pg mutual
income protection plus

Annual Report and Financial Statements

For the Financial Year ended 31 December 2016

Contents

Terms and Definitions

Throughout the reports the terms and abbreviations listed below will be defined as follows unless stated otherwise:

“**ACGC**”	Annotated UK Corporate Governance Code
“**AFH**”	Actuarial Function Holder
“**AFS**”	Association of Friendly Societies
“**AGM**”	Annual General Meeting of the Society
“**ARC**”	Audit and Risk Committee of the Board
“**Board**”	The Board of Directors of the Society
“**Commuted**”	An investment only Holloway policy
“**FCA**”	Financial Conduct Authority
“**FFA**”	Fund for Future Appropriations
“**FOS**”	Financial Ombudsman Service
“**Holloway**”	An income protection insurance and investment product
“**IC**”	Investment Committee of the Board
“**ICA**”	Holloway policyholders’ Individual Capital Accounts
“**IFA**”	Independent Financial Advisor
“**IPRU (FSOC)**”	Interim Prudential Sourcebook for Friendly Societies
“**KPI**”	Key Performance Indicators
“**LPC**”	Local Pharmaceutical Committee
“**LTBP**”	Long-Term Business Provision
“**MCM**”	Minimum Capital Margin
“**NPA**”	National Pharmacy Association
“**PGMS**”	P&G Insurance Services Limited, trading as PG Mutual Services
“**PRA**”	Prudential Regulation Authority
“**PSNC**”	Pharmaceutical Services Negotiating Committee
“**RNC**”	Remuneration and Nomination Committee of the Board
“**Rules**”	The Rules of the Society
“**RPSGB**”	Royal Pharmaceutical Society of Great Britain
“**Secretary**”	Secretary of the Society
“**SID**”	Senior Independent Director of the Board
“SMT”	Senior Management Team
“**Society**”	Pharmaceutical and General Provident Society Limited, trading as PG Mutual
“**WPA**”	With-Profits Actuary

Society Information

Board of Directors

S C Whale, BA (Hons)	Chairman
J G Warner, BSc (Hons), FRPharmS, MRI, FRSPH	Vice-Chairman and Senior Independent Director
M Dreaper, BSc (Hons), ACMA, CGMA	Independent Director
M Davies, BSc (Hons), FIA	Independent Director
G Exton, LL.B (Hons), ACII	Independent Director
M Perry	Chief Executive Officer
D J McFarlane, FCCA	Financial Director (*appointed as a director from the 1 January 2017)*

Officers

M Perry	Chief Executive Officer
D J McFarlane, FCCA	Financial Officer
A D Bowater, LL.B (Hons), CCIBS, MICA	Secretary of the Society

Registered Office

Pharmaceutical and General, 11 Parkway, Porters Wood, St Albans, AL3 6PA

Independent Advisors and Consultants

Actuaries	Steve Dixon Associates LLP, Epsom
Auditor (Independent)	Moore Stephens, Bath, Somerset
Auditor (Internal)	Gateway Assure, Bailey Drive, Gillingham
Bankers	HSBC PLC, St Albans, Hertfordshire
Compliance Services	Haven Risk Management, Chipping Campden
Fund Managers	UBS SA, Geneva, Switzerland
	European Wealth, London
	RLAM, London
Medical Consultant	Dr M Allen, MA, MBBS, MRCP, MRCGP, St Albans

Strategic Report

Chairman's Review of 2016

I am pleased to report that 2016 was a successful year for the Society. Our membership and premium income grew and our balance sheet strengthened further, aided by buoyancy in the financial markets. This reflects two objectives that governed our approach in 2016. First, the successful implementation of a fresh strategy to bring the Society's income protection product to the attention of new audiences and to ensure our existing members obtain good value and a first-class service from their membership. Second, the prudent management of our assets. These objectives will continue to guide the Society's approach in 2017 and beyond.

Our membership grew by 5% to 3,736 (2015: 3,555) and our premium income increased by 5% to £3,047,599 (2015: £2,892,812). Our balance sheet grew by 8% to £40,850,820 (2015: £37,844,072).

These are positive results. Your board is, however, far from complacent. There are uncertainties following the UK's referendum on leaving the European Union and political events elsewhere around the world, not least in the US, which may yet negatively affect the markets in which the Society holds investments.

With that in mind, the Board has reviewed its investment risk appetite and is confident that the Society has the necessary capital strength and contingency plans in place to withstand the potential turbulence that could arise from those uncertainties.

After a realistic valuation of the Society's performance, and after taking into consideration the advice of our actuarial consultants, I am pleased to inform you that we can declare an apportionment of 3% interest to all members' capital accounts and a bonus-per-share of £3.00 for 2016. This increased distribution is a further reflection of your Society's strong standing.

At the AGM scheduled for the 25 May 2017, I will be standing for re-election in addition to Matthew Dreaper, who will be standing for his second term on the Board. The Board recommends that members re-elect us both at the AGM. I confirm that this recommendation has been made following performance appraisals of all directors carried out by myself as Chairman. My own appraisal was carried out by Gary Warner in his capacity as Senior Independent Director, who consulted with his fellow non-executive directors beforehand.

I am pleased to report that at the end of 2016 the Board agreed to appoint Debbie McFarlane as finance director, and she joins the Board with effect from 1 January 2017. We look forward to her contribution as a Board member.

Mike Davies has informed the Board that due to a change in his circumstances he is not able to stand for re-election at the AGM. On behalf of the Board, I would like to thank Mike Davies for his excellent contribution since joining us in 2014. The Remuneration and Nominations Committee will lead the search for a suitable candidate.

I would like to take this opportunity to thank the Society's staff for all their good work in 2016, and to express my gratitude to my fellow directors for their input. Above all, I wish to thank you, our members, for your continued support of the Society.

Chief Executive Officer's Review of 2016

2016 saw the Society achieve a premium income in excess of £3,000,000 for the first time in its history, and we are very proud to have achieved this landmark while continuing to see our membership grow and our claims eligibility rate remain above 97% of all claims received. We are delighted that this success has enabled the Board to increase the bonus distribution to members for 2016 to £3.00 per share (2015: £2.00 per share).

At the heart of our success in 2016 was the launch of our refreshed "Income Protection Plus" product. This product is an enhanced version of the Society's traditional Holloway product that forms part of our ongoing efforts to improve our service, our cover and with it, the value of PG Mutual membership.

To support the launch of Income Protection Plus, we refreshed our brand and product materials, updated our website and entered into our first national sports sponsorship with Table Tennis England.

Strategic Report (continued)

The investment necessary to achieve our 2016 objectives saw management costs increase by 11% to £1,247,792 (2015: £1,127,288). However, this increase was more than offset by a 13% fall in claims incurred expenses to £892,555 (2015: £1,030,135).

I would like to record my gratitude to the Society's staff and Senior Management Team for their significant contribution to making 2016 such a successful year for the Society, and to the Board for their constructive input throughout. However, we are most grateful to our members whose support is critical to everything we are trying to accomplish, and to our partners for their promotion of our Income Protection Plus product to their members.

Looking ahead, our priority is to build on 2016's progress. During the course of 2017 we will look to launch our Society's new logo and the next stage of "Plus" features to our Income Protection Plus service. This will involve new product cover options and even more paper-based forms being adapted to enable members to complete them through their Member Area on our website.

The Board is confident that these initiatives will enable the Society to maintain our recent progress and to take advantage of new opportunities to grow our membership. A larger membership will bring with it an increased earned premium income, which will in turn make the Society even stronger and better placed to deliver additional benefits to you.

General Business Review

1. Business Permissions and Market Influences

The Society is an incorporated friendly society, authorised and regulated by the PRA and the FCA for long-term investment and insurance business in the UK, and is limited by its memorandum to providing among other things permanent health insurance, life assurance, pensions, and annuities.

All the business activities of the Society and its subsidiary, PGMS, during the last financial year have been carried out within their respective memorandums and the permissions granted to them by the relevant regulatory authorities.

The Society promotes Holloway within the UK only and due to the nature of both the policy and its customers, the Board has typically found that fluctuations in the macroeconomic environment have only a limited impact on the Society's sales activities.

2. Purpose, Business Model and Strategic Objectives

The Society's purpose is the provision of Holloway policies to UK based professionals. Holloway policies provide comprehensive income protection alongside a long-term investment designed to provide a lump-sum payment upon a member's retirement. The Society generates value for its members by providing a diligent and personable service to complement its Holloway product, and by managing the Society's affairs in a manner that generates annual interest and bonuses to members' ICAs at a level that meets or exceeds the reasonable expectations of those members.

There are two pillars to the Board's strategy to deliver value to policyholders: (1) ensure an appropriate proportion of policyholders' funds are invested in assets with sound long-term yield prospects; and (2) grow the Society's Holloway fund and premium income, gradually diminishing the operating costs of the Society as a proportion of premium income.

3. Key Business Performance Indicators

The Board evaluates the investment strand of its strategy by carefully monitoring the Society's FFA and MCM, the asset mix of the investment portfolio, and the performance of the investment portfolio. When considering the commercial performance of the Society, the Board focuses on the net growth of the Holloway fund and its earned premium income.

Investment KPI's

As the Society's Holloway fund aims to provide a lump sum payment to policyholders in their policy retirement years the Board looks to ensure that an appropriate proportion of the Society's investment portfolio is held in asset classes with good prospects for long-term yields, while ensuring sufficient funds are on hand to meet the short-term cash-flow requirements of the Society. The IC monitors the adequacy of the asset mix on behalf of the Board on a regular basis and will make adjustments where it is considered appropriate in the context of the Board's investment strategy.

Strategic Report (continued)

Investments	2016 (£)	2016 %	2015 (£)	2015 %
Shares and Other Variable Yield Securities	17,222,422	44	15,845,947	44
Debt and Other Fixed Income Securities	18,912,842	48	11,935,287	33
Deposits with Credit Institutions	2,955,005	7	8,130,647	22
Investment in Subsidiary and Other	421,426	1	293,796	1
Total	**39,511,695**	**100**	**36,205,677**	**100**

The Society's total investment portfolio increased by £3,305,568 to £39,511,245 by the end of 2016 (2015: £36,205,677). Financial market confidence was the most significant contributory factor to this result, with the value of the Society's equity investments increasing by 9%, but the Society also benefited from the Board's decision to move more of its deposit investments into fixed income investments.

Investment income reached £1,236,977 in 2016, a fall of £807,651 from 2015 (£2,044,628). However, this fall is primarily due to the Society achieving £759,665 in realised gains on the sale of assets during 2015 compared with £71,696 in 2016.

From a capital management perspective, during the year the Society increased its capital strength. As of 31 December 2015 the Society's MCM was £1,251,906 (2015: £1,292,187) and the FFA was £18,003,078 (2015: £14,466,964).

Commercial KPI's

The Society achieved a net growth in Holloway policies of 181 in 2016 (2015: 83). The Board is pleased that the Society continues to show consistent, stable growth in its membership. This progressive growth in membership has enabled the Society to increase its premium income by £154,787 to £3,047,599 in 2016 (2015: £2,892,812), and its premium surplus (premium income less management expenses and claims incurred) by £171,863 to £907,252 (2015: £735,389).

Overall, the Board is encouraged by the progressive growth of the Society's premium income and membership portfolio and therefore retains its confidence in the Society's current strategy.

4. Principal Business Risks and Uncertainties

The key risks the Society is exposed to are market risk, insurance risk, operational risk, environment risk, reputational risk and regulatory risk. The Board ensures that a thorough assessment of the risks the Society's strategy and activities exposes is undertaken at regular intervals, and then manages these risks within a framework of controls that aim to avoid, mitigate or transfer them.

Market Risk

The Society's exposure to market risks arises from its investment activities and includes:

- *Volatility Risk:* this risk arises from fluctuations in the values of, or income from, the Society's assets. As Holloway is a long-term policy the Board looks to ensure that its risk appetite allows for an appropriate level of exposure to equities given their long-term yield prospects. The Society manages its exposure to volatility risk by focusing on high investment grade equities, and by ensuring the overall portfolio is balanced with less volatile asset classes. The Board ensures that it has procedures in place to protect the Society's financial strength against significant fluctuations in the market value of its assets;

- *Credit Risk*: this is the risk that one or more counterparties default on their obligations to the Society, disrupting the Society's cash-flow and potentially the loss of the Society's capital investment. The Society's credit risk exposure arises from financial transactions with fund managers and short term depositors. The Board manages its credit risk exposure by ensuring that all counterparties have sound credit ratings, by holding investments in segregated client funds, and by maintaining a diversified portfolio of investments which reduces the potential impact of any one credit event.

Strategic Report (continued)

- *Liquidity Risk*: this is the risk that cash may not be available to for the Society to meet its obligations when due at a reasonable cost. The Board arranges the Society's short-term investments to ensure sufficient funds are available to meet the liabilities and management costs of the Society, such as new business costs, planned strategic activities, Member withdrawals, and claim payments. To manage liquidity risk the Board maintains substantial funds in low risk short-call deposit accounts and arranges short-term fixed interest deposits in a spread that ensures these funds mature at reasonable intervals.

- *Interest Rate Risk*: this risk is the potential for loss on the value of fixed interest rate investments arising from changes in interest rates. The Society is exposed to interest rate risk to the extent that it currently holds much of its fixed rate investments by way of short term deposits and corporate bonds. In recent years this has been more advantageous than holding longer term, government issued securities. The economic climate remains a concern and further changes to the Society's asset allocation will be made if the Board determines it appropriate to do so.

- *Foreign Exchange Risk*: this risk arises from the Society's exposure to overseas investments and the potential for loss due to unanticipated changes in exchange rates. The Society hedges all Euro denominated holdings back to Sterling on a rolling monthly basis and limits its exposure to other currencies under 2% of the equity portfolio, which effectively manages this risk.

Insurance Risk

Insurance risk arises from the inherent uncertainties as to the occurrence, amount and duration of the Society's income protection insurance liabilities. The Society manages insurance risk by following underwriting policies that take into account the risk the Society is prepared to accept, maintaining a structured approach to product development and pricing, and undertaking an annual analysis of our claims experience.

When valuing the Society's insurance liabilities, our actuaries take a prudent view of future sickness rates, mortality experience, investment performance and future bonus distributions. The Board is confident that the Society can withstand any reasonably foreseeable insurance risk events without compromising the solvency of the Society.

Operational Risk

Operational risks are those that arise from inadequate or failed internal processes, people and systems or from external events. This area therefore captures a broad range of potential risks such as IT, human resources and governance arrangements.

Operational risks are recorded and monitored regularly by the Board and SMT, and the Board engages an internal audit service to provide an independent view of how effectively such risks are being identified and controlled.

Reputation Risk

Reputation risk is the threat to the Society from its brand or product being publicly damaged by an adverse event or circumstances.

The Board regularly monitors its governance arrangements and the Holloway product to ensure the behaviour and service of the Society is ethical and carried out in the best interests of our members. All promotional materials are compliance approved using an independent compliance service, Haven Risk Management, and the Society ensures that appropriate due diligence is undertaken before associating the Society's brand with those of other firms.

5. KPIs Summary and Future Outlook

The Board is pleased with the Society's performance in 2016 and remains confident that its strategy and business model will deliver value for our members. The Society's Holloway fund continues to grow steadily and the overall financial position remains robust. The Board will continue to carry out regular reviews of its strategy.

Strategic Report (continued)

Approval of the Strategic Report

This report is approved unanimously by the Board.

Simon Whale,
Chairman of the Board, 30 March 2017

Mike Perry,
Chief Executive Officer, 30 March 2017

Corporate Governance Report

Compliance with the ACGC

The Board has sought to integrate the best practice standards of the ACGC into its governance arrangements for the Society in full. However, during the last financial year the Society departed from ACGC guidance on the following points:

1. The Chairman of the Board did not meet the ACGC criteria for 'independence' upon first appointment because he had been a non-executive director of the Society for more than nine years at the time of his appointment. The Board believes this departure from the governance code to be reasonable given the experience and expertise of the Chairman, and note that the rest of the non-executive directors do meet the independence criteria. All directors who have served more than nine years are required to stand for re-election at every AGM.

2. The Board has not established a dedicated member's forum to facilitate member feedback on the Society's strategy and corporate governance arrangements. Given the current size and scale of the Society, the Board believes that the AGM remains an appropriate forum to allow policyholders the opportunity to meet all the Society's directors and senior officers, including the Chairman, Chief Executive Officer, SID and the Chairmen of the Board Committees.

How the Board Operates

The Board is responsible for the direction and management of the Society and comprises five non-executive directors and, from 1 January 2017, two executive directors, led by the Chairman and Vice-Chairman. The Board is responsible, among other things, for the following:

- The Society's business model and strategy;
- Ensuring adequate resources are in place to ensure the proper management of the Society's activities and the viability of its strategy;
- The solvency and financial strength of the Society; and
- The governance and risk controls of the Society.

To ensure the Society operates efficiently the Board delegates a number of its authorities, discretions, duties and powers to the senior management team of the Society. For example, decisions with regards to the admission of new policyholders; admission of applications for increases in income protection cover; applications for Commuted status; and decisions with respect to the eligibility of claims for income protection benefit are delegated to the Society's senior management. To ensure it can appropriately direct and oversee the activities of the Society, the Board has a balance of skills and experience relevant to its responsibilities such as audit, communications, finance, marketing etc.

In 2016 the Board met on five occasions, spread over ten days, in addition to other work undertaken between meetings. The Board reviews its meeting arrangements on a regular basis and will vary the number of meetings necessary to strike the most appropriate balance between the need for the Board to properly direct the Society's business and monitor operational activities with the need to properly control costs. Additional meetings can be held on an ad hoc basis if necessary. The Board will continue to review the adequacy of its meeting arrangements on an annual basis.

Each director is entitled to directly request for the Secretary to arrange for external expert advice at the Society's expense if they believe it is appropriate to seek such advice.

Board Performance Evaluation

The Board is committed to ensuring that the performance of individual directors is properly assessed on an annual basis. The Chairman is responsible for evaluating the performance of the non-executive directors and the Chief Executive Officer. The Chairman is appraised by the SID after receiving feedback from the other directors.

Corporate Governance Report (continued)

The Independence of Non-Executive Directors

The Board determine the Chairman to have been the only non-executive director who did not meet the criteria for independence under the ACGC during 2016 as he had each served more than nine years on the Board. The rules of the Society require directors who have completed three terms on the Board to stand for re-election annually.

Election and Re-Election of Directors

All directors appointed to vacancies by the Board are required to stand for election at the next AGM of the Society. Once elected to the Board, directors are required to stand for re-election every three years until they complete nine years. If a director continues to serve on the Board after nine years, they are required to stand for re-election on an annual basis.

The ACGC includes a best practice standard that all directors should be subject to annual re-election by policyholders unless they are a small company (average assets of less than £100 million over 3 years; average gross premium income of less than £20 million over 3 years). The Board has considered this matter and is satisfied that the Society is a small company for this purpose, but will keep this matter under review.

Board Committees

There are three Board Committees: the RNC; the ARC; and the IC.

The IC was established by the Board to manage the Society's investment strategy on its behalf. It is delegated the responsibility of monitoring the performance of the Society's investments, the asset mix of its investment portfolio, and the adequacy of the Society's free capital levels. The IC conducts these activities within the investment strategy and risk appetite set by the Board.

The RNC is responsible for making recommendations to the Board in respect to any vacancies arising on the Board or in the executive management team, and in respect to policies for the remuneration of non-executive directors and executive officers. When undertaking its recruitment responsibilities, the RNC first identifies the skills and experience that the appointee will need in order to achieve the balance of skills required by the Board. The RNC members then communicate with a broad range of industry contacts to acquire candidate recommendations with the appropriate expertise.

As part of the Board's commitment to developing the diversity of its composition the RNC members actively look for a diverse range of candidates. The RNC makes recommendations for appointment to the Board on the basis of how effectively the candidate will satisfy the objective needs of the vacancy concerned, including the ability of the candidate to commit the necessary amount of time to the role.

The ARC is responsible for the oversight of the Society's financial and internal risk control frameworks, the scrutiny of all financial and audit reports including year-end financial reports, and for making recommendations to the Board in respect to these duties. The ARC did not find any significant issues with the accounts or the reports when auditing the 2016 financial statements. The ARC is also responsible for making recommendations to the Board in respect to the appointment, the remuneration and the dismissal of the independent (external) and internal auditors. The service providers appointed to these roles are tendered for every three years.

The ARC has held meetings with both the independent and internal auditors in order to review their work and their findings, with feedback from the Society's management team also taken into consideration. Having followed this process, the ARC proposed that the independent auditor be recommended for re-appointment by policyholders at the AGM, subject to the senior audit partner of Moore Stephens being rotated for the 2016 financial year. The Board accepted this recommendation.

All Board Committees are required to work in accordance with their terms of reference, which includes compliance with the ACGC and any other relevant best practice guidance or requirements. The Board Committees the directors serve on can be seen in The Board of Directors report.

Corporate Governance Report (continued)

Review of Business Risks and Internal Controls

The Board, with the support of the ARC and our internal audit service provider, has carried out a review of the key risks facing the Society as part of its annual strategic review and is satisfied that the internal controls in place to manage, and where possible, mitigate these risks continue to be appropriate.

Directors and Officers who are also Policyholders

Until June 2015, all directors were required to be a subscribing member of the Society. However, when preparing the Rules that were approved by the membership at its 2015 AGM the Board determined that this rule was no longer appropriate in the current corporate governance environment.

While the Board do not believe that being a policyholder comprises their independence, it has determined that this report should highlight those directors and officers who were also a subscribing member of the Society. In 2016 those also a subscribing member were:

1. Simon Whale;
2. J. Gary Warner;
3. Matthew Dreaper;
4. Mike Davies;
5. Mike Perry;
6. Debbie McFarlane;
7. Andrew Bowater.

Communication with Policyholders

The Board welcomes feedback from our policyholders with regards to the Society's management, its strategy, its products or its service. We can be contacted via your member area on the Society's website, via telephone, post or fax. If you would prefer to meet with a representative of the Society, please let us know.

The Board reminds policyholders that all the Society's directors including the Chairman, the SID, the Chief Executive Officer, the Chairmen of the Board Committees, and the Secretary are scheduled to attend the Society's AGM. You are encouraged to attend this event as it offers you an opportunity to engage with the Society's management team in person.

Approval of the Corporate Governance Report

This report is approved unanimously by the Board.

Simon Whale,
Chairman of the Board, 30 March 2017

Directors' Remuneration Report

The Board has prepared this report on the remuneration of its directors in accordance with the relevant principles of the ACGC. This report shall be subject to a non-binding resolution at the Society's AGM.

The RNC is responsible for making recommendations to the full Board with regards to the remuneration of executive and non-executive directors. Where the Board considers the recommendations of the RNC with regards to executive remuneration, the non-executives meet without the executive director. In 2016 the RNC members were Matthew Dreaper (Chairman), Simon Whale and Grahame Exton. While no external expertise was used by the RNC in 2016, the RNC is authorised to access such expertise at the Society's expense if considered appropriate. The breakdown of directors' remuneration in 2016 is as follows:

Director	Basic Salary	Benefits	Annual Bonus	Pension Contributions	Total 2016	Total 2015
Executive Directors						
Mike Perry	£106,000	£9,000	£10,000	£4,240	£129,240	£124,310
Non-Executive Directors						
Simon Whale	£21,000	-	-	-	£21,000	£17,000
J. Gary Warner	£14,250	-	-	-	£14,250	£13,000
Matthew Dreaper	£12,250	-	-	-	£12,250	£11,250
Mike Davies	£12,250	-	-	-	£12,250	£11,250
Grahame Exton	£10,000	-	-	-	£10,000	-
Wally Dove	-	-	-	-	-	£21,000

The Board believes that its remuneration policy for directors strikes an appropriate balance between the need to ensure the Board is cost effective and its ability to attract and motivate individuals with the necessary expertise for the Board to properly undertake its responsibilities to policyholders. For the executive director, the Board has also sought to find an appropriate balance between salary and rewards linked to performance. With this in mind an executive bonus scheme is in place based on the achievement of KPI's agreed between the Chief Executive Officer and the RNC. The RNC will continue to monitor the adequacy of the Board's remuneration policy for directors during 2017.

The following table shows the number of meetings each director was required to attend. The figures in brackets are the actual number of meetings attended:

Director	Board 2016	IC 2016	ARC 2016	RNC	PGMS	Total 2016	Total 2015
Mike Perry	5 (5)	- (5)	-	-	1 (1)	6 (11)	9 (9)
Grahame Exton	5 (5)	5 (5)	-	4 (4)	-	14 (14)	14 (14)
Simon Whale	5 (5)	-	- (1)	4 (4)	1 (1)	10 (11)	14 (14)
J. Gary Warner	5 (5)	-	6 (6)	-	-	11 (11)	11 (11)
Matthew Dreaper	5 (5)	5 (4)	6 (6)	4 (4)	-	20 (19)	20 (20)
Mike Davies	5 (5)	5 (5)	- (1)	-	-	10 (11)	9 (9)

Simon Whale,
Chairman of the Board, 30 March 2017

Directors' Report

The Directors

The names and profiles of the directors during 2016 are shown below. All the Society's directors and officers have the requisite regulatory approvals and continue to be fit and proper for their roles.

Simon Whale, BA (Hons)

Chairman of the Board

RNC Member; PGMS Chairman

Simon is the managing director and co-owner of Luther Pendragon, the leading corporate communications consultancy based in the City of London.

His firm has advised a wide range of clients in the financial services sector, including Aviva, Endsleigh and HSBC. He worked with the AFS for more than ten years, helping the organisation promote the benefits of mutuality to the government and politicians. This helped to pave the way for a new, less restrictive legislative regime for friendly societies. He has worked extensively with healthcare organisations, including those representing pharmacy, dentistry, optometrists and opticians. His work with the pharmacy sector spans more than 15 years.

J. Gary Warner, BSc (Hons), FRPharmS, MRI, FRSPH

Vice-Chairman of the Board and SID

ARC Chairman

Gary is a community pharmacist, working both in his own practices and in consultancy roles. He also has representative roles at the LPC and at a national level with the PSNC, where he is the Chair of the Service Development Subcommittee.

He is a managing partner in Pinnacle Health Partnership LLP which is championing the development of the roles of community pharmacists and embedding that role within the patient care pathways being developed in response to the changing needs of the population. He qualified as an independent prescriber in 2008, specialising in the support and treatment of substance misuse, and as the designer of an online system that captures the outcomes of pharmacist and pharmacy team interventions with patients remains a strong advocate of the Healthy Living Pharmacy model.

Matthew Dreaper, BSc (Hons), ACMA, CGMA

Independent Director

ARC Member; IC Member; RNC Chairman

Matthew runs Chilcomb Management Services, which has worked with private and professional investors to establish, fund and grow a number of early-stage businesses, primarily in the technology sector.

Matthew qualified as a Chartered Management Accountant while working for Cable & Wireless PLC and went on to be the European Corporate Finance Manager for Hertz. He has been a Finance Director in various capacities since 2001, including 2 years as Group Finance Director of Nucare PLC, one of the UK's leading independent pharmacy groups until its merger with Numark.

Mike Davies BSc (Hons), FIA

Independent Director

IC Chairman

Mike has spent over 25 years working in the insurance industry, mainly as an actuarial consultant. He has worked in several countries, for large and small companies, in a wide range of areas spanning the management of with-profit funds, demutualisations, selling practices, mergers and acquisitions and financial reporting.

Mike qualified as an actuary in 1993. Prior to becoming an independent consultant in July 2013, Mike was most recently a partner at Ernst & Young where he spent 10 years in several positions, culminating in the global leader of their actuarial business consisting of over 1,000 employees.

Directors' Report (continued)

Grahame Exton, LLB (Hons), ACII

Independent Director

IC Member; RNC Member

Grahame has spent over 30 years in the insurance, finance and money management industries. After a brief spell in general insurance, he moved into fund management, working through from invest analysis to the management of insurance funds, pension funds, unit linked funds, private client and charity accounts and a broad range of other mandates on a discretionary basis.

Grahame has worked for a number of major financial organisations, including Legal & General, Halifax Building Society, Zurich Insurance, and Tilney Fund Management (part of Deutsche Bank Private Wealth Management). Through these, he has acquired a broad knowledge of stock markets, economies and asset management.

Mike Perry

Chief Executive Officer

Mike has over thirty years' experience in financial services, having worked with large corporate organisations as well as being a successful consultant within the mutual sector. He previously held a variety of senior management and board roles in business development with the Skipton Building Society Group. As a consultant, Mike worked with a number of Building Societies to assist in business and staff development, governance structure, financial and corporate planning within a regulated environment. Mike is also a Director of the Association of Financial Mutuals..

Future Business Activities

In order to build on 2016's progress, the Society will continue to develop its Income Protection Plus product and invest in system developments that will enable our members to manage their relationship with the Society via their Member Area. We will also continue to work closely with our strategic partnerships for mutual benefit.

Post Year End Events

Following the late postponement of its launch by the European Parliament in 2016, the Society expects the final specification for the Packaged Retail Investment and Insurance Products Directive to be confirmed during the course of 2017 for launch on the 1 January 2018. The Society will also be paying close attention to the progression of the proposed Insurance Distribution Directive, which could potentially have a material impact on the Society's distribution strategy.

Bonuses to Members

Following a prudent valuation of the Society's surplus as of 31 December 2016, a realistic assessment of the economic environment, and after taking into consideration the advice of the Society's actuaries, the Board have determined the following provisional interest and bonus apportionments to Holloway members' ICA's for 2016:

Apportionment	2016	2015
Interest rate for Holloway policyholders	**3%**	**3%**
Bonus-per-share for Holloway policyholders	**£3.00**	**£2.00**

From the 1 April 2017, the terminal bonus will be increased to 35% (25% from 1 May 2015 until the 25 August 2015; 5% from the 26 August 2015 until the 31 March 2016; 25% 1 April 2016 until the 31 March 2017).

The Board wishes to remind members that bonuses and ICA balances are made provisionally and are not guaranteed. Should financial markets become distressed and the assets of the Society materially reduced, the Board will reduce bonuses and where necessary ICA balances proportionately to avoid the need to realise investment losses. The Board will reinstate such bonuses as markets recover.

Directors' Report (continued)

Political Donations and Charitable Expenditure

Charity	2016	2015
Macmillan	-	£263

No other political or charitable donations or expenditure was incurred during 2016.

The Directors' Responsibilities

Under the Friendly Societies Act 1992, the Board is required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Society, and its income and expenditure, during that period. In preparing those financial statements, 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

Disclosure to the Appointed Auditor

The Board does not believe the Society has carried on any activities outside its powers during the year, and in the case of each director in office, at the date of the report of the Board being approved:

a) so far as each director is aware, there is no relevant audit information of which the Society's independent auditors are unaware; and

b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Society's independent auditors are aware of that information.

Moore Stephens have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the AGM.

Going Concern

The directors are satisfied that the Society has the necessary financial resources to continue as a going concern and have therefore prepared its accounts on this basis.

Business Viability

The Board is satisfied that the Society will remain a viable business over the course of its latest corporate plan. This plan, based on the strategy described in the Strategic Report, covers the 2016, 2017 and 2018 financial years. This viability assessment took into consideration the Society's prospective Holloway policies flow, expected cash-flows and expenditure, the capital strength of the Society and an assessment of the principal risks the Society is exposed to.

Directors’ Report (continued)

Complaints Procedure Policy

It is the Society’s policy to investigate and resolve all complaints received from policyholders promptly and fairly. The Society is a member of the FOS. All complaints are handled in accordance with the requirements of the FCA. Full details can be obtained from the Secretary at the Society’s office.

Approval of the Corporate Governance Report

This report is approved unanimously by the Board.

Simon Whale,
Chairman of the Board, 30 March 2017

Report of the Independent Auditor

We have audited the financial statements of the Society for the year ended 31 December 2016, which comprise the Society's Statement of Comprehensive Income, the Statement of Financial Position, and the related Notes to the Financial Statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standards 102 and 103 'The Financial Reporting Standards applicable in the UK and Republic of Ireland', having regard to the statutory requirement to maintain equalisation provisions. The nature of equalisation provisions, the amounts set aside at 31 December 2016, and the effect of the movement in those provisions during the year on the fund for future appropriations, the balance on the general business technical account and on excess of income over expenditure before tax are disclosed in the notes to these financial statements.

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

Respective Responsibilities of the Board of Management and Auditor

As explained more fully in the Directors' Responsibilities Statement set out in the Directors' Report, the Board is responsible for preparing financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards (APB's) Ethical Standards for Auditors.

Our Assessment of Risks of Material Misstatement

We identified the following risks that we believe to have had the greatest impact on our audit strategy and scope:

- the operation and effectiveness of the Society's membership system during the year and specifically the operation of the system over premium income and claims paid to policy holders;
- the valuation and ownership of the Society's investments at the year end and the recording of transactions throughout the year;
- the Society's compliance with applicable regulations;
- the application of revenue recognition accounting; and
- the risk of fraud arising from management override of internal controls.

Our Application of Materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purpose of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements. We determined materiality for the Society to be £95,000 for items impacting the Statement of Comprehensive Income, which is approximately 2% of income. We determined materiality of £400,000 for items which require reclassification on the Statement of Financial Position, which is approximately 1% of gross assets.

We agreed with the ARC that we would report to the Board all audit differences in excess of £1,000, as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

Report of the Independent Auditor (continued)

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Board; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

The way in which we formed our response to the risks identified above was as follows:

- In order to address the risk around the operation of the Society's Member's system during the year we have tested the operation of the controls over membership records, premium income and claims paid to members. The controls were tested on a sample basis and the extent of testing varied depending on the frequency with which the control is operated.

- In order to address the risk around ownership of the Society's investments held at the year end, we confirmed the entirety of the holdings to independent third party confirmations provided by the Society's Custodian. These statements were compared to known movements in the investments holdings in the year through comparison to contract notes and testing of the management's monthly investment reconciliations

- In order to address the risk around the valuation of the Society's investments we obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2016.

- In order to address the risk of associated with the recording of investment transactions through at the year ended 31 December 2016 we have tested a sample of transactions to independent documentation.

- In order to address the risk over the Society's compliance with it's regulatory environment we updated our understanding of the regulatory requirements and reviewed the Society's correspondence with its regulators, statutory filings and managements records of compliance with appropriate regulations.

- As part of our testing of the member's system we performed testing relating to controls over the recognition of premium income and the process for the ensuring the accuracy of changes to member's records, including new members. We also performed substantive testing on a sample of premium income and analytical procedures to validate whether revenue recognition procedures complied with UK Generally Accepted Accounting Practice

- In order to address the risk relating to management override of controls we have reviewed all significant or unusual entries to ensure they are appropriate and reasonable. We have also reviewed key estimates and judgements for bias.

Opinion on the Financial Statements

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice of the state of the Society's affairs as at 31 December 2016 and of the income and expenditure of the Society for the year then ended; and

- have been properly prepared in accordance with the Friendly Societies Act 1992.

Report of the Independent Auditor (continued)

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Committee of Management has been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and the information given therein is consistent with the financial statements for the financial year.

Opinion on Corporate Governance Statement

In accordance with our instructions from the Society we review whether the Corporate Governance Statement reflects the Society's compliance with the ten provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals. We have nothing to report in respect of this review.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Board of Management that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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

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

Dan Slocombe
Appointed Auditor, 4 May 2017

Financial Statements as at 31 December 2016

Statement of Comprehensive Income

Technical Account: Long-Term Business	**Notes**	**2016** **£**	**2015** **£**
Earned Premium Income	5	3,047,599	2,892,812
Investment Income	6	1,236,977	2,044,628
Unrealised Gains on Investments	17	1,873,575	-
Total Technical Income		**6,158,151**	**4,937,440**
Income Protection Claims Incurred	7	(892,555)	(1,030,135)
Mid-Year Interest and Bonuses (including Terminal Bonuses)	8	(156,167)	(170,732)
Management Costs	9	(1,247,792)	(1,127,288)
Investment Expenses and Charges	13	(134,937)	(104,561)
Unrealised Losses on Investments	17	-	(1,405,801)
Interest and Bonus Apportionment to Members' ICAs	18	(1,394,440)	(1,063,176)
Transfer (to)/from the LTBP	18	1,201,726	1,347,998
Transfer (to)/from the FFA	18	(3,533,986)	(1,383,745)
Balance on the Technical Account		**0**	**0**

Statement of Total Recognised Gains and Losses	**Notes**	**2016** **£**	**2015** **£**
Transfer (to)/from the FFA	18	(3,533,986)	(1,383,745)
Total recognised gains/(losses) since last Annual Report		**3,533,986**	**1,383,745**

The above results relate wholly to continuing activities. The Society has no recognised gains or losses other than those included in the movement on the Technical account and therefore no separate statement of recognised gains and losses has been presented.

Please see the Notes to the Financial Statements section for more detail.

Financial Statements as at 31 December 2016 (continued)

Statement of Financial Position

	Notes	2016		2015	
		£	£	£	£
Fixed Assets					
Tangible Fixed Assets	15		**477,486**		**483,377**
Investments					
Investment in Subsidiary	16	4,721		4,721	
Other Financial Investments	16	39,506,974		36,200,956	
			39,511,695		**36,205,677**
Other Assets					
Cash at Bank			**680,351**		**710,816**
Prepayments and Accrued Income			**177,844**		**436,890**
Deferred Acquisition Costs	10		**3,444**		**7,312**
Total Assets			**40,850,820**		**37,844,072**
FFA	18		**18.003.078**		**14,466,964**
LTBP					
Policyholders' ICAs	18	15,259,041		14,713,293	
Mathematical Reserves	18	7,079,444		8,281,170	
			22,338,485		**22,994,463**
Creditors					
Creditors Arising From Insurance Activities		270,422		144,738	
Other Creditors	22	238,835		237,907	
			509,257		**382,645**
Total Liabilities			**40,850,820**		**37,844,072**

The financial statements on pages 20 to 21 were approved by the Board and signed on the 30 March 2017 on its behalf by:

Simon Whale
Chairman of the Board

Notes to the Financial Statements

1. Basis of Accounting

The accounts have been prepared under the Historical cost convention, modified by the revaluation of certain assets as required by the Regulators. The Society has taken advantage of the exemption not to produce consolidated financial statements on the grounds that its subsidiary, PGMS, is not material.

2. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated.

Basis of preparation

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

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.

Before 2014 the financial statements were prepared in accordance with UK GAAP applicable prior to the adoption of FRS 102 and FRS 103, as issued by the Financial Reporting Council, and referred to below as 'previous UK GAAP'. There are no financial effects of the transition to FRS 102 and FRS 103 which require a separate reconciliation to be prepared.

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

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies selected for use by the Society. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3. Use of available information and application of judgement are inherent in the formation of estimates. Actual outcomes in the future could differ from such estimates

After making enquiries, the directors have a reasonable expectation that the Society 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.

Earned Premiums

Earned premiums are accounted for an accruals basis based on the period they related to. Premiums relating to the unexpired term of policies in force at the balance sheet date are treated as unearned.

Claims and Benefits

Claims for sickness, death or surrender are accounted for from the appropriate date of the event as notified. Claims payable include all related internal and external claims handling costs.

Investment Income

Income from investments is included in the Technical Account Long-Term Business. Account is taken of income from gilts and interest on cash deposits on an accruals basis and dividends from equities are included according to the date of receipt by the Society.

Notes to the Financial Statements (continued)

Realised and Unrealised Investment Gains

Realised gains and losses, being the differences between the net sale proceeds and market value (see Valuation of Investments below) at the beginning of the year, is included within investment income in the Technical Account when attributable to assets in the Long-Term Business Fund. Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and market value at the beginning of the year. Unrealised gains and losses on assets purchased during the year are valued on the difference between the purchase price and the valuation at the balance sheet date.

Movements in unrealised gains and losses attributable to assets in the Long-Term Business Fund are reported in the Technical Account – Long-Term Business.

The Society's wholly owned subsidiary, PGMS, has been valued on a Net Realisable Value basis, with any losses or gains accounted for as unrealised losses or gains within the accounts.

Acquisition Costs

Acquisition costs comprise direct costs, such as introduction commissions, as well as indirect costs such as advertising, production, marketing and sales staff etc. Indirect acquisition costs will vary from year-to-year according to the budgets determined by the Board, while direct costs will vary in line with the premium value of the business sold and the commission level applicable.

Commissions payable to IFA's are prepaid over 36 months from the date of the relevant member joining the Society. The deferred costing method creates an asset in the balance sheet that then decreases through the prepaid period (deferred acquisition costs) to reflect the Society's ability to contractually recover a proportion of the commission paid from the IFA if the member terminates within the 36 month period.

Leasing

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Interest on Policyholders' ICAs

Bonuses to policyholders in the form of interest and bonuses are recognised in the Technical Account Long-Term Business when declared and Terminal Bonuses when paid.

FFA

The FFA incorporates amounts which have yet to be allocated to policyholders. Transfers to and from the FFA reflect the excess or deficiency of revenues (including premiums and investment gains and losses) over expenses (including claims and bonuses) in each accounting period arising from the Society's Long Term Business Fund.

Taxation

The Society is not subject to income or corporation tax.

Valuation of Investments

The market value of quoted fixed interest and equity investments is stated in the financial statements at the closing mid-market values at the balance sheet date. Where there is no apparent market for an asset and therefore no quoted market value, a mark to model approach is taken to estimate what the market value would be if a market existed.

Regarding note 11 below, the Society's freehold properties are held at valuation. The property was valued as of the 31 December 2014 on the 13 February 2015 using an Open Market basis by Allied Surveyors and Valuers, a RICs Registered Valuer at that time. Our policy is to value the Society's property every three years.

Notes to the Financial Statements (continued)

Pension Scheme Arrangements

The Society runs a defined contribution pension scheme that each member of staff is eligible to join after completing their induction period and is arranged through Scottish Widows. The Society's obligation to this fund is limited to the contributions made and due. For members of staff employed by the Society prior to the 1 November 2010, the employer contribution is 10% of gross salary and the employee's contribution is 5% of gross salary. For members of staff joining from the 1 November 2010, the employer will match the employee's contribution up to a maximum contribution of 4%.

Depreciation

Depreciation is charged on fixed assets other than freehold properties on a straight line basis as follows:

Building Improvements	10.0%
Fixtures, Fittings and Furniture	12.5%
Computer Equipment	25.0%
Motor Cars	33.33%

Freehold properties are included at the re-valued amount based on an independent valuation in accordance with FRS 102. Any surplus/deficit on revaluation is taken to the revaluation reserve to the extent that any deficit does not exceed surpluses in previous years.

3. 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 in the future could differ from such estimates.

Fair Value of Financial Assets

Market observable inputs are used wherever possible. In the absence of an active market, estimation of fair value is achieved by using valuation techniques such as recent arm's length transactions, discounted cash flow analysis and option pricing models. For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. This valuation will also take into account the marketability of the assets being valued.

Long-Term Business Provision ("LTBP")

The valuation of participating contract liabilities is based on assumptions reflecting the best estimate at the time. The valuation of non-participating insurance contracts is based on prudent assumptions; a separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflects management's best current estimate of future cash flows.

The assumptions used for discount rates are based on current market risk rates, adjusted for the Society's own risk exposure. Due to the long-term nature of these obligations, the estimates are subject to significant uncertainty.

The main assumption underlying these techniques is that past claims development experience is used to project ultimate claims costs. Allowance for one-off occurrences or changes in legislation, policy conditions or portfolio mix are also made in arriving at the estimated ultimate cost of claims in order that it represents the most likely outcome, taking account of all the uncertainties involved. To the extent that the ultimate cost is different from the estimate, where experience is better or worse than that assumed, the surplus or deficit will be credited or charged to gross benefits and claims within the Statement of Comprehensive Income in future years.

Notes to the Financial Statements (continued)

Capital and Risk Management

Section 4 details the capital and risk management approach of the Society. The Society seeks to create value for its members by investing in the development of the business while maintaining an appropriate level of capital available.

4. Capital Management

Policies and Objectives

The Society's key capital management objectives are:

- To ensure the Society's financial strength and to suapport the risks it takes on as part of its business;
- To comply with the MCM capital requirements imposed by the PRA.

These objectives are reviewed by the Board annually. The free asset ratio is monitored at regular intervals throughout the year to ensure sufficient capital is available for its capital management objectives. These assessments take into account material changes in business planning assumptions, changes in financial market prices, and changes in the Society's insurance fund.

The Society complied with all externally imposed capital requirements to which it was subject throughout the reporting period.

Capital Statement	2016 (£)	2015 (£)
FFA		
Total Capital Resources Before Deductions	18,003,078	14,466,964
Regulatory Solvency Adjustments	(4,455,524)	(5,047,827)
Capital Available to Meet Regulatory Capital Requirements	13,547,554	9,419,827

Measurement and Monitoring of Capital

The capital position of the Society is monitored internally on a regular basis and reviewed periodicly by the Board. These objectives are reviewed and actions taken if necessart to ensure the adequacy of the Society's capital position.

In the event sufficient capital is not available, actions would be taken to either free additional capital by altering the asset mix of the Society's investment portfolio, or through a revaluation of the Society's liabilites.

Available Capital

An allowance is made for actions that management would take in adverse conditions, such as reducing terminal bonus rates and capital account balances, to zero if necessary. The assets are taken at market value, and are estimated where required. All admissible assets are available to meet the regulatory requirements of the fund.

Sensitivity of Long-Term Insurance Contract Liabilities

The value of the long-term insurance contract liabilities is sensitive to changes in market conditions and in the demographic assumptions used in the calculation, such as mortality and persistency rates.

Market conditions – Assumptions are made about future investment returns and interest rates when valuing the liabilities, based on current market conditions. These also have an effect on the value placed on the assets held to support the liabilities. An adverse change in market conditions may therefore reduce the level of the available capital resources.

Demographic assumptions – Changes in the mortality, morbidity, expense or persistency experienced by the business may result in the need to change the assumptions used to value the liabilities. This may increase or reduce the value placed on the liabilities.

Notes to the Financial Statements (continued)

5. Earned Premium Income

	2016 (£)	2015 (£)
Holloway policy subscriptions	3,047,599	2,892,812
Earned Premium Income	**3,047,599**	**2,892,812**

6. Investment Income

	2016 (£)	2015 (£)
Listed Investments	1,096,960	1,069,789
Deposits with Banks and Fund Managers	68,321	215,174
Investment Income (excluding Realised Gains/(Losses))	**1,165,281**	**1,284,963**
Net Gains/(Losses) on the Realisation of Investments	71,696	759,665
Investment Income	**1,236,977**	**2,044,628**

7. Claims Incurred

	2016 (£)	2015 (£)
Income Protection Claim Payments	717,778	835,777
Claims Handling Expenses	174,777	194,358
Total Claims Incurred	**892,555**	**1,030,135**

8. Policyholders' ICA Withdrawals

	2016 (£)	2015 (£)
Capital Payments on Terminations	778,386	845,957
Capital Payments on Partial Withdrawals	66,050	64,101
Total Policyholders' Capital Withdrawals	**844,436**	**910,058**
Mid-Year Interest and Bonuses (including Terminal Bonuses)	156,167	170,732

9. Management Costs

	2016 (£)	2015 (£)
IFA Commissions (Note 7)	4,821	14,512
Other Acquisition Costs	675,426	464,127
Administration and Other Costs	567,545	648,649
Management Costs	**1,247,792**	**1,127,288**

10. Deferred Acquisition Costs

	2016 (£)	2015 (£)
Deferred Acquisition Costs Brought Forward	7,312	18,048
Plus New IFA Commissions	953	3,776
Less Deferred Acquisition Costs Carried Forward	3,444	7,312
IFA Commission Recognised in the Income Statement	**4,821**	**14,512**

Notes to the Financial Statements (continued)

11. Independent Auditor Remuneration

	2016 (£)	2015 (£)
Fees Paid to Moore Stephens for Audit Services	30,000	22,200

12. Staff

	2016 (£)	2015 (£)
Salaries (including the Chief Executive Officer)	586,314	509,771
Social Security Costs	62,669	51,882
Defined Contribution Pension Costs	14,153	11,872
Staff Costs	**663,136**	**573,525**

Senior Management Team

	2016 (£)	2015 (£)
Salaries (including the Chief Executive Officer)	245,921	228,588
Social Security Costs	30,026	27,339
Defined Contribution Pension Costs	7,866	6,513
Staff Costs	**283,813**	**262,440**

The number of employees during the year, including executive directors, calculated on a monthly average basis was as follows:

	2016	2015
Board and Senior Manageemnt	8	8
Acquisitiion and member contact	3	3
Administration	9	6
Total	**20**	**17**

13. Investment Expenses and Charges

	2016 (£)	2015 (£)
Management Charges	134,937	104,561

14. Non-Executive Board Director's Remuneration

	2016 (£)	2017 (£)
Fees	69,750	73,500

Notes to the Financial Statements (continued)

15. Tangible Fixed Assets

	Freehold Properties £	Improvement to Buildings £	Fixtures, Fittings, Furniture £	Computers and Office Machinery £	Total £
At 1 Jan 2016	423,000	24,786	13,013	287,438	748,237
Additions	-	-	-	18,383	18,383
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 Dec 2016	423,000	24,786	13,013	305,821	766,620
At 1 Jan 2016	-	14,153	11,858	238,848	264,859
2015 Charge	-	2,479	762	21,034	24,275
Disposals	-	-	-	-	-
As 31 Dec 2016	-	16,632	12,620	259,882	289,134
At 31 Dec 2015	423,000	10,633	1,153	48,591	483,377
At 31 Dec 2016	423,000	8,154	393	45,939	477,486

Please see the Valuation of Investments section on the Notes for details of the valuation basis Society's property.

16. Investments

The Society's investments were as follows:	**2016 (£)**	**2015 (£)**
UK investments	30,649,771	22,836,846
Overseas investments	5,485,493	4,944,388
	36,135,264	**27,781,234**

	Current value		Historical cost	
	2016 (£)	**2015 (£)**	**2016 (£)**	**2015 (£)**
Shares and Other Variable Yield Securities	17,222,422	15,845,947	17,708,781	15,469,346
Debt and Other Fixed Income Securities	18,912,842	11,935,287	18,897,225	10,898,158
Deposits with Credit Institutions	2,955,005	8,130,647	2,955,005	8,130,647
Other (Deposits with Fund Managers)	416,705	289,075	416,705	289,075
Investment in Subsidiary	4,721	4,721	10,000	10,000
	39,511,695	**36,205,677**	**39,987,716**	**34,797,226**

The Society owns all the issued share capital of its subsidiary, PGMS. The Society invested a further £5,000 in PGMS in 2015.

17. New Unrealised Gains/(Losses) on Investments

	2016 (£)	**2015 (£)**
Investments at Fair Value through Income:		
Debt Securities	433,596	(1,210,972)
Equity Securities	1,439,979	(184,778)
Investments in Society Undertakings	-	**(10,051)**
Net Gains/(Losses) on Investments	**1,873,575**	**(1,405,801)**

Notes to the Financial Statements (continued)

18. LTBP and FFA

	Policyholders' ICAs (£)	Mathematical Reserves (£)	FFA (£)
At 1 January 2016	**14,713,293**	**8,281,170**	**14,466,964**
Transfer to the FFA	(2,128)	-	2,128
Transfer from Mathematical Reserves	-	(1,201,726)	-
Interest and Bonuses on Policyholders' ICAs	1,392,312	-	-
Policyholders' Withdrawals (Note 5)	(844,436)	-	-
Transfers from the Technical Account	-	-	3,533,986
At 31 December 2016	**15,259,041**	**7,079.444**	**18,003,078**

Details of the calculations of the LTBP and the accounting policy on the interest on policyholders' ICAs are shown below.

19. LTBP and Insurance Liabilities

a) LTBP

The Long Term Business Provision has been calculated by the Actuarial Function Holder having due regard to the requirements of The Friendly Societies' (Accounts and Related Provisions) Regulations 1994 using a modified statutory basis. The key elements are as follows:

Valuation Basis Summary	Shares	Units
Method	Gross premium	Gross premium
Interest rate	1.15%	1.15%
Allowance for expenses	35% of gross premium after reduction for future apportionments	35% of gross premium
Allowance for future bonus	Explicit allowance of £1.75 per share for all policies	n/a
Mortality	No mortality	No mortality
Morbidity	Prudent assessment based on Society's experience	Prudent assessment based on Society's experience

In addition, members' capital accounts have been included at face value.

Aggregate provisions calculated for the purposes of the Interim Prudential Sourcebook for Friendly Societies have been excluded.

A summary of the changes in the long term business provision (LTBP) due to certain changes in financial and demographic assumptions are as follows:

A reduction in interest rates reduces the impact of discounting within the LTBP, resulting in an increase in the provision. If the valuation interest rate is reduced by 0.50% to 0.65%, the LTBP increases by £624,834. This does not include the corresponding impact on the valuation of assets.

Likewise, an increase in interest rates increases the impact of discounting within the LTBP, resulting in a decrease in the provision. If the valuation interest rate is increased by 0.50% to 1.65%, the LTBP reduces by £555,398. Again, this does not include the corresponding impact on the valuation of assets.

Notes to the Financial Statements (continued)

An increase in the policy expense allowances (caused by increases in management expenses) would result in an increase in the LTBP. A 5% increase in policy expense allowances, from 35% to 40% of premiums, increases the LTBP by £1,558,192. This does not allow for any impact this would have on the expense reserve.

A decrease in the policy expense allowances (caused by decreases in management expenses) would result in a decrease in the LTBP. A 5% decrease in policy expense allowances, from 35% to 30% of premiums, decreases the LTBP by £1,484,937. Again, this does not allow for any impact this would have on the expense reserve.

The inception rate assumptions used within the calculation of the LTBP are a proportion of the Continuous Mortality Investigation Working Paper 48 ("CMI WP48") standard inception rate tables. The proportions of the CMI WP48 inception rate tables by age and gender are:

	Males	Females	Unisex*
Ages 16 to 20	47%	66%	56%
Ages 21 to 50	32%	41%	37%
Ages 51 to 65	47%	66%	56%

*These rates are used for all policies commencing on or after 21 December 2012

An increase in sickness inceptions would increase the expected future sickness benefits paid out by the Society, resulting in an increase in the LTBP. A 10% increase in sickness inceptions increases the LTBP by £2,520,363.

A decrease in sickness inceptions would and maintaining the same level of prudence as per the current valuation basis decrease the expected future sickness benefits paid out by the Society, resulting in a decrease in the LTBP. A 10% decrease in sickness inceptions decreases the LTBP by £2,357,737.

The recovery rate (or exit rate as it includes death in claim) assumptions used within the calculation of the LTBP are a proportion of the standard CMI WP48 recovery rate tables. The proportions of the CMI WP48 tables by duration of sickness for both genders are:

Duration of Sickness	Male	Female
Week 1	41%	41%
Week 2	56%	56%
Week 3	68%	68%
Week 4	76%	76%
Week 5	85%	85%
Week 6	84%	84%
Weeks 7-13	131%	131%
Weeks 14-26	173%	173%
Weeks 27-52	210%	210%
Weeks 53-104	370%	370%
Weeks 105-520	83%	83%

An increase in sickness recoveries and maintaining the same level of prudence as per the current valuation basis would decrease the expected future sickness benefits paid out by the Society, resulting in a decrease in the LTBP. A 10% increase in sickness recoveries at each duration of sickness decreases the LTBP by £3,538,278.

A decrease in sickness recoveries and maintaining the same level of prudence as per the current valuation basis would increase the expected future sickness benefits paid out by the Society, resulting in an increase in the LTBP. A 10% decrease in sickness recoveries at each duration of sickness increases the LTBP by £6,757,250.

Notes to the Financial Statements (continued)

The interest rate (before allowance for investment management expenses of 0.45%) used to discount the liabilities of the income protection business was limited to the reinvestment rate, which is set by the Prudential Regulations Authority (PRA). Since the FTSE UK 15 year long term gilt yield (LTGY) was below 3% at the valuation date, the reinvestment rate formula resulted in the annualised FTSE UK 15 year LTGY being the reinvestment rate (1.72%). The interest rate before allowance for investment management expenses was set to 1.65%.

The sickness inception rates assumed in calculating the income protection reserves vary by age and gender and are based on the Society's recent experience over a three year period with an appropriate margin for prudence.

The sickness recovery rates assumed in calculating the income protection reserves vary by duration of sickness and gender and are again based on the Society's recent three year experience with an appropriate margin for prudence.

Nil mortality in deferment has been assumed within the income protection reserving. A check is completed to ensure that assuming nil mortality on both the value of future expected sickness benefits to be paid and the value of future net premiums to be received is prudent.

Mortality in claim is allowed for within the CMI WP48 recovery rates (see previous section).

The allowance for expenses is based on the Society's experience over the 12 months prior to the valuation date, adjusted for one-off and acquisition costs, and on the Society's budgeted expenses for the next 12 months. The expense allowance is a percentage of unit premiums. Expense inflation is implicitly allowed for as premiums increase with age.

Finally, the explicit allowances for future apportionments are £1.75 per share for all policies as all policies are charged the same unisex premium rates from 2017. This allowance for future apportionments is deducted from the share premiums when calculating the income protection reserve. Any distribution above these amounts will be paid out of the Society's surplus.

c) Insurance Liabilities

Capital Statement – Long Term Insurance Business

Capital Statement: Long-Term Insurance Business	2016 (£)	2015 (£)
Available Capital Resources:		
FFA	18,003,078	13,080,532
Adjustments onto Regulatory Basis:		
Adjustments to Assets	(67,767)	(86,566)
Resilience Reserve	(1,445,020)	(2,010,613)
Expenses Reserves	(681,167)	(542,842)
Counterparty Risk Reserve	(10,000)	(11,000)
Terminal Bonus Reserve	(2,251,570)	(1,380,170)
	13,547,554	**9,049,341**

Summary

The total available capital resources of the Society's long-term insurance business amount to £13,547,554 (2015: £9,419,827). Its capital resource requirements amount to £1,251,906 (2015: £1,292,187) resulting in a surplus of available capital resources over regulatory capital of £12,295,649 (2015: £8,127,641).

Notes to the Financial Statements (continued)

Set out below are the details of how the available capital resources have been calculated, the restrictions in place over the available capital resources, the basis of calculating the regulatory capital requirements and an explanation of the change in available capital.

Basis of Calculation of Available Capital Resources

The available capital of the Long Term Insurance Fund has been determined in accordance with the Prudential Regulation Authority's (PRA) regulations in its Non-Solvency II Firms rulebook and includes the Funds for Future Appropriations (FFA). The FFA represents surplus funds of the Society which have not been allocated to members and is available to meet the regulatory and solvency requirements of the Society.

The significant assumptions used to determine the sickness provision can be found above in Note 14 a): Long Term Business Provision. These assumptions have been derived based on recent operating experience with appropriate allowances for prudence as well as any PRA requirements within its Non-Solvency II Firms rulebook.

Restrictions on Available Capital

The available surplus held in the Society's Long Term Insurance Fund can only be applied to meet the requirements of the fund itself or be distributed to the Members.

Basis of Calculation of Capital Requirements

The capital resource requirement amounts to £1,251,906 (2015: £1,292,187) and is determined in accordance with capital requirement as defined by PRA regulations, namely the Solvency Margin.

As at 31 December 2016, the Society's total available capital resources moved from £9,419,827 to £13,547,554 (1082% of capital requirement).

The morbidity assumptions have significant impact on reserves. The Society manages this by monitoring its sickness experience. The Society is able to adjust its premium rates to reflect changes in morbidity experience if necessary.

The expense ratio also has a significant impact on reserves and the Society is managing this by:

- taking steps to increase premium income by introducing new members to reduce the expense ratio;
- setting a detailed budget for each level of expenditure;
- reviewing management accounts to monitor expenses compared to budget and seeking explanations for any major variations.

The Society's management of market risk is stated in the Report of the Committee of Management.

	£
Balance at 1 January 2016	9,419,827
Effect of investment variations	3,081,018
Effect of variations in non-economic experience	2,439,021
Cash distributions	(1,392,312)
Balance as at 31 December 2015	**13,547,554**

20. Financial Commitments

As at 31 December 2016 the Society was committed to making the following payments under non-cancellable operating leases in the year to the 31 December 2016.

Notes to the Financial Statements (continued)

Operating Leases Which Expire:	**2016 (£)**	**2016 (£)**
Within One Year	5,645	3,187
Between Two and Five Years	19,507	6,374
	25,152	**9,561**

21. Remuneration of the AFH and WPA

The AFH and WPA has been Mr Stephen William Dixon of Steve Dixon Associates LLP. Mr Dixon has confirmed that neither he, his family, nor staff are, or were, policyholders of the Society, nor do they have any financial or pecuniary interest in the Society except for fees payable of £72,538 (£67,850 in 2015).

22. Other Creditors

	2016 (£)	**2015 (£)**
PAYE and National Insurance Contributions	18,835	17,161
Purchase Ledger Control	50,735	52,265
Pension Liability	3,286	-
Accruals	165,979	166,231
	238,835	**237,907**

23. Related Party Transactions

	2016 (£)	**2015 (£)**
Rail Season Ticket Loan to Michael Perry	3,207	4,130
	3,207	**4,130**

Notice to, and Agenda of Business for, the 89th AGM of the Society

Time and Venue

By order of the Board, Notice is hereby given that the 89th AGM of the Society will be held at its head office in St Albans on Thursday, 25 May 2017 at 13:00 to consider and, if thought fit, pass the following by way of Ordinary Resolutions:

Agenda

1. To consider and approve the minutes of the 88th AGM of the Society;

2. To receive the Strategic Report for the year ended 31 December 2016;

3. To receive the Financial Statements for the year ended 31 December 2016;

4. To receive the Corporate Governance Report for the year ended 31 December 2016 (*non-binding resolution*);

5. To receive the Directors' Remuneration Report for the year ended 31 December 2016 (*non-binding resolution*);

6. To receive the Directors' Report for the year ended 31 December 2016;

7. To receive the Independent Auditor's Report for the year ended 31 December 2016

8. To re-appoint Moore Stephens as the Independent Auditor of the Society and to authorise the Board to determine their remuneration;

9. To consider the appointment of the following directors standing for election:
   a) Mr Simon Whale;
   b) Mr Matthew Dreaper;

Please Note:

Policyholders entitled to attend and vote at a general meeting convened by the above notice may appoint another person as proxy to vote at a poll on their behalf. A proxy form will be provided which to be valid must be returned to the registered office of the Society not less than 48 hours before the time of the meeting.

Andrew Bowater
Secretary of the Society, 30 March 2017