

ISSUED
28 July 2015

COMPANY PROFILE	&	FINANCIAL STRENGTH
R E P O R T S		

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 PRA, 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.

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

Company Type	Life Friendly Society
Ownership	Mutual
Open to New Business?	Yes
Year Established	1880
Head Office	Holloway House 71 Eastgate Street Gloucester GL1 1PW
Tel:	01452 526238
Website	www.holloway.co.uk

Key Personnel

Chairman	M J Day
Vice Chairman	M J Matthews
Chief Executive	M C Collins
Sales & Marketing Director	M C Crompton- Manser
Senior Independent Director	K C M Wiltshire
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 plc)

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

2013 saw it establish a new subsidiary, HF Life Ltd, to act as an Appointed Representative, trading as Optimal Protection. Marketing group risk and business protection insurance through the intermediary market, Optimal Protection was launched in March 2014, initially providing Group Life insurance.

Overall Financial Strength

B-

Whilst the Society remains very small, 2014 saw it grow its premium income and its membership, despite a drop in new business volumes and also improve its solvency. It will need to maintain momentum whilst controlling its expenses, which increased in 2014.

Its diversification strategy, to enter the group risk market, is a brave one, albeit it does so under the wings of a major reinsurer. It remains to be seen how this will play out given the nature of that market.

Key Financial Data

(for y/e: 31/12/14)

Long Term Business Admissible Assets	2012 £000's	2013 £000's	2014 £000's
Fixed Interest	12,000	11,264	12,832
Equities	13,869	15,713	15,147
Property	1,111	1,250	1,324
Linked	1,595	1,463	1,339
Other	16,600	17,578	17,630
Total Assets	45,175	47,268	48,272

LT Free Assets	2012 £000's	2013 £000's	2014 £000's
Available Capital Resources	15,168	17,964	19,153
Capital Resources Req't (CRR)	2,238	2,359	2,176
Free Assets (Published)	12,930	15,605	16,977
Financial Engineering	0	0	0
Free Assets (Exc Fin Eng)	12,930	15,605	16,977

LT Free Asset Ratios	2012 %	2013 %	2014 %
FAR (Published)	28.6	33.0	35.2
FAR (Exc Fin Eng)	28.6	33.0	35.2

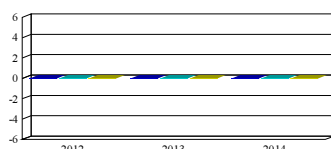
LT CRR Coverage Ratios	2012 %	2013 %	2014 %
CRRCR (Published)	677.7	761.5	880.2
CRRCR (Exc Fin Eng)	677.7	761.5	880.2

Long Term Business Liabilities & Margins	2012 £000's	2013 £000's	2014 £000's
Non Linked Non Profit	250	292	944
Non Linked With Profits	9,016	8,409	7,891
Accum'l'g With Profits	18,072	17,918	17,771
Linked	1,597	1,465	1,339
Surplus c/f	-494	-642	-639
Other liabilities	1,072	1,219	1,173
Investment Reserves	15,662	18,606	19,792
Total Liabilities/Margins	45,175	47,268	48,272

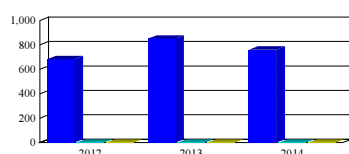
Expense Ratios	2012	2013	2014
New business (% APE)	119.8	131.8	165.1
Renewal (% reg premiums)	18.2	20.2	18.8
Renewal (% p.a. of mean fund)	1.99	2.19	2.11

New Business Data (for y/e: 31/12/14)

New Single Premiums	2012 £000's	2013 £000's	2014 £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	2012 £000's	2013 £000's	2014 £000's
UK Life	683	852	762
UK Pensions	0	0	0
Overseas	0	0	0
Total (Direct + External Reins)	683	852	762
Growth Rate	16.6%	24.7%	-10.6%
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

Whilst maintaining its strategy of seeking to continue innovation within its offering of niche friendly society products through intermediary distribution in the income protection space, 2014 saw it implement a significant diversification with its launch of Optimal Protection. Initially focussing on group life, the Society is planning to offer other employee benefits coverages as well as business protection insurance. Established with a completely new team at a separate location it remains to be seen how this small player will fare in the price sensitive and crowded group risk market. Reinsurance support is provided by Gen Re.

Products/Proposition

Overall Product Philosophy

The Society's core business has been 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. The Society entered the group risk market in 2014 through its Optimal Protection brand. The Society plans to introduce a number of new products in 2015 with the first of these, a Breast Cancer Critical Illness plan, being launched in February 2015.

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. The Society was awarded 5 stars for online service by FTAdviser.com in its 2011 awards. Servicing for Optimal Protection is at a separate location in Birmingham.

Investment

Overall Approach

Investment management is currently outsourced to Investec Wealth and Investment Ltd, Deutsche Asset & Wealth Management and Royal London Asset Management.

Funds Under Management

The Society's total funds increased by £1.6m in 2014 to £50.1m. Amounts due to members at 31 December 2014 totalled £19.4m with £6.3m being held in reserves and a balance of £21.9m in the Fund for Future Appropriations.

Annual Review

2014 saw new business volumes reduce, against a backdrop of recent increases, with the Society writing 1,510 new policies [2013: 1,737; 2012: 1,268]. This Society was still able to report an increase in earned premiums, up 5.9% to £5.2m, and a net increase in membership, up 2.5% to 13,661 - a second year of increases coming after a number of years of decline. Premiums exceeded claims, which at £2.8m, fell by 2.6% from the previous year. Expenses increased by 6% to £2.3m, reflecting increased acquisition costs, despite lower new business volumes, as the Society continued to invest in new business initiatives, including HF Life. Administrative expenses fell slightly. Solvency improved and the Fund for Future Appropriations increased by £1.8m to £21.9m. Bonuses were again generally maintained, with some increases to Terminal Bonuses. The Society continued working towards the creation of a Mutual Members Fund to ensure the fair and equitable distribution of profits to members who do not have a with profits policy, although the process, which includes dialogue with the regulator, is taking longer than anticipated.

Financial Strength Ratings

The aim of AKG's financial strength ratings is to assist advisers 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



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