

ISSUED
31 July 2013

COMPANY PROFILE	&	FINANCIAL STRENGTH
R	E	P
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Holloway Friendly

AKG

Accessible - Comparative - Independent

Analysis by AKG Actuaries & Consultants Ltd

Background

AKG's Company Profile & Financial Strength Reports are designed to meet the information needs of advisers in assessing the relative strengths of UK long term Insurers/Providers. Two different styles of report are published by AKG - FULL reports and SHORT reports. A FULL report is produced for each of the leading Provider companies in the market, which participate in the production of the reports. For each remaining Provider company which is covered, a SHORT report is produced.

This is a SHORT report.

Each report collates relevant information from a range of sources such as a company's returns to the FSA, its Report & Accounts and material provided by the companies themselves, and incorporates expert independent assessment. For FULL report companies, the process is augmented by regular meetings and other communications with AKG.

PLEASE NOTE: This report should be read in conjunction with AKG's User Guide to AKG's Company Profile & Financial Strength Reports, a copy of which is available on-line at www.akg.co.uk.

About AKG

AKG is an actuarially based consultancy specialising in the provision of ratings, information and market assistance to the financial services industry.

Assistance to Provider Companies

AKG assists Providers in: Financial Strength analysis, ratings and presentation, Data and information provision, Actuarial consultancy, Distribution consultancy.

Assistance to Financial Intermediaries

AKG assists intermediaries in: Financial Strength analysis, Best Advice panel services, Data and information provision, Actuarial and technical support.

Regular Reports

AKG publishes the following additional reports to assist Providers and Intermediaries:

AKG Offshore Profile & Financial Strength Reports - covering offshore life assurance companies.

AKG Platform Profile & Financial Strength Reports - covering platform operations.

AKG UK Life Office With Profits Reports - providing further depth in the assessment of with profits funds.

AKG Offshore Life Office With Profits Bond Report - providing further depth in the assessment of offshore with profits bonds.

For further details, please contact AKG: Tel: +44 (0)1306 876439 or email akg@akg.co.uk

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The report contains assessment based on available information at the date as shown on the report's cover and in its page footer. This includes prior regulatory data which may have an earlier date associated with it, but the report also takes into account all relevant events and information, available to and considered by AKG, which have occurred prior to this stated cover and footer date. Events and information subsequent to this date are not covered within it, but AKG continually monitors and reviews such events and information and where individually or in aggregate such events or information give rise to rating revision an updated report under an updated date is issued as soon as possible.

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Corporate Data

Ownership	Mutual
Open to New Business?	Yes
Year Established	1880
Head Office	Holloway House 71 Eastgate Street Gloucester GL1 1PW
Tel:	0800 716654
Fax:	01452 386859

Administration Office As above

Website - Consumer www.holloway.co.uk/members

Website - IFA www.holloway.co.uk/intermediaries

Key Personnel

Chairman	I G Gardner
Vice Chairman	M J Mathews
Chief Executive	M C Collins
Sales & Marketing Director	M C Manser
Senior Independent Director	K C M Wiltshire
Non Executive Director	M J Day
Non Executive Director	K P Griffin
Non Executive Director	J E Holland
Non Executive Director	C A Organ
Non Executive Director	R J W Perks
Head of Actuarial Function & With Profits Actuary	C N Critchlow (OAC)

Company Background

The Original Holloway Friendly Society Ltd was formed in 1968 from the merger of two well-established Holloway friendly societies, the Stroud Holloway Original Benefit Society and the Gloucester & West of England Holloway Society.

The first 'Holloway' friendly society was established in Stroud in 1875, and was called the Stroud and Mid Gloucester Working Man's Conservative Association's Sick Benefit Society. It was based on a scheme devised by George Holloway, MP for Stroud, and represented a new kind of friendly society which aimed to provide its members not only with a sum of money during sickness, temporary disablement or for relatives at death, but also to provide a lump sum payable at retirement age. The Stroud society became a model for similar benefit societies, many of which were established in the West Country and by the end of 1924 there were 42 'Holloway' Societies in existence.

The Society is now a specialist provider of income protection insurance, having transferred its Life and Endowment fund to Nottingham Friendly Society in 2004.

Overall Financial Strength

B-

The Society is very small and continues to struggle to grow its income and member numbers. Whilst new business volumes improved further in 2012, membership numbers and premium income continued to decline, albeit at a much slower rate. 2012 saw solvency improve due to investment performance more than offsetting increased claims and expenses. The Society appears to function reasonably well within its chosen niche but it remains difficult to see how it can grow organically to a more reasonable size, a feature that the Society has in common with a number of its peers.

Key Financial Data (for y/e: 31/12/12)

Long Term Business Admissible Assets	2010 £000's	2011 £000's	2012 £000's
Fixed Interest	9,762	10,913	12,000
Equities	10,665	10,372	13,869
Property	1,042	1,019	1,111
Linked	2,032	1,727	1,595
Other	18,583	19,394	16,600
Total Assets	42,084	43,425	45,175

Free Assets	2010 £000's	2011 £000's	2012 £000's
Free Assets (Exc Fin Eng)	9,983	11,267	12,930
Financial Engineering	0	0	0
Free Assets (Published)	9,983	11,267	12,930

Free Asset Ratios	2010 %	2011 %	2012 %
FAR (Exc Fin Eng)	23.7	25.9	28.6
FAR (Published)	23.7	25.9	28.6

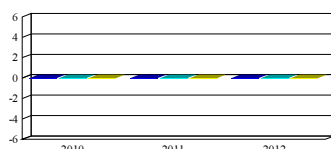
CRR Coverage Ratios	2010 %	2011 %	2012 %
CRRCR (Exc Fin Eng)	537.9	591.6	677.7
CRRCR (Published)	537.9	591.6	677.7

Long Term Business Liabilities & Margins	2010 £000's	2011 £000's	2012 £000's
Non Linked Non Profit	0	0	250
Non Linked With Profits	7,614	8,441	9,016
Accum'l'g With Profits	19,016	18,612	18,072
Linked	2,039	1,731	1,597
Surplus c/f	-303	-472	-494
Other liabilities	1,152	1,082	1,072
Investment Reserves	12,566	14,031	15,662
Total Liabilities/Margins	42,084	43,425	45,175

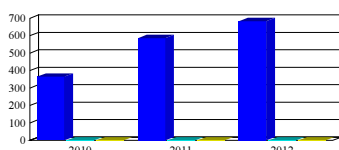
Expense Ratios	2010	2011	2012
New business (% APE)	220.3	118.1	119.8
Renewal (% reg premiums)	16.4	16.4	18.2
Renewal (% p.a. of mean fund)	2.00	1.88	1.99

New Business Data (for y/e: 31/12/12)

New Single Premiums	2010 £000's	2011 £000's	2012 £000's
UK Life	0	0	0
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	0	0	0
Growth Rate			
Reins Accepted (Intra-Group)	0	0	0



New Regular Premiums	2010 £000's	2011 £000's	2012 £000's
UK Life	365	586	683
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	365	586	683
Growth Rate	-21.5%	60.5%	16.6%
Reins Accepted (Intra-Group)	0	0	0



Distribution

Method

The Society distributes both direct (including tele-interviewing introduced in 2010) and via intermediaries. Commission is paid to intermediaries and is increased by 5% for business submitted on-line. 2012 saw the Society join the Assureweb portal where advisers can now quote for the Purely IP product.

Image and Strategy

The strategy of seeking to maintain innovation within its offering of niche friendly society products through intermediary distribution (in challenging market conditions) looks set to continue with the Society remaining focussed mainly on the income protection market.

Resources and opportunities for significant positive strategic change currently appear limited.

Products

Overall Product Philosophy

The Society's core business is income protection insurance written on a Holloway style with profits basis, issued under the Classic brand. Policies are available either on a Day One basis or with a deferred period. It also offered ten year tax free savings plans until the end of 2006. The Society also issues non Holloway business i.e. without an investment element, launching Purely IP in early 2011, enhanced in September 2011 by the introduction of Purely Day One. Purely DB, also launched in 2011 offers a choice of either a one or five year benefit payment period, whilst the Commuted Plan is an investment only contract that provides a tax free cash sum at or after retirement.

Service

Approach

The Society has introduced e-business processing through its website, with quotations, applications, new business tracking and commission tracking. Enhanced commission is payable on cases submitted online. Early 2010 saw the Society introduce telephone interviewing as an alternative to completion of an application form. The Society launched a new website in the middle of 2011 and in June 2012 Purely IP was available through the Assureweb portal.

It was awarded 5 stars for online service by FTAdviser.com in its 2011 awards.

Investment

Overall Approach

Investment management is currently outsourced to Investec Wealth and Investment Ltd, Tilney Investment Management (part of Deutsche Bank since 2006) and Royal London Cash Management.

Funds Under Management

The Society saw funds under management increase during 2012, to £45m by the year end [2011: £43m].

Annual Review

2012 saw a continued increase in new business volumes, with the Society writing 1,268 new policies [2011: 934; 2010: 448]. Unfortunately this was against the background of yet a further fall in earned premiums and membership numbers, albeit marginal, with premiums down 1.1% [2011: 3.7% down] and membership numbers down 0.2% [2011: 3.8% down], to 12,827. The Society has stated that it expects to see positive membership growth in 2013.

Premiums exceeded claims, notwithstanding marginally lower premiums and a slight rise in claim payments (higher disability claims outweighing a fall in maturities, and surrenders unchanged), and solvency levels improved. Overall expenses (including commissions) increased by 13.7% reflecting both increased acquisition expenses and maintenance expenses. The Fund for Future Appropriations increased by £2m to £16.9m. Bonuses were generally maintained, with some increases for Classic members.

Financial Strength Ratings

The aim of AKG's financial strength ratings is to assist IFAs and others to assess the relative strengths of individual provider companies. AKG's concept of 'financial strength' starts with the fundamental issue of a company's ability to meet all of its guaranteed payments to policyholders, but extends beyond this by aiming to factor in the degree to which a policyholder's expectations are likely to be met - or even exceeded - in the long-term. For performance-related products, where the eventual return generally depends largely upon a company's success in consistently delivering superior investment performance, and in containing expense charges, a company's ability to meet expectations is likely to be heavily dependent upon whether or not it is able to sustain its operations in the relevant market, and whether or not it can maintain, or improve, its competitive position.

As a result, AKG believes that, ideally, the evaluation of 'financial strength' should depend upon the type of product under consideration. A particular company may be judged as very strong in the context of one particular product line, but it may be weaker in another context. An illustration of this concept is a company that currently only markets unit linked business, but which has a very small closed block of with profits business, written many years ago. Such a company may be judged as 'good' for unit linked business, whilst considered 'poor' in respect of with profits business.

Since the inception of AKG's Company Profiles and Financial Strength Reports, AKG has consistently promoted and developed the concept of providing financial strength ratings separately for each of the three major product categories - With Profits, Non Profit and Unit Linked, and these are included in FULL report assessments.

All AKG's financial strength ratings should be used with care, since even the more detailed approach described above represents something of a simplification. AKG assesses financial strength using consistent methodology and objective measures wherever possible, and based on the detailed analysis of the company's particular strengths and weaknesses. The objectives and criteria for the overall financial strength rating are summarised below:

Overall Financial Strength Rating

The objective is to provide a simple broad-brush indication of the general financial strength of a company. In addition to an assessment of the company's ability to meet all of its guaranteed payments to policyholders, AKG also aims to factor in the degree to which policyholders' expectations are likely to be met - or even exceeded - in the long-term. This involves an assessment of a company's ability to survive in its current form for the long term. The overall rating inherently reflects the mix of business in-force within the company, since different types of policyholder have different expectations, and the company's particular strengths and weaknesses in respect of its key product areas.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital base and free asset position, with profits realistic balance sheet position, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), typical fund performance achievements, and image and strategy.

A	Superior
B+	Very strong
B	Strong
B-	Satisfactory
C	Weak
D	Very Weak



AKG Actuaries & Consultants Ltd
Anderton House, 92 South Street
Dorking, Surrey RH4 2EW

Tel No: +44 (0) 1306 876439
Fax No: +44 (0) 1306 885325

e-mail: akg@akg.co.uk

www.akg.co.uk

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