our assets are now invested in cash, cash funds, high-quality corporate bonds and gilts. These assets have substantially maintained their value as interest rates have fallen.

Operational risks we have moved almost completely to a working-from-home model. There are some processes that have to happen in the office, but we will be working to find alternatives to these. This way of working will introduce new risks to the Society.

Product risks we may have to take different steps to ensure that claims are valid, because the usual evidence (e.g. a note from a doctor) may not be easily available. We may decide to reprice products for new Members or consider withdrawing them completely. We have temporarily stopped selling products with short deferred periods. We may have to take additional steps to make sure that Members, especially new Members, understand the extent of the cover offered by the Society.

We have recently seen high levels of new business. If these new Members lapse their policies sooner than we expect, the Society's financial position will be weaker. If policies are lapsed very early, we will have to claim back a portion of the commission that has been advanced for the advice given. To do this successfully, the advising firm must be able to re-pay the debt. If there is a significant economic slowdown, this might prove difficult.

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.

Risk modelling we will continue to assess the impact on the Society of different pandemic risk scenarios and using 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 2019

In 2019, the Directors carried out a robust assessment of all the risks facing the Society, including those which threaten its business model, future performance, solvency and liquidity. The principal risks are described below:

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

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.

Strategic Report

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

A higher number of claims has been received this year on one particular product line. We have reviewed our underwriting procedures and are satisfied that these are robust. We have reviewed our claims handling processes and again feel that these are robust, although we could attend to claims quicker in some cases. As a consequence of the review, we may orient our market position in different areas, to match better the capabilities and capacity in these functions.

We continually review the claims profile by intermediary. If the profile differs markedly from the average, this may indicate a sales management or conduct issue. We discuss emerging results with intermediaries to ensure that products are being appropriately sold and that our materials properly describe the benefits available from our products.

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.

The development of PRISM is a major project and there is a risk that it is late, over budget or does not do what is expected of it.

These risks are being managed by employing an experienced team, by using an already-working system as a foundation, through designing fixed-cost contracts where possible, and by paying close attention to the design of the system we are building and its testing. There is a temptation to force the system launch before it has clear sign off from every business area. We are resisting this temptation, despite the frustration in deferring launch and the associated costs, because it is simply too important.

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

Sales of one2protect, our level premium reviewable-rate product, have grown steadily. This was a new style of product which costs much less to launch in terms of capital. There is a risk that it is not priced correctly. Too expensive and there

will be too few sales to learn about the market, too cheap and there is a risk of excess sales that do not provide an appropriate return. It is important that the balance is right. By monitoring the sales and emerging claims, we can manage this risk, including reviewing the premium rates.

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

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 they are too low, the services that are expected will fall. This risk is managed by careful budgeting and financial control.

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.

Strategic Report

Governance

The Society operates in a heavily regulated environment that expects high standards 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.

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

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 colleagues

Caring for our colleagues is central to all decisions considered. As a knowledge business, the Directors recognise that continuing high levels of service and developing the strategy require engaged, committed. Well-trained and motivated colleagues. The Directors always consider the impact and needs of colleagues in considering any decision.

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 our strategy, as well as our regulation, so is considered with all decisions. The Directors expect the Society to work properly and reasonably with intermediaries, ensuring that regulations, especially regarding conduct, are followed in spirit and in deed. Decisions regarding distribution 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' sections 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. Primarily, it seeks to achieve this by being a good local employer and business partner for local firms. It is active in supporting a local charity. The Directors always consider the community and environmental impact of decisions. More details are provided in the 'Responsibility to the Community' section earlier.

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

The Directors expect the highest standard of business conduct, congruent with the regulatory obligations. Every decision is considered from this perspective by the Directors. More details are provided in the 'Governance' and 'Market Presence' sections 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 colleagues are safe, that they continue to provide good service to Members, that new business

Strategic Report

is appropriate and that only valid claims are paid. We have to 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.

We have maintained regular communications with business partners, including intermediaries. We are at pains to manage the balance between widening the pool of Members and ensuring that Members understand how our products can be used if someone is sick with coronavirus.

By behaving in this way, we think we will best serve our community and current and future Members. We will evidently be treating everyone fairly and maintain our integrity in the wider 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 1 January 2017 (the current business plan period). This assessment was driven by an analysis of how the business might perform in a number of different circumstances. The resulting outcomes were discussed and helped to shape the development of the business plan.

During 2020, additional assessments were carried out to consider the prospects allowing for the impact of coronavirus, using the Board's estimate of the possible impacts.

As a result of these assessments, the Directors have a reasonable expectation that the Society can continue to progress its five-year business plan and meet all its liabilities as they fall due, in ordinary times and allowing for the impact of the coronavirus pandemic.

The Board has considered the effectiveness of the Society's Internal Control and Risk Management Systems. Both of these systems have continued to be monitored during 2019 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

Strong sales, paying more claims and market recognition are important factors in the Society's future success. They indicate that the strategy is working.

The difficulty of maintaining service standards, higher claim refusals and the deferral of PRISM's launch are frustrations, but these are being worked through steadily and with Member value at the forefront.

The Executive Team, Senior Leadership Team and all colleagues 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 2020 and beyond.



On behalf of the Board of Management
Stuart Tragheim
Chief Executive
6 April 2020

How we're helping you, our Members

In 2019 we supported 633 of our Members and their families needed us the most by paying their claims and reducing their financial worries.

We paid 94% of claims and £2.4million in benefit.

We've kept our Members going through injuries and illnesses ranging from broken bones to mental trauma. We were there to take away one worry from them and support them to help keep their lives colourful.

Annual Report 2019

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 policy. The capital sum grows by the application of a number of bonuses, each designed to reflect a share in a different type of experience.

Compound bonus

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

Based on the advice of our With Profits Actuary, the Board is pleased to declare unchanged compound bonuses to be credited to Members' Accounts in respect of 2019 performance as follows:

Credit to Members' Accounts	2019	2018
Compound Bonus	2%	2%

Apportionment of surplus

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

Based on the advice of our With Profits Actuary, the Board is pleased to declare an unchanged apportionment of surplus in respect of 2019 performance as follows:

Bonus Declarations		
Apportionment of Surplus	2019	2018
Holloway Old Tables	£1.30	£1.30
Holloway New Tables and Classic	£1.50	£1.50
Holloway New Classic Plan	£1.25	£1.25
Holloway Premier Plan	£0.20	£0.20
Holloway Classic Plus	£0.90	£0.90
Holloway Classic Plus – Guaranteed	£0.75	£0.75
Holloway Classic Plus – New Table	£0.30	£0.30
Provident Standard	£1.30	£1.30
Provident D13	£1.30	£1.30
Provident D26	£1.30	£1.30
Provident Commuted	£2.40	£2.40
Holloway Commuted	£1.86	£1.86

Final bonus

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

The levels of current final bonus are available on request.

Final bonuses are kept under continual review. If the value of the Society's 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 2020

Annual Report 2019

Report of the Board of Management

Report of the Board of Management

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 2019.

Principal Activities and Objectives

Our principal activity is the provision of income protection insurance, including insurance based on Holloway principles. No activities have been carried on which are outside the Society's powers.

Our business is to sell protection products through intermediaries 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 [pages 26 - 27](#).

Service to our Membership, Feedback and Complaints

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

The Board established a sub-committee to oversee the PRISM development. This sub-committee is chaired by the Senior Independent Director and comprises the Chair of the Audit and Risk Committee, the Chief Executive and the Chief Financial Officer. It considers all aspects of the project, including progress, additional spend and scheduling, reporting to the Board and making recommendations when needed. The sub-committee met 9 times during the year.

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, together with details of who attended which meetings.

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

Report of the Board of Management

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 an appropriate remuneration policy which recognises that appropriate and fair levels of reward are imperative to enable the Society to secure and retain high quality people, be they Executives, senior managers, members of the sales team or colleagues working at Head Office. 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 through to every category of colleague, based on the nature and seniority of their role.

The principles of the remuneration policy have been developed around the principles that 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 remuneration 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 [pages 64 - 81](#).

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

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting

standards have been followed, disclosing and explaining any material departures, and

- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

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

- there is no information relevant to the audit of the Society's financial statements for the year ending 31 December 2019 of which the auditor is unaware, and
- all steps have been taken that an individual ought to have taken to discharge the duty of a Director to become aware of any relevant audit information and to establish that the Society's auditor is aware of that information.

The Board is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time, the financial position of the Society and to ensure that the accounts comply with the Friendly Societies Act 1992 and are prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law).

Report of the Board of Management

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.

The Society's Culture and Values

The Board is responsible for the Society's culture. The Society's values were developed by a group of colleagues in 2016 and have remained unchanged since then, although they are continually re-assessed. The Board has agreed that the values are appropriate.

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

The Directors realise 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 Leadership Team colleagues.

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 marked, identified, used as the underpin for action, and implemented, should drive the right culture.

The policies and practices guiding colleague behaviour and treatment are aligned with the Society's purpose and values. They include clear procedures for raising concerns, such as via the whistleblowing policy, which are reviewed regularly. Colleagues are regularly reminded of these processes and policies.

The Society measured culture in a number of ways in 2019: a cultural temperature was measured twice; a leadership course was held, designed to draw out culturally important management behaviours; colleagues were asked in their six-monthly appraisals how the values were lived, and how they could be lived better.

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 policies 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, who have worked with the Society for many years and who do similar work for many firms who are like us. When a firm grows as fast as we have, their judgement becomes more important as the underlying data in the early days is less reliable than for the more established book of business. The Board considers the advice of the Chief Actuary and challenges the assumptions that are proposed, including how they have been derived.

Report of the Board of Management

Having robustly considered the position, the Board is satisfied that its Technical Provisions are an appropriate long-term best estimate. This assessment may change as the Society's business changes. The coronavirus pandemic introduces further uncertainty.

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 PricewaterhouseCoopers LLP as the Society's Independent Auditor will be proposed at the forthcoming AGM.

Character of the Board

Diversity

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

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.

The report from the Nomination and Remuneration Committee sets out actions on this matter in more detail.

Board Effectiveness

The Board is responsible for assessing its own performance and effectiveness. It conducted a full external evaluation in 2017. This year, in line with its understanding of best practice, the Board conducted a skills audit and the Chair and Senior Independent Director held formal evaluation

meetings with each Director prior to the signing of the financial statements.

Given the impending change of Board Chair, the Board has determined that it will defer its next external Board evaluation to 2021, on the basis that this work will be more useful once the new Chair has been in place for some time.

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 Board Members' and Officers' Liability.

The Society made no political donations during the financial year.

Serving the Membership

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

Report of the Board of Management

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. This year's AGM is likely to be held by video and/or telephone as a result of the coronavirus pandemic.

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, for example, 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 colleagues.

It has begun a programme of Member communications, beginning with a survey of those Members for whom we have email

addresses. The response was very encouraging, and we will use the feedback to design the next stages of our Member engagement activity.

The Society has a comprehensive programme of colleague engagement, primarily consisting of regular face-to-face meetings, but also including more informal opportunities for a meaningful two-way dialogue. We regularly run surveys to solicit and understand our colleagues' ideas and concerns, and to share possible solutions.



Report of the Board of Management

We use the responses, from both Members and colleagues, to inform our decision making.

We maintain regular two-way dialogue with important suppliers and intermediaries. We demonstrate how we value these relationships by paying our bills promptly, working in a professional and productive manner and monitoring how contracts are adhered to.

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 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 tend to be seen by colleagues on a day-to-day basis.

The Directors recognise the need to build positive relationships with all stakeholders (regulators, intermediaries, investment managers, external

consultancy firms, colleagues 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 Leadership Team colleagues.

With this in mind, the Chief Executive meets monthly with all colleagues to discuss progress within the context of the Society's purpose and vision. He meets separately with the Executive and Senior Leadership Teams to discuss higher level and strategic objectives, again in the context of the Society's purpose and vision. The plans for each year are captured in a Balanced Score Card. This is comprised of the numeric and non-numeric activities needing to be achieved to achieve the purpose and vision.

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 would like to record their appreciation of the services provided by Christopher Critchlow as Chief Actuary and With Profits Actuary since 2010. During this time, Christopher led the implementation of Solvency II for the Society and was instrumental in taking the Society through the Solvency II reporting changes. Christopher left OAC plc late in 2019, having handed over his responsibilities gradually over the year to his OAC Deputy, Sally Butters. Sally has now taken on these roles, pending the handover and regulatory approval of the Society's internal Chief Actuary.

The Directors would like to 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 intermediaries.



On behalf of the Board of Management
Martin Day
Chair
6 April 2020

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 Chief Executive chairs the Executive Committee comprising the two Executives and other senior managers by invitation.

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 sets the Society's values and standards and ensures that its obligations to its Members, including reporting to Members on the Board's stewardship, and others are understood and met.

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

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

Ensuring High Standards of Corporate Governance

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

In particular, the Society complies with the AFM Corporate Governance Code ('the Code') which has recently been reviewed. The new Code came into effect on 1 January 2019. The Code has been applied in full.

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 2019, the Board comprised two Executive Directors and six Non-Executive Directors.

Report of the Board of Management

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

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 to 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.

The Board Chair, the Chairs of the Committees and the Company Secretary meet annually 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, the structure of meetings, etc.

The Chair, Chief Executive and Senior Independent Director

There are role profiles for the Chair, Martin Day, 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 priority is the management of the Society. 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.

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

Report of the Board of Management

prepares and presents business to be conducted by the Board and its Committees. The majority of the Directors on the Board are Non-Executive.

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

- all Non-Executive and Executive Directors have policies with the Society and pay premiums 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, colleagues, regulators and intermediaries) 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 Non-Executive 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 2020. We have shown the details of those that are offering themselves for election at the 2020 AGM first, followed by all other Directors.

Offering themselves for election at the 2020 AGM:

Derek Wright, Independent Non-Executive Director

Derek is an actuary and has worked in the life insurance industry as a practitioner and as a consultant. Derek was the Chief Actuary of Laurentian Life in Gloucester until its sale in 1995 after which he joined Deloitte LLP where he set up its UK actuarial practice. He was appointed a partner of Deloitte in 1999. From 2011, until his retirement in 2015, Derek led the Canadian actuarial practice of Deloitte. Much of Derek's time at Deloitte was spent on audit and risk consulting activities to the insurance industry.

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

Derek joined the Board in 2017. He chairs the Audit and Risk Committee and is a member of the Investment Committee. In 2019, he was appointed to the Board of Schroders Pension Management Ltd as a Non-Executive Director. In 2019, he was invited to attend the Nomination Committee, as Chair-elect. He is a Director of HF Life Limited (Optimal).

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Having served on the Board for three years, Derek is retiring by rotation and is offering himself for re-election at the 2020 AGM.

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. Derek is the Directors' choice as Chair of the Board following the retirement of Martin Day at the 2020 AGM.

John Holland, Senior Independent Non-Executive Director

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

John is a member of the Society's Nomination and Remuneration Committees and Investment Committee.

John is retiring by rotation and is offering himself for re-election. He has served on the Board for more than six years. As a result, in line with the Code, his candidature was considered particularly carefully. The Board determined that John remains independent minded and is satisfied that his continued service on the Board will be of benefit to Members. 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.

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. This is Dave's first Non-Executive Director role.

Dave is an actuary with a degree in Mathematics from Nottingham University.

Subject to regulatory approval, Dave will chair the Society's Audit and Risk Committee.

Dave is offering himself for election by Members at the AGM in 2020, as this will be his first AGM serving the Society. 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.

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, in 2019, (re-)joined the Board of the Investment and Life

Report of the Board of Management

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 and Investment Committees. He is a Director of HF Life Limited (Optimal) and serves as Chair of that company.

Stuart is offering himself for re-election at the AGM in 2020. 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.

Directors serving within their elected term:

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'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.

Paul Harwood, Chief Financial Officer and Chief Risk Officer, 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.

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

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.

Adrian Humphreys, Independent Non-Executive Director

Adrian joined the Board in November 2015. Until the beginning of 2019 he was the Chair of the protection business within JLT Benefits Consulting practice and is a specialist in Corporate Healthcare and Risk provision. He is an Independent Non-Executive Director of Benenden Healthcare. Adrian previously spent 15 years of his career working for Western Provident Association ('WPA'), a not-for-profit health insurer. 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 and is a member of the Nomination and Remuneration Committees.

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Adrian's contribution is important to the Society's long-term success because he brings commercial experience and customer-service focussed challenge to Board and Committee discussions.

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.

Attendance

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

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

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 2019 have been described in the Strategic Report.

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

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 three Committees to assist it in discharging its responsibilities. They cover Audit and Risk, Nomination and Remuneration, and Investment, matters. These Committees are important constituents of the Society's governance arrangements.

Each Committee has written terms of reference, which are published on the Society's website under the Governance section or are available 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 his delegates serve as the secretary to each Committee. Each Committee may seek external professional advice at the Society's expense.

The effectiveness of each Committee is considered as part of the annual performance review of the Board.



On behalf of the Board of Management
Martin Day
Chair
6 April 2020

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Report from the Audit and Risk Committee

Membership

At the end of 2019, the Committee comprised three independent Non-Executive Directors. Martin Day, the Society's Chair, stood down from the Committee in September 2019, in line with regulatory expectations that the Board Chair should not be a member of a dedicated Audit Committee.

Matters Considered by the Committee

Independent Audit

PricewaterhouseCoopers LLP ('PwC') served as Independent Auditor throughout 2019. The Committee judged PwC to be effective in its role.

Significant Issues in relation to Financial Statements

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

In the light of the coronavirus pandemic, the Committee considered appropriate disclosures regarding its potential impact, including a post balance sheet event note ([Note 26](#)).

Independent Auditor Performance and Independence

The Committee assessed the performance, independence and objectivity of PwC and the effectiveness of the audit process during 2019. A key component of this assessment is the consideration that the Independent Auditor is sufficiently robust in its challenge. The Committee reviewed the Independent Audit strategy and received reports from the Independent Auditor on its own policies and procedures regarding independence and quality control, including an annual confirmation of its independence in line with industry standards.

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

Re-appointment of the Independent Auditor

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

Oversight of Fees payable to the independent Auditor

The fees payable to PwC for the year ended 31 December 2019 amounted to £130,167 (2018:

£73,300) for the statutory audit. PwC performed no non-audit services during 2019 (2018: Enil).

Oversight of the Actuarial Function

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

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

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

Oversight of the Compliance Function

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

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

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Oversight of the Risk Function

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

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

The Committee drove the 2019 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.

During the year, the Committee appointed the Chief Financial Officer as the person with responsibility for identifying and managing the financial risks from climate change.

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.

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

During the year, the Chair of the Audit and Risk Committee was confirmed as the Head of Internal Audit, in line with regulatory requirements of small firms with outsourced internal audit functions.

Derek Wright
Chair of the Audit and Risk Committee
6 April 2020

Report of the Board of Management

Report from the Nomination and Remuneration Committees

Membership

The Remuneration Committee comprises three independent Non-Executive Directors and the Chair. The Nomination Committee comprises three independent Non-Executive Directors, the Chair and the Chief Executive. The Chair-elect began to attend the Nomination Committee during 2019.

Matters Considered by the Committees

Remuneration Committee

Remuneration

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

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

The Remuneration Report on [pages 46-52](#) has more details about the Society's remuneration.

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 oversaw a number of changes following the 2017 external Board evaluation. It supported the Chair and Senior Independent Director 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.

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 Senior Leadership Team members.

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, excluding the current Chair, agreed a process for the appointment of the next Chair and effected it. Derek Wright was the unanimous choice as the next Chair, following a process involving all other Directors, excluding Martin Day.

This appointment has created a vacancy for a new Non-Executive Director, one of whose duties will be to chair the Audit and Risk Committee. The Committee undertook an appropriate process to select candidates and, in February 2020, appointed Dave Cheeseman to the Board. In accordance with the Society's Rules, Dave is offering himself for election by Members at the AGM and his details are included earlier in this report.

Director and Executive Director Evaluation, Development and New Director Induction

The Chair and the Senior Independent Director 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

Report of the Board of Management

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, including the AFM Annual Conference, the AFM Risk Forum and the AFM Non-Executive Director Forum.

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 2020



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Report from the Investment Committee

Membership

The Committee comprises four independent Non-Executive Directors, the Chief Executive and the Chief Financial Officer.

Matters Considered by the Committee

Investment Policy

The Committee considered a number of changes to the investment policy and recommended them to the Board. The changes reduced the equity and non-GBP exposure of the portfolio in favour of cash and fixed-interest assets. The result is a reduction in market risk and a more capital efficient portfolio. The Committee has taken the view that this revision to the policy is a more appropriate reflection of the Society's investment needs at this time of high new business levels and investment in infrastructure.

Investment Performance

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

Adrian Humphreys
Chair of the Investment Committee
6 April 2020



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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/or 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 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 the interests of Members 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.

The table shows the remuneration policy design by components for different roles: Chief Executive, other Executive Director, Colleagues and Non-Executive Directors.

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Remuneration Policy Design				
Component	Chief Executive	Other Executive Directors	Other Colleagues	Non-Executive Directors
Basic Pay	<p>Basic pay takes account of skills and experience of individual candidates, pay across the Society and published information from comparable organisations in the financial services sector.</p> <p>Pay is usually reviewed annually with changes implemented from 1 January each year.</p> <p>While there is no limit on basic pay, all pay must be proportionate and deserved. In determining an increase, the market rate for the role will be considered, as will the rate of increase generally applied throughout the Society and the performance of the individual. Increases will reward personal growth, skill and experience, as well as achievements in the year.</p>			<p>Annual fee, depending on role</p> <p>Fees are reviewed every year. There is no limit on their level, but they are set with reference to similar organisations in the same sector. Fees are not performance related.</p>
Benefits	<p>The Society provides a benefits package in line with the market. The benefits offered take account of published information from comparable organisations in the financial services sector. There is no specific limit on the value of the benefits provided, but the value must be proportionate. Benefits are not generally subject to performance, but they may reflect seniority. Benefits are reviewed from time to time, with changes implemented as necessary.</p>			No other benefits are provided
Pension	10% of Basic Pay	10% of Basic Pay	5-10% of Basic Pay	
Holiday	29 days per annum		27-28 days per annum	
Cash Plan	For employee, spouse and dependent children.		Provided to all	
Dental Plan			Provided to senior employees	
Health care	For employee, spouse and dependent children on application, after six months service.		For employees on application, after six months' service.	Only for Directors first appointed pre-2016.
Life Insurance	4 x Basic Pay is payable on death.			Not available

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Remuneration Policy Design				
Component	Chief Executive	Other Executive Directors	Other Colleagues	Non-Executive Directors
Annual Bonus Plan	Max 60% of Basic Pay	Max 50% of Basic Pay	Max 40% of Basic Pay	Not available
	Available to all, except for those subject to the Sales Incentive Plan. This plan pays a bonus depending on performance against a number of numeric and activity measures, adjusted for individual performance. Bonuses for the Chief Executive and very senior Executives are decided individually by the Remuneration Committee. For Other Colleagues, the bonus pool is decided by the Remuneration Committee, and then allocated by management.			
	Bonuses are subject to performance. They are reviewed from time to time, with changes implemented as necessary. Bonuses for more senior people are subject to clawback if performance is later found to be misstated, if misconduct or significant management failure is discovered, or for any other reason that leads to damage to the Society’s reputation.			
Sales Incentive Plan	Not available		Available to members of the sales team. Max of 125% of Basic Salary. This Plan pays bonuses based primarily on quarterly sales performance adjusted for early lapses and personal performance.	
Long Term Incentive Plan (LTIP)	A new three-year LTIP begins each year. There are currently three such Plans in operation. The plans pay a bonus depending on performance as measured by the Embedded Value, subject to satisfactory solvency. Bonuses are decided individually by the Remuneration Committee and are subject to clawback or later adjustment if performance is later found to be misstated, if misconduct or significant management failure is discovered, or for any other reason that leads to damage to the Society’s reputation.		Not available	
	Max 60% (part deferred)	Max 50% (part deferred)		
	Payments are staged: 50% on agreement by the Remuneration Committee, 25% one year later, and 25% one further year later.			
Notice Period	12 months	6 months	1-3 months is standard. There are some individuals with longer notice periods (up to 6 months).	1 month

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Governance of the Remuneration Policy

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

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

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

The Committee reviews the Annual Bonus Scheme and its associated measures, and the other incentive Plans every year. It considers whether to allow new Plans to be introduced and, if so, their terms.

Payments under these incentive Plans are discretionary. They are always subject to approval and oversight by the Remuneration Committee. Any awards can be amended by the Remuneration Committee if unintended consequences are believed to have occurred.

Application of this Policy

The application of this Remuneration Policy is unchanged from last year.

Consultation with Members

The Society is committed to open dialogue with its Members on its Remuneration Policy.

Remuneration of Executive Directors

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

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

Recruitment of Executive Directors 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.

Long Term Incentive Plans

The Society provides a Long Term Incentive Plan for the Chief Executive, other Executive Directors and other nominated members of the Executive Team. The Plans operate over a three-year performance period, and a new Plan ordinarily begins every year. There are three Plans in operation as at 31 December 2019, covering the periods 2017-2019, 2018-2020 and 2019-2021.

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

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Plan for that performance period is, subject to the discretion of the Remuneration Committee, sacrificed.

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

Remuneration of Other Colleagues

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

Remuneration of Non Executive Directors

Letters of Appointment

Non-Executive Directors are appointed following the issue of a Letter of Appointment.

Having been appointed by the Board, each Director must stand for election at the subsequent AGM. The initial term of office is three years from the first AGM, then two years, then one year.

Non-Executive Directors may not normally serve more than nine years. Re-election after six years is permitted subject to rigorous review and an assessment of the need for refreshing of the Board.

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

Reviewing of Fees and Benefits

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

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

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

Report of the Board of Management

Directors' Emoluments

The table below sets out the emoluments to all Directors during 2019.

Directors' Emoluments, £						
Director	Salary or Fees	Bonuses	Benefits	Pension	Total 2019	Total 2018
Stuart Tragheim ¹	183,089	50,490	8,968		242,547	236,087
Paul Harwood	117,420	30,900	9,389	19,393	177,102	179,270
Martin Day	32,500		1,833		34,333	31,933
Anna East	24,000				24,000	22,440
John Holland	24,000				24,000	22,440
Adrian Humphreys	24,000				24,000	22,440
Derek Wright	26,000				26,000	22,440
Kevin Wiltshire ²	-				-	9,180
Graham Newitt ³	19,000				19,000	8,677
Total	450,009	81,390	20,190	19,393	570,982	554,907

¹ Receives an enhancement of 10% of salary (shown in Salary) in lieu of pension contributions

² To 12 June 2018

³ From 9 July 2018

On behalf of the Board of Management,

Anna East
Chair of the Nomination and Remuneration Committee
6 April 2020



Annual Report 2019

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

Report on the financial statements

Opinion

In our opinion, The Original Holloway Friendly Society Limited's financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2019 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and applicable law); and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

We have audited the financial statements, included within the Annual Report, which comprise: the statement of financial position as at 31 December 2019; the statement of comprehensive income for the year then ended; and the notes to the financial statements which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

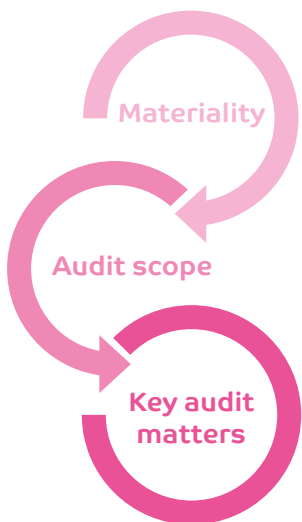
We have provided no non-audit services to the Society in the period from 1 January 2019 to 31 December 2019.



Report on the financial statements

Our audit approach

Overview



Overall materiality: £760,000 (2018: £590,000)

Based on 1% of the Fund for future appropriations

We tested all material balances and line items in the financial statements of the Society

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

Lapse assumptions used in the valuation of liabilities for income protection (“IP”) contracts

The impact of COVID-19

The scope of our audit

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

Report on the financial statements

Capability of the audit in detecting irregularities, including fraud

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

- Discussions with the Board of Management and, the Audit and Risk Committee, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;

- Evaluation of management's internal controls designed to prevent and detect irregularities, in particular their controls around authorisation of payments of claims;
- Reading key correspondence with the Prudential Regulation Authority and the Financial Conduct Authority in relation to compliance with laws and regulations;
- Reviewing relevant meeting minutes including those of the Board of Management and Audit and Risk Committee;
- Reviewing data regarding policyholder complaints, the Society's register of litigation and claims, internal audit reports, and compliance reports in so far as they related to non-compliance with laws and regulations and fraud;
- Procedures relating to the valuation of life insurance contract liabilities described in the related key audit matters below;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations impacting premiums and cash; and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing of claim payments.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

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

Report on the financial statements

Key audit matter	How our audit addressed the key audit matter
<p>Lapse assumptions used in the valuation of liabilities for income protection (“IP”) contracts</p> <p>The valuation of liabilities for IP contracts depends on a number of assumptions and one of the most sensitive is the choice of assumption regarding policyholder lapse rates. When valuing future cashflows of income protection contracts, an assumption needs to be made regarding the proportion of existing policies that will remain in-force in future time periods and the proportion of existing policies that are no longer in force in future time periods. The proportion of policies that are no longer in-force is known as the lapse rate and small changes in the lapse assumptions could have a material impact on the valuation. There is inherent judgement in choosing the future lapse assumptions and therefore there is a risk that they could be inappropriate.</p> <p>The Directors’ best estimate lapse assumptions are derived with reference to the Group’s historical experience, applying expert judgement to account for potential current or future changes in policyholder behaviour.</p> <p>We focused our audit work on these key judgements adopted by the Directors in setting their lapse assumptions.</p>	<p>Our work to address the valuation of these long term insurance contract liabilities was supported by our actuarial specialists and included the following procedures. We tested:</p> <ul style="list-style-type: none"> • the accuracy of the data used in the experience investigation and where applicable, ensured it is consistent with the data used in the previous year’s valuation; • the calculation of historical lapse rates (the experience investigations), including any methodology changes since the prior year; • the reasonableness of expert judgements applied to the assumptions derived from the experience analysis to determine future likely rates of lapse. In doing this we applied our industry knowledge and experience; • the evidence of review and challenge, ensuring adequate sign off for changing assumptions; and • the input of the lapse assumptions into the valuation models used to value the liabilities. <p>Through the procedures detailed above, we have found the lapse assumptions used to value the liabilities for IP contracts were supported by evidence obtained.</p>
Refer to the Report from the Audit and Risk Committee on page 42 and Note 4 on page 81 .	

Report on the financial statements

Key audit matter	How our audit addressed the key audit matter
<p>Morbidity assumptions used in the valuation of liabilities for income protection (“IP”) contracts</p> <p>Another assumption that creates particular sensitivity in the valuation of liabilities for IP contracts is the assumed rates of policyholder morbidity. When valuing future cashflows of income protection contracts, an assumption needs to be made regarding the proportion of existing policies that will make a claim in future time periods, known as claim inception rates, and the rates at which existing policyholders with claims-in-payment recover and claims are terminated, known as claim recovery rates. These two assumptions together are referred to as policyholder morbidity and small changes in the policyholder morbidity assumptions could have a material impact on the valuation. There is inherent judgement in choosing the morbidity assumptions and therefore there is a risk that they could be inappropriate.</p> <p>The Directors’ best estimate morbidity assumptions are derived with reference to the Group’s historical experience which is then used to make adjustments to industry morbidity tables in line with standard actuarial practice.</p> <p>We focused our audit work on these key judgements adopted by the Directors in setting their morbidity assumptions.</p>	<p>Our work to address the valuation of these long term insurance contract liabilities was supported by our actuarial specialists and included the following procedures. We tested:</p> <ul style="list-style-type: none"> • the accuracy of the data used in the experience investigation for claim inception rates and recovery rates and where applicable, ensured it is consistent with the data used in the previous year’s valuation; • the calculation of historical morbidity rates (the experience investigations); • the reasonableness of expert judgements applied to the assumptions derived from the experience analysis to determine future likely rates of morbidity. To do this we took into account factors likely to influence future rates of policyholder morbidity by applying our industry knowledge and experience; • the evidence of review and challenge, ensuring adequate sign off for changing assumptions; and • the input of the morbidity assumptions into the valuation models used to value the liabilities. <p>Through the procedures detailed above, we have found the morbidity assumptions used to value the liabilities for IP contracts were supported by the evidence obtained.</p>
Refer to the Report from the Audit and Risk Committee on page 42 and Note 4 on page 81 .	

Report on the financial statements

Key audit matter	How our audit addressed the key audit matter
<p>The impact of COVID-19</p> <p>As discussed within the Risks to the Strategy and Risk Management section on page 21 and note 26 of the financial statements, the start of 2020 has seen an unprecedented outbreak of Coronavirus (COVID-19). As at 31 December 2019 only a limited number of cases had been reported to the World Health Organisation.</p> <p>Since then, the virus has spread across multiple countries and caused significant disruption to supply chains and travel with a corresponding impact on the financial markets. The impact of COVID-19 is considered to be a non-adjusting post balance sheet event.</p> <p>Management have performed an impact assessment of the COVID-19 outbreak and the impact this has on the Society's ability to meet its capital requirements and liabilities as they fall due. Considering the results of this impact assessment management have prepared the financial statements on a going concern basis.</p> <p>In considering whether the Society can meet its obligations as they fall due, management have estimated the impact of the potential claims exposure, reduction in investment values as a result of the volatile market conditions, potential impacts on the business plan and the change in solvency capital surplus.</p>	<p>We have obtained and assessed management's analysis of the impact of COVID-19 on the group and Society financial statements. This included the following:</p> <ul style="list-style-type: none"> • We have evaluated management's stress and scenario testing and challenged management's key assumptions; • We have considered alternative stress testing performed by management as part of their Own Risk and Solvency Assessment ('ORSA') process; • We have assessed the mitigating actions that management have put in place and potential future actions; and • We have assessed the disclosures made by management in the financial statements. <p>Based on the work performed and the evidence obtained, we consider the disclosure of the impact of COVID-19 within the financial statements to be appropriate.</p>

Report on the financial statements

How we tailored the audit scope

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

Materiality

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

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

Overall materiality	£760,000 (2018: £590,000).
How we determined it	1% of Fund for future appropriations.
Rationale for benchmark applied	We consider the Fund for future appropriations to be the most relevant measure to apply as this represents the value of the Members' interests in the Society.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £38,000 (2018: £29,500) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

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

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

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

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Society's ability to continue as a going concern.



Report on the financial statements

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Friendly Societies Act 1992 requires us also to report certain opinions and matters as described below.

The Report of the Board of Management

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

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

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Management for the financial statements

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

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

Other required reporting

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the Society's Members as a body in accordance with Section 73 of the Friendly Societies Act 1992 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose

hands it may come save where expressly agreed by our prior consent in writing.

Friendly Societies Act 1992 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Risk Committee, we were appointed by the Board of Management on 8 August 2017 to audit the financial statements for the year ended 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 December 2017 to 31 December 2019.

Sue Morling (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
06 April 2020

Helping intermediaries help you

We launched an online learning platform to help intermediaries understand and learn more about income protection. We provide information Intermediaries need to help our Members, understand what income protection is, how claims work and why it's an important protection to have.

We're making a difference

We're here for our Members when they need us the most. We're also here for our local community. We have been supporting the James Hopkins Trust for a number of years and recently our colleagues raised over £17,000 for them. We sponsored activities like the Three Peaks challenge, giving up treats like chocolate and holding bake sales. Who doesn't love a good cake?

The James Hopkins Trust is an incredible charity helping severely disabled young children and their families, providing much needed respite and support when they need it the most.

Annual Report 2019

Financial Statements

Financial Statements

Statement of Comprehensive Income for the year ended 31 December 2019

	Note	2019 £	2018 £
TECHNICAL ACCOUNT: LONG-TERM BUSINESS			
Gross premium written	5	8,726,903	6,878,718
Outward reinsurance premiums		(70,741)	(172,395)
Net earned premium income		8,656,162	6,706,323
Investment Income and realised gain/(loss)	6	2,436,480	710,208
Unrealised gain/(loss) on investments	7	809,449	(2,142,405)
Other income		(329)	36,195
Total technical income		11,901,762	5,310,321
Gross claims incurred		4,659,013	3,772,275
Reinsurance recoveries		(13,963)	(183,944)
Claims incurred net of reinsurance	8	4,645,050	3,588,331
Change in technical provisions	9	(22,469,341)	(16,722,715)
Net operating expenses	10	12,587,572	10,531,958
Investment expenses and charges		100,567	213,106
Tax attributable to long-term business	11	-	-
Allocated investment return transferred to the non-technical account		6,099	3,726
Transfer to the fund for future appropriations	12	17,031,815	7,695,915
Total technical expense		11,901,762	5,310,321
Balance on long-term business technical account		-	-
NON TECHNICAL ACCOUNT			
Allocated investment return transferred from the long term business technical account		6,099	3,726
Other charges, including value adjustments		(6,099)	(3,726)
Excess of income over expenditure for the financial year		-	-

The Society had no recognised gains and losses other than those included in the movements on the Technical Account and the Non-Technical Account and therefore no separate statement of recognised gains and losses has been planned. The Society has not presented a Statement of Changes in Equity as there are no equity holders. The Society is a mutual organisation.

Financial Statements

Statement of Financial Position for the year ended 31 December 2019

	Note	2019 £	2018 £
ASSETS			
Intangible assets	13	2,874,838	1,429,831
Investments			
Land and buildings	14	800,000	800,000
Other financial investments	15	31,196,152	37,882,278
		31,996,152	38,682,278
Assets held to cover linked liabilities	16	795,408	915,026
Debtors			
Other debtors	17	12,310	198,059
Other Assets			
Tangible assets	18	143,321	141,921
Stock		12,039	24,084
Cash at bank and in hand		1,312,237	533,997
		1,467,597	700,002
Prepayments and accrued income			
Accrued interest and rent		195,095	192,219
Other prepayments and accrued income		94,829	95,863
		289,924	288,082
Technical provisions	9	42,326,688	19,976,965
		79,762,917	62,190,243
LIABILITIES			
Fund for future appropriations	12	76,018,122	58,986,307
Technical provision for linked liabilities	16	795,408	915,026
Creditors			
Arising out of reinsurance operations		8,477	7,010
Claims outstanding		205,752	168,673
Other creditors incl tax and social security	19	2,735,158	2,113,227
		2,949,387	2,288,910
		79,762,917	62,190,243

The financial statements on [pages 64 - 81](#) were approved by the Board of Management on 6 April 2020 and were signed on its behalf by:-



Martin Day
Chairman and Director
6 April 2020



Stuart Tragheim
Chief Executive and Director
6 April 2020



Paul Harwood
Company Secretary and Director
6 April 2020

Notes to the Financial Statements

1. Significant accounting policies

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

Basis of preparation

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

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

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

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

Going concern

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

The Society's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it should be able to operate within the level of its current facilities. After making enquiries, the Directors have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

Accounting for property

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

Accounting for net earned premiums

Premiums are accounted for when due for payment. Premiums for new business are accounted for when the insurance contract

liability is set up and the premium is due for payment. Reinsurance premiums are accounted for when due for payment.

Accounting for investment income

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

Accounting for net gains or losses on investments

Realised gains or losses on investments are accounted for as the difference between net proceeds and their original purchase price. Where the investment was purchased in the previous accounting period, any unrealised gains or losses brought forward are reversed.

Unrealised gains or losses on investments are accounted for as the difference between a fair value at 31 December 2019 and a similar valuation as at 31 December 2018 or, where purchased during 2019, the purchase price.

Notes to the Financial Statements

Accounting for other income

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

Accounting for operating 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.

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 15](#), 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 development	25% on a straight-line basis
Policy Administration System	No amortisation applied as asset not complete

Tangible assets

These assets are accounted for at their purchase cost plus any incidental costs of acquisition. Depreciation is calculated to write off the cost of tangible assets over their estimated useful lives, at the following rates:

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

Notes to the Financial Statements

Accounting for claims and benefits

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

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

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

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

Accounting for the fund for future appropriations

The fund for future appropriations represents the excess of assets over and above the long-term value of insurance contracts and other liabilities. It represents the amounts that have yet to be declared as bonuses for participating insurance contracts and the Society's free assets.

Any profit or loss reported on the Statement of Comprehensive Income is transferred to or from this fund.

Accounting for policy allocations and bonuses

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

Accounting for technical provisions

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

Accounting for reinsurance

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.

2. Critical accounting judgements and estimates

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

Long-term business provision

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

The assumptions used for mortality and morbidity are based on standard industry

Notes to the Financial Statements

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 3](#).

3. Capital management

The Society maintains an appropriate level of capital to ensure the payment of existing policyholder 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 policyholders and other stakeholders, and
- to comply with the capital requirements of the regulator

Details of the Society's objectives and its strategy to achieve them are provided in the Chief Executive's Statement on [pages 12 -13](#).

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

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

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

The Solvency Capital Requirement is calculated in accordance with EIOPA's standard formula. Following the 2019 capital assessment, management intends to maintain surplus capital in excess of its Solvency Capital Requirement.

The Society complied with the prudential requirements regarding capital and technical provisions throughout 2019. It is not, and has not been in 2019, 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	2019 £000s	2018 £000s
Total capital resources before deductions*	76,018	58,987
Adjustments to assets	(2,970)	(1,526)
Total available capital resources	73,048	57,461

*The Fund for Future Appropriations

Notes to the Financial Statements

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 EIOPA as at 31 December 2019.

Expenses

Maintenance expenses are set allowing for new business in accordance with the Society's business plans for the period 2020-2021.

Thereafter, expenses are assumed to increase in line with an expense inflation assumption.

Morbidity

For sickness products, an inception and recovery approach is used, based on CMIR12 rates. The rates are reviewed annually to allow for emerging experience.

Lapses

The lapse assumption is set based on recent experience adjusted for any trends that are observed. 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, AMC00 Ultimate and for sick lives CMIR12.

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 2019.

Analysis of Change, 2019, £000s		
2019	Change	Available Capital
Available capital at start of year		57,461
Investment (losses)/gains	3,693	
New business	12,291	
Difference between assumed and actual policy cashflows ¹	(1,641)	
Provision for claim recovery trend	(2,000)	
Assumption changes	(1,874)	
Change in annual bonus methodology	3,229	
Change in risk margin	3,994	
Change in current liabilities	(660)	
Change in intangible assets	(1,444)	
Available capital at end of year		73,048

¹This includes lapses, sickness claims, changes to policy indexation etc

Notes to the Financial Statements

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

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

Underlying approach to risk management

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

- the Board has responsibility for ensuring that there are effective risk management and internal control systems.
- primary oversight of these systems is delegated to the Audit and Risk Committee by the Board.
- the Risk Management System ensures that risks that might move outcomes well outside those envisaged by the business plan are identified, measured, monitored, managed and reported appropriately.
- the Internal Controls System ensures that controls are effective. This includes understanding the nature of the controls, monitoring their effectiveness, allowing them to evolve and to develop a culture of openness and continual challenge.

Root cause analysis and consideration of near misses are important components of the approach.

- the Risk and Controls Committee (a management committee) receives reports on risks from throughout the Society. It reviews the reports and commissions further investigation as necessary, 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:

Sensitivity of Results to Assumption Changes, £000s		
Available capital at 31 Dec 2019		73,048
Assumption	Change	Impact
Morbidity inceptions (%CMIR12)	+10%	(2,608)
	-10%	2,608
Morbidity recoveries (%CMIR12)	+10%	6,902
	-10%	(9,934)
Expense allowances	+10%	(1,472)
	-10%	1,472
Mortality (%AMC00)	+10%	337
	-10%	(355)
Risk-free yields	EIOPA shock up	(11,351)
	EIOPA shock down	4,125
Fixed interest asset value	-10%	(2,786)
Equity values	-10%	(335)
Fall in property values	-10%	(94)
Lapse rates	+10%	(11,005)
	-10%	12,738
The Impacts shown are approximate indicators only.		

The principal risks are described in more detail as follows.

Notes to the Financial Statements

Insurance health risks

The Society is exposed to a range of insurance risks through its insurance contract holders 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.

Morbidity risk can be mitigated through reinsurance, at a cost. At the moment, the Society is sufficiently financially strong to absorb this risk, provided its pricing, underwriting and claims-handling processes remain effective. It continually reviews its claims experience to ensure that any changes required can be fed into pricing and underwriting.

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

Expense risk is closely monitored. [Note 9](#) sets out the technical provisions and the changes over the year.

New business risks

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

Higher-than-expected new business involves risk. It is important that there are sufficient people to handle increased volume and that underwriting standards are maintained. 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.

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 sensitivity analysis for equity risk illustrates how changes in the fair value of equity securities will fluctuate because of changes to market prices, whether those changes are caused by factors specific to the individual equity issuer, or factors affecting all similar equity securities traded in the market. Management monitors equity price movements on a regular basis. Listed equity securities represent 100% (2018: 100%) of total equity investments.

The Society has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by geography and counterparty. This policy of diversification is used to manage the Society's price risk arising from its investments in equity securities. During 2019, the Society deliberately reduced the proportion of its assets held in equities, and oriented the remaining portfolio to GBP-denominated, higher quality equities.

Notes to the Financial Statements

Interest rate risk

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

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates at the reporting date.

The with profits element of the liabilities is directly affected by changes in the level of interest rates to the extent that they affect the carrying amount of the assets held in the with profits funds.

The prescribed increase in EIOPA risk-free yields (effectively 100 basis points) would result in a reduction in surplus of £11.4m (2018: £6.6m). The prescribed decrease in EIOPA's risk-free yields (averaging 32 basis points (2018: 47) over the next 25 years) would result in an increase in surplus of £4.1m (2018: £3.3m).

Managing market risk

The Society has an Investment Committee which oversees market risk, The Committee recommends the investment policy to the Board, receives reporting, 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 provided in the investment policy balance the risks against the rewards.

Credit risk

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

- amounts due from corporate bond issuers,
- amounts due from insurance intermediaries,
- amounts due from insurance contract holders, 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 and to geographical and industry segments. 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	
	2019	2018
Investment grade	19,465	16,353
Non-investment grade	-	680
Non-rated	321	1,576
	19,786	18,609

The table above now includes covered bonds. As a result of this and a minor correction, the 2018 total is £1m higher than that reported last year.

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

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

The assets reported above include £0.795m (2018: £0.915m) related to the assets backing unit-linked insurance contracts. The holders of these contracts bear the credit risk arising from these assets.

Notes to the Financial Statements

The assets include those held in the with profits funds where the Society is able to transfer part of the credit risk arising from these assets to holders of with profits investment and insurance contracts to the extent that the future level of discretionary bonuses can be reduced to absorb any associated credit losses (as well as losses arising from all other financial risks).

Liquidity risk

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

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

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

Operational risks

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

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

5. Gross premiums written

	2019 £	2018 £
Income protection business - regular premiums	8,726,903	6,676,385
Life cover business - regular premiums	-	202,333
Gross premium written	8,726,903	6,878,718

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

6. Investment income and realised gain/(loss)

	2019 £	2018 £
Net rental gain/(loss) from investment properties	-	(3,583)
Income from Investments:		
Interest income (cash deposits)	46,009	57,034
Interest income (British government securities)	294,297	115,536
Interest income (other fixed interest securities)	116,673	393,023
Dividend income	378,424	410,948
	835,403	972,958
Gain/(loss) on realisation of investments	1,601,077	(262,750)
Investment income and realised gain/(loss)	2,436,480	710,208

7. Unrealised gain/(loss) on investments

	2019 £	2018 £
Investments at fair value through income:		
Unrealised gain/(loss) on investments	809,449	(2,142,405)

Notes to the Financial Statements

8. Claims incurred net of reinsurance

	2019 £	2018 £
Death claims paid	-	174,787
Reinsurers' share	-	(157,308)
	-	17,479
Sickness benefit	2,443,939	1,538,554
Reinsurers' share	(13,963)	(26,636)
	2,429,976	1,511,918
Unit-linked encashments	119,618	106,974
Withdrawals and maturities	2,095,456	1,951,960
	2,215,074	2,058,934
Claims incurred net of reinsurance	4,645,050	3,588,331

9. Technical provisions

	Unit Linked Liabilities £	Non-Unit Linked Liabilities £	Total 2019 £	Total 2018 £
Balance at 1 January	915,026	(19,976,965)	(19,061,939)	(2,339,224)
Movement	(119,618)	(22,349,723)	(22,469,341)	(16,722,715)
Balance at 31 December	795,408	(42,326,688)	(41,531,280)	(19,061,939)

[Note 3](#). Capital management and [note 4](#). Risk management and control provide supporting information regarding the valuation assumptions and approach to risk associated with the technical provisions.

10. Net operating expenses

	2019 £	2018 £
Acquisition expenses	10,234,103	8,327,174
Administrative expenses	2,353,469	2,204,784
Net operating expenses	12,587,572	10,531,958

Net operating expenses include the following:

Fees payable to the Society's auditor:		
Audit	130,167	73,300
Audit-related services	-	-
Other charges:		
Depreciation on tangible fixed assets	44,845	37,218
Operating lease rental charges	1,772	1,800

All fees are exclusive of VAT.

Notes to the Financial Statements

Employee benefits expense	2019 £	2018 £
People expenses:		
Salaries and wages	4,305,279	3,205,176
Social security costs	431,952	359,034
Pension costs	289,072	235,319
	5,026,303	3,799,529
Number of employees		
Board and senior management	9	10
Acquisition and Member contact	36	30
Administration	37	29
	82	69

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

Executive Directors

The Society has a Long Term Incentive Plan covering financial years 2017 – 2019. A payment is due if certain targets are achieved over this period. The plan is discretionary, and no award is considered until the end of the performance period. A similar plan has been introduced covering financial years 2018 – 2020 and 2019 – 2021.

Full details of the Directors' emoluments are contained in the Directors' Remuneration report on [pages 47 - 52](#).

11. Taxation

No tax is due in 2019 or 2018.

12. Fund for future appropriations

	General Reserve £	Life and Endowment £	Total 2019 £	Total 2018 £
Balance at 1 January	58,699,987	286,320	58,986,307	51,290,392
Transfer to/(from)	17,031,815	-	17,031,815	7,695,915
Balance at 31 December	75,731,802	286,320	76,018,122	58,986,307

Member balances	2019 £	2018 £
Balance as at 1 January	18,696,187	19,136,455
Apportionment of surplus	917,564	978,450
Compound bonus	347,437	356,607
Final bonus	212,509	176,634
Balance plus bonuses	20,173,697	20,648,146
Withdrawals	2,074,987	1,841,903
Forfeitures and lapses	20,469	110,056
Total withdrawals	2,095,456	1,951,959
Balance as at 31 December	18,078,241	18,696,187

Notes to the Financial Statements

13. Intangible assets

	Policy Administration System £	Computer Software £	Total 2019 £	Total 2018 £
Cost				
As at 1 January	1,358,675	89,417	1,448,092	561,396
Additions	1,399,419	70,794	1,470,213	1,136,715
Disposals	-	-	-	(250,019)
As at 31 December	2,758,094	160,211	2,918,305	1,448,092
Amortisation				
As at 1 January	-	18,261	18,261	81,232
Charge for year	-	25,206	25,206	9,839
Eliminated on disposals	-	-	-	(72,810)
As at 31 December	-	43,467	43,467	18,261
Net Book Value as at 31 December	2,758,094	116,744	2,874,838	1,429,831

14. Land and buildings

	2019 £	2018 £
Cost/Valuation		
As at 1 January	800,000	800,000
Increase in valuation	-	-
Disposals	-	-
As at 31 December	800,000	800,000

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

Notes to the Financial Statements

15. Other financial investments

Financial assets – fair value through income:

	Market Value 2019 £	Cost 2019 £	Market Value 2018 £	Cost 2018 £
Shares, other variable yield securities and unit trusts				
UK Listed	3,201,811	2,854,610	8,178,520	10,569,411
UK Unlisted	-	-	-	-
Overseas Listed	-	-	7,922,467	7,681,319
Debt securities and other fixed income securities	24,747,881	24,269,124	14,236,344	14,245,571
	27,949,692	27,123,734	30,337,331	32,496,301
Deposits with credit institutions				
	3,246,460	3,246,460	7,544,947	7,538,401
	31,196,152	30,370,194	37,882,278	40,034,702

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

16. Assets held to cover linked liabilities

Financial assets – fair value through income:

	Market Value 2019 £	Cost 2019 £	Market Value 2018 £	Cost 2018 £
Shares, other variable yield securities and unit trusts				
UK Listed	451,951	402,084	495,109	485,692
Debt securities and other fixed income securities	327,643	302,110	378,352	326,229
	779,594	704,194	873,461	811,921
Financial assets – at amortised cost:				
Deposits with credit institutions	15,814	15,814	41,565	41,565
	795,408	720,008	915,026	853,486

17. Debtors

	2019 £	2018 £
Accounts receivable	12,310	15,654
Amounts due from subsidiary	-	182,405
Other debtors	12,310	198,059

Notes to the Financial Statements

18. Tangible assets

	Office Equipment £	Computer Equipment £	Total 2019 £	Total 2018 £
Cost				
As at 1 January	128,808	84,725	213,533	202,409
Additions	1,353	44,892	46,245	11,124
Disposals	-	-	-	-
As at 31 December	130,161	129,617	259,778	213,533
Depreciation				
As at 1 January	47,833	23,779	71,612	34,394
Charge for year	33,833	11,012	44,845	37,218
Eliminated on disposals	-	-	-	-
As at 31 December	81,666	34,791	116,457	71,612
Net Book Value as at 31 December	48,495	94,826	143,321	141,921

19. Other creditors

	2019 £	2018 £
Other creditors including taxation and social security:		
Taxation and social security	103,952	95,917
Amounts due to retired Members	731,487	680,532
Amounts due to extra contributions	94,084	96,894
Other creditors	1,805,635	1,239,884
Other creditors including taxation and social security	2,735,158	2,113,227

20. Capital commitments

At 31 December 2019, the Society had no capital commitments (2018: nil)

Notes to the Financial Statements

21. Financial commitments

Non-cancellable operating commitments

	2019			2018		
	<1 year £	2 - 5 years £	> 5 years £	<1 year £	2 - 5 years £	> 5 years £
Operating lease commitments	2,790	1,715	-	1,772	2,215	-

22. 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.

23. Related parties

Details of the remuneration paid to Directors is provided in the Directors' Remuneration Report on [pages 47 - 52](#). Some Board members and senior management have policies with the Society and pay premiums on an arm's length basis. The total value of policies held by Directors and their families does not exceed £3,590. All transactions with related parties were undertaken at arm's length under commercial terms of business. There are no other related party transactions.

24. Actuary

Until 3 Oct 2019, the Chief Actuary and With Profits Actuary was Christopher Critchlow FIA of OAC plc. After this date, Sally Butters, FIA, also of OAC plc, assumed these roles. The Society has requested her to furnish it with the particulars required under Section 77 of the Friendly Societies Act 1992. Mr Critchlow and Mrs Butters have confirmed that neither they nor their families 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 £292,327 in 2019 (2018: £279,508).

25. 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.

26. Post Balance Sheet Events

The Coronavirus pandemic is generating significant global disruption. We have taken steps to limit the impact of coronavirus claims from new business and had already moved our assets significantly away from equities. Our Head office team is already substantially working from home. Due to the timing of the outbreak, we consider the impact of the pandemic to be a non-adjusting post balance sheet event and as such the year end 2019 numbers have not been adjusted.

We have modelled a pandemic scenario and tested the resulting financial position for the Society. The Directors are satisfied that the Society will be able to satisfy its regulatory requirements under this scenario. The Society is taking active measures to mitigate a range of risks arising from the pandemic.



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. Invitations are usually issued three to four weeks beforehand.

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

What the future holds

All through 2019 we've been working on building new systems and developing new services that will help provide our Members with a better support and offer more people the opportunity to protect their income like you.

Into 2020 and beyond we will continue investing in new systems, training our colleagues and improving the service we offer so we can continue to always be there when you, our Members need us the most and help keep lives colourful.