The Annual Reports and Financial Statements for PG Mutual

Year Ended 31 December 2022

Contents

2022 Management and Legal Information

Directors

Simon Whale	Chair of the Board
Matthew Dreaper	Vice-Chair and Senior Independent Director
David Gulland	Independent Director
Paul Howley	Independent Director
Denise Hadgill	Independent Director
Mike Perry	Chief Executive Officer (*1 Jan 2022 to 30 April 2022)*
Andy Elkington	Chief Executive Officer (*from 1 May 2022*)
Debbie McFarlane	Finance Director (1 Jan 2022 *to 30 April 2022)*
Debbie McFarlane	Chief Finance and Operations Officer (*from 1 May 2022)*

Senior Management Functions

Mike Perry	SMF1 Chief Executive (*1 Jan 2022 to 30 April 2022)*
	SMF7 Group Entity Senior Manager (*1 Jan 2022 to 30 April 2022)*
Andy Elkington	SMF1 Chief Executive (from 1 May 2022*)*
Debbie McFarlane	SMF2 Chief Finance
Andrew Bowater	SMF4 Chief Risk Officer*
	SMF16 Compliance Oversight*
	SMF17 Money Laundering Reporting Officer*
Simon Whale	SMF9 Chair of the Governing Body
David Gulland	SMF10 Chair of the Risk Committee
	SMF11 Chair of the Audit Committee
Paul Howley	SMF12 Chair of the Remuneration Committee
	SMF13 Chair of the Nomination Committee
Matthew Dreaper	SMF14 Senior Independent Director

Certification Functions

Andrew Bowater	Secretary (*1 Jan 2022 to 30 June 2022*)
Jayne Chong	Secretary (*1 Jul 2022 to 31 Dec 2022*)
Hannah Crossley	Head of Operations
Stephen Schofield	Head of Development
Taryn Ferguson	Head of Marketing
Mo Shaikh	Account Manager
Tom Coan	Account Manager
Gary Ranson	Development Executive

* Mutual Governance Ltd (1 September 2022 to 1 November 2022) under SUP 10C.3.13

Legal Name and Registered Office

Pharmaceutical and General Provident Society Limited
11 Parkway
Powers Wood
St Albans
AL3 6PA

Authorised Trading Names

PG Mutual

Independent Advisors and Consultants

Appropriate Actuary	OAC, London (*to 30 Jun 2022*)
Appropriate Actuary	Barnett Waddingham (*from 1 Jul 2022*)
Auditor (Independent)	Moore, Bath, Somerset
Auditor (Internal)	HW Controls & Assurance, Farnborough, Hampshire
Asset Management	Royal London Asset Management, London
Bankers	HSBC PLC, St Albans, Hertfordshire
Underwriting Services	Nugent Business Solutions, Kanturk, Ireland
Compliance Services	Haven Risk Management, Chipping Campden, Gloucestershire
Chief Medical Officer	Dr Mark Allen, St Albans, Hertfordshire (*to 29 Apr 2022*)
Chief Medical Officer	Dr Andrew Deuchar, London (*from 9 May 2022*)

pg mutual
income protection plus

The Chair of the Board's Report

2022 Summary

2022 was characterised by global political tensions and significant economic challenges. The consequences of the conflict between Russia and Ukraine, the lingering impact of the Covid pandemic, sharp rises in the rate of inflation and increases in base rates all combined to make their mark on business and households alike.

Against that background, I am pleased to report that the Society increased premium income by 4% to £3.6m (2021: £3.5m). Our total assets fell by 10.5% to £43.6m (2021: £48.6m), a reflection of the decline in global stock market valuations. The last quarter of 2022 gave rise to some market upturn, but overall market volatility had a negative impact on our investment valuations in 2022.

2022 was a transitional year for PG Mutual, with costs resulting from changes to the leadership team and investment to improve our IT infrastructure. Management expenses increased by 19.8% to £2.1m (2021: £1.7m) and claims costs increased by 9% to £1.5m (2021: £1.3m). The Society's operating surplus before annual bonus distributions decreased by 85% to £69k (2021: £445k). The Board is confident that these changes and investments will strengthen PG for the benefit of present and future members. By the end of 2022 we were already seeing encouraging business performance improvements.

2022 Annual Bonus

After taking into account financial performance and the advice of our Appointed Actuary, the Board is pleased to declare an annual bonus of 2% interest (2021: 1.75%) to members' profit share balances in 2022. We are also able to declare a dividend-per-share held in 2022 of £1.75 (2021: £1.75). The loyalty bonus for retiring members will remain at 25%, and the enhanced loyalty bonus will remain at a minimum profit share balance of £10,000 in the event of an insured member's death and six-months of their income benefit to their nominated next of kin.

Governance

I can confirm to members that all directors have been subject to annual performance appraisals and that all the directors have performed well. My own appraisal was undertaken by the Senior Independent Director with feedback from the Board taken into consideration. I will be standing for election for a further year at the June AGM and the Board unanimously recommends that I be re-elected. Other directors standing for election or re-election this year are Andy Elkington (Chief Executive Officer), Debbie McFarlane (Chief Finance & Operations Director), Matthew Dreaper (Senior Independent Director), and Paul Howley (Non-Executive Director).

Retirement of the Chief Executive Officer

In November 2021, Mike Perry gave the Board notice of his intention to retire in 2022 after more than 10 years leading the Society. I want to thank Mike Perry both for his loyalty and leadership over the last decade. I have worked closely with Mike Perry throughout his tenure as Chief Executive and the Society is in a stronger position now than it was when he first joined the Society in September 2011.

Executive leadership

Andy Elkington succeeded Mike Perry as Chief Executive Officer in May 2022. He was appointed following a rigorous and thorough selection process supported by independent external consultants. Andy has an impressive background in both mutual and commercial organisations and quickly brought his experience and expertise to bear, improving member experience and ensuring that PG finished 2022 on target. We are pleased to have him on board.

Debbie McFarlane, Finance Director, was appointed Chief Finance and Operations Officer in May 2022. Debbie's skill, diligence and depth of understanding is a true asset to PG. She and Andy Elkington form our new leadership team.

Acknowledgements

I would like to thank the Society's staff and my fellow Board members for another strong performance in challenging circumstances, and I would in particular like to thank all of our members for their continued support of our Society. The pandemic period has reiterated the importance of income protection, and we would not be able to offer this service without the loyalty of our members.

Simon Whale, Chair of the Board

30th March 2023

Chief Executive's Report

I am delighted to be writing my first annual report as your Chief Executive. I joined PG Mutual in May 2022, and it quickly became clear to me how committed my colleagues are to supporting you, our members, during difficult times and the strong sense of purpose that exists within the organisation. PG Mutual strives to ensure that our members lifestyles are protected, and their futures are secure, and I am looking forward to working with the team to enhance our offering at every opportunity.

Our Strategy

Our strategy is to grow our membership in selected markets, by providing high quality income protection to a wide range of healthcare professionals and, in addition, enabling them to share any profits we make through our profit share scheme. We have built strong and effective relationships with key Corporate Partners who operate at the heart of our markets, and we will continue to work closely with them to protect their members livelihoods in the event of illness. Furthermore, we are investing in our technology platforms to enhance how we communicate and interact with our members and continue to improve our operational efficiency to deliver the highest levels of service.

A Successful Year in a Challenging Environment

During 2022, we all experienced the economic impacts and uncertainty caused by world events such as the war in Ukraine, and the resulting increases in the cost of living from higher inflation and interest rates. Whilst this has undoubtedly put pressure on the day-to-day finances of our existing and prospective members, I am pleased to say that the intrinsic value of the protection we offer has contributed to a 4% increase in net earned premium over the year, driven by strong retention of existing policies and new business increasing by c20% in 2022 compared to 2021.

I would like to thank the entire team at PG Mutual for their hard work and commitment to providing excellent service to existing and new members alike.

Corporate Social Responsibility ("CSR")

The year saw the Society continue to build on its successful CSR strategy. Members were given the opportunity to influence our CSR work through the charity nomination scheme, and we continued to review the carbon footprint of our activities with a view to further reducing our environmental impact.

Furthermore, we have been working closely with Royal London Asset Management to ensure that our investment strategy meets the required standards of environmental, social, and corporate governance. We are a relatively small organisation; however, the climate emergency is a threat to us all and we therefore need to play our part.

Thank You

And finally, I would like to thank all of our Members and our Corporate Partners for their loyalty and support during 2022. The PG Mutual team and I look forward to being of service in 2023 and beyond.

Andy Elkington

Andy Elkington, Chief Executive Officer

30th March 2023

The Board's Report on Business Strategy

Business Purpose, Model and Strategic Objectives

The Society's purpose is the provision of income protection to UK-based professionals. The Society's Income Protection Plus product is a comprehensive income protection assurance plan that incorporates a long-term profit share scheme 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 product, and by managing the Society's affairs in a manner that generates annual bonuses to members' profit share accounts at a level that meets or exceeds their reasonable expectations.

There are two pillars to the Board's strategy to deliver value to members. The first is to ensure an appropriate proportion of the Society's funds are invested in assets with sound long-term income and capital growth prospects, and the second is to grow the Society's Income Protection Plus portfolio and premium income to diminish management costs as a proportion of premium income.

The Society attracts new members through a number of distribution channels including affinity groups, appointed representatives, and digital marketing. Our products are not sold with any advice provided by the Society.

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 currently limited by its Memorandum and Rules to providing investment based permanent health insurance. The Rules of the Society authorise the Board to introduce additional, discretionary benefits for qualifying groups of members and this authority has been used in recent years to introduce a number of benefits for members.

All the business activities of the Society and its subsidiary, PG Mutual Services, during the last financial year have been carried out within their respective memorandums and the permissions granted to PG Mutual by the Prudential Regulation Authority and the Financial Conduct Authority.

The Society promotes Income Protection Plus within the United Kingdom only and due to the nature of both the product and its affordability for customers, the Board has typically found that fluctuations in the macroeconomic environment have only a limited impact on the Society's sales activities.

Key Business Performance Indicators

The Board evaluates the investment pillar of its strategy by carefully monitoring the Society's Fund for Future Appropriations ("FFA") and Required Minimum Margin ("RMM"), the asset mix of the investment portfolio, and the performance of the investment portfolio. When considering the business performance of the Society, the Board focuses on the net growth of the Income Protection Plus portfolio, its earned premium income, claims payments and level of management expenses.

Investment KPI's

As the Society's Income Protection Plus product aims to provide a lump sum payment to members in their 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 income and capital growth. The Investment Committee ("ICom") monitors the adequacy of the asset mix on behalf of the Board on a regular basis and will adjust where it is considered appropriate in the context of the Board's investment strategy and its principles and practices of financial management policy.

Investments	2022 (£)	2022 (%)	2021 (£)	2021 (%)
Shares and Other Variable Yield Securities	22,036,733	52	23,271,888	50
Debt and Other Fixed Income Securities	20,250,919	48	23,693,156	50
Deposits with Credit Institutions	-	-	-	-
Investment in Subsidiary and Other	4,721	<1	4,721	<1
	42,292,373	**100**	**46,969,765**	**100**

In 2022, the value of the Society's total investment portfolio decreased by £4.7m to £42.3m (2021: £46.9m), and income from investments was £1.1m (2021: £1m). From a capital strength perspective, as of the end of 2022 the Society's required minimum margin was £1.3m (2021: £1.5m) and the FFA was £16.1m (2021: £20.3m).

Commercial KPI's

The Society's Income Protection Plus policy portfolio increased from 4,879 at end of 2021 to 5,149 by the end of 2022. Premium income increased by £139k to £3.6m (2021: £3.5m) and an operating surplus[1] of £69k was achieved (2021: £445k).

Principal Business Risks and Uncertainties

The Board maintains a system of risk management to ensure potential threats to the Society's ability to achieve its business and investment objectives are identified and assessed, and then managed or mitigated as appropriate in accordance with the Board's appetite for those risks.

Although the Society is small, the Board has sought to incorporate the 'three lines of defence' governance model into the Society's risk management arrangements. The Chief Executive is responsible for overall management of risk on behalf of the Board, with function leaders accountable to the Chief Executive for the management of risks their business activities expose the Society to. The Chief Finance and Operations Officer has been appointed by the Board to lead the efforts to identify and assess the potential long-term financial risks to the Society from climate change.

To ensure adequate oversight of the Board's risk framework, a Chief Risk Officer has been appointed to monitor the Society's management of risk against the Board's risk appetite. The work of the Chief Risk Officer is overseen by the Board's Audit and Risk Committee ("ARC").

The key risks the Board's strategy exposes the Society to are investment risk, insurance risk, distribution risk, operational risk, and conduct risk.

Investment Risk

The Society's exposure to market risks is due to its investment activities on behalf of members. The most notable market risks the Society is exposed to are:

- Market Value Risk: this is the most significant market risk the Society is exposed to and concerns fluctuations in the asset values of the Society's investments.
- Foreign Exchange Risk: this risk is related to volatility risk as it concerns the potential loss on the value of overseas assets caused by the fluctuation in currency exchange rates relative to Sterling (£).
- Credit Risk: this is the risk that one or more investment counterparties default on their obligations to the Society, disrupting our cash-flow and potentially the loss of the asset.

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[1] Premium income less management expenses and Income Protection Plus claims incurred.

- Liquidity Risk: this is the risk that an investment may not be available at a reasonable value for the Society to use to meet its obligations when they fall due.
- Interest Rate Risk: this risk is that increases in interest rates diminish the asset value of fixed interest rate investments.
- Concentration Risk: this is the risk of becoming exposed to a single counterparty, asset class, or market sector to such an extent that any adverse experience disproportionately impacts on the Society.
- Climate Change Risk: from a market risk perspective, the long-term exposure of the Society's assets to climate change risks arises from the UK and global economies' transition to low carbon economies, and from the risks environmental changes will potentially bring.

Insurance Risk

Insurance risk arises from the inherent uncertainties as to the occurrence, amount and duration of the Society's income protection insurance liabilities and factors relevant to their valuation such as policy, claims and expense levels:

- Product Risk: these risks relate to the design features and pricing of the insurance product.
- Underwriting Risk: these risks relate to the due diligence policies, systems and procedures used to assess the suitability of applicants for insurance cover.
- Claim Risk: these risks relate to the policies, systems and procedures used to assess the eligibility of insurance claims and thereafter monitor them.
- Prudential Risk: these risks relate to the valuation of insurance liabilities and compliance with regulatory capital requirements.
- Lapse Risk: this risk concerns the levels of insured policy commutations and terminations.
- Expense Risk: this risk concerns the impact of management expenses on the Society's insurance business.
- Climate Change Risk: from an insurance risk perspective, the Society's long-term exposure to climate change risk arises from the impact of environmental changes to morbidity and mortality rates, and from the impact transition to a low-carbon economy will have on labour markets.

Distribution Risk

Distribution risks are those that could adversely impact on the viability of the business strategy and include:

- Reputation Risk: these risks are those that threaten the trust and confidence of customers and other stakeholders in the Society's brand or Income Protection Plus product.
- Economic Risk: the risk that adverse changes in macro or micro economic circumstances may diminish demand for income protection products.
- Concentration Risk: the risk of the Society becoming too dependent on a single or limited market or distribution channel for its business.
- Political and Regulation Risk: the risk that changes in state policy or legislation may adversely affect the Society, its product, or its customers.

Distribution risks are primarily addressed by the Board through its business planning process, which is undertaken annually and then closely monitored throughout its implementation, and secondly through the promotion of a strong, ethical business culture that the Board believes our members would expect from their Society.

Operational Risk

Operational risks are wide-ranging and arise from inadequate or failed internal processes, personnel, and systems or from external events and can include:

- Operational Resilience Risk: this is the risk of disruption to normal business operations from adverse events.

- Information Management Risk: the risk of failing to appropriately protect the personal data of the Society's customers from miss-use, theft, or loss.
- Systems Risk: the risks, beyond information management risks, to the Society's business operations from failed or inadequate management systems.
- Cyber Risk: related to system risk and data governance risk, this is the risk of financial loss, extortion, business disruption or reputational damage from the Society being ill-prepared to resist a cyber-attack by a third party.
- Human Resource Risk: the risks associated with inadequate personal management in areas such as recruitment, remuneration, employee fraud, allocation of responsibilities, training and supervision, health and safety, retention and the potential loss of key persons, skills, or knowledge.
- Bribery and Corruption Risk: the risk of either individual or business behaviour being inappropriately influenced by dishonest, unlawful, or inappropriate factors rather than the objective best interests of the Society and its members.
- Climate Change Risk: the risk of the Society's office and operational framework being adversely affected by the changing climate such as flooding and loss of power.

The Board manages operational risks through the use of internal policies and process controls. Wherever possible, the objective for such controls is to remove the risk or to transfer it through appropriate insurance arrangements.

Conduct Risk

Conduct risks are those the Society's strategy potentially poses to the Financial Conduct Authority's statutory objectives, which given the nature and scale of the Society's business is primarily the potential threats the Society's conduct could pose to financial services consumers, and the potential for the Society to be used for financial crime such as fraud and money laundering.

The Board is committed to full compliance with all applicable financial services regulations and, through its business planning, internal controls and services places the best interests and fair treatment of our customers at the heart of our business culture. While the Board considers the Society to be a low-risk target for financial criminals, the Board nevertheless maintains appropriate due diligence policies and procedures to minimise this threat.

Business Risks and Mitigation

The following have been identified by the Board as the significant underlying risks to the Society, together with the mitigating actions in place:

- Failure to deliver targeted results of the rolling Strategic Plan within the agreed timescales – where the Board cannot determine, or foresee, delivery of targeted results, options as to the future direction of the Society will be considered, evaluated and implemented.
- Cost over-run, unplanned costs rise as a proportion against premium income – development costs are monitored and evaluated against results for each strategic initiative, which can be reviewed or ended at any time to limit negative impact of profitability.
- Financial strength weakens – monitoring of free capital is in place as part of corporate governance and oversight.
- New business stream has adverse claims experience, impacting profitability. Claims experience is monitored closely, and premium rates are not guaranteed.
- Reduction in Society membership – strategy in place to diversify and take on new members in differing markets.

In the event any, or all, of the above crystallise there would be an adverse effect on the Society's objectives and an impact on members, however the Board is confident that its risk strategies will mitigate inherent risk to satisfactory levels. These risks to members can be summarised as follows:

- Reduction in Apportionment, Bonus and Terminal Bonus for Holloway members.
- Inability to maintain sickness benefit without increasing premium rates.
- Reduction in member's capital.

KPIs Summary and Future Outlook

The Board is pleased that demand for the Society's income protection product remained good in 2022 and that our operational resilience planning continued to ensure we could maintain normal service standards to members even in more distressed circumstances. The Board is therefore reassured that its strategy will continue to deliver sustainable growth for the benefit of all of our members.

Approval of the Business Strategy Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board

30th March 2023

The Board's Report on Corporate Governance

Compliance with the AFM Corporate Governance Code

The Association of Financial Mutuals' Corporate Governance Code[2] ("AFM Code") is principles-based, and firms are expected to provide their members with an explanatory annual report on how their governing bodies have sought to apply those principles to their organisations and business strategies. The six principles are quoted in italics in the following sections and cover:

1. Purpose and Leadership.
2. Board Composition.
3. Director Responsibilities.
4. Opportunity and Risk.
5. Remuneration.
6. Stakeholder Relationships and Engagement.

The Board has sought to integrate each of the principles into its governance arrangements for the Society. The Board's Directors' Remuneration Report will cover how the Board has sought to apply the remuneration principle.

Purpose and Leadership

"An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose."

The Board's business plan includes a clear and simple 'mission and culture' statement that defines the Society's purpose, its values and culture. The Society is a specialist provider of income protection in the 'George Holloway'[3] tradition and is committed to treating customers fairly, ensuring the Society's overall membership proposition is good value for money, and to conducting its business in accordance with the letter and spirit of best practice corporate governance and regulatory standards.

The Board leads the Society and uses its mission and culture statement to set the tone for everyone working for the Society. It has also been used to inform the Board's business and investment strategies, including an internal principles and practices of financial management policy to guide the Board's long-term capital management and bonus decisions, and its systems of governance and risk management for the organisation. The Society uses external service providers for its actuarial, internal audit and asset management functions, but the Board ensures that these service providers follow ethical or regulatory standards consistent with the Board's expectations for the culture and values of the Society.

The Chair of the Board maintains close and regular contact with the Chief Executive and Chief Finance and Operations Officer to talk informally about operational challenges, and the Chair of the Investment Committee ("ICom") and the Chair of the Audit and Risk Committee ("ARC") maintain contact with the Chief Finance and Operations Director and Chief Risk Officer respectively between meetings.

Board Composition

"Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution."

The Board takes responsibility collectively for the leadership of the Society, but the Chair leads the Board and maintains contact with the Society's executive and non-executive directors between meetings to ensure there is an appropriate level of Board oversight during these periods and to coordinate with the executive

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2 https://financialmutuals.org/governance/our-governance-code/
3 https://www.handbook.fca.org.uk/handbook/glossary/G502.html?starts-with=H

on the planning for future Board meetings, including the provision of appropriate management information and the attendance of relevant personnel and external service partners. While the Chair of the Board cannot be considered as having been independent for the purpose of the AFM Code appointment as he had served on the Board for more than nine consecutive years at the time of his appointment, the Board does consider the Chair to be sufficiently independent from the business and has clearly defined the roles of the Chair and the Chief Executive to maintain their effective separation. The Chair is supported in their role by a Vice-Chair elected by the Board.

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 and the strategic priorities of the business such as actuarial, communications, entrepreneurial, finance, information technology and risk management expertise. The Board is normally comprised of seven directors, two executives and five non-executives, and only the Chair of the Board is not considered to be independent due to the time he has served on the Board. From a diversity perspective as of the end of 2022, the Board has five male and two female members. As a board, we are committed to ensuring we create a culture of inclusivity across the society, the current board compilation consist of members representative from different ethnicity and gender identity which has enabled us to benefit from a diverse pool of skills and experience. The Board has in place a diversity policy that requires the Remuneration and Nomination Committee ("RNC") to ensure its external recruitment partner identifies female and ethnic minority candidates that meet the expertise and experience requirements of the vacancy.

All directors are required under the rules of the Society to be elected by the members at regular intervals. Newly appointed directors are required to stand for election to a full three-year term at the next AGM, and again upon the completion of each three-year term until that director has completed nine years on the Board. Directors who serve for more than nine years are limited to annual terms. To ensure its effectiveness, the RNC undertakes an annual assessment of the Board's performance. While the Board did not seek an external evaluation of its performance, the Chair does attend the AFM non-executive director forums that enable him to meet and discuss such matters with non-executive directors from other mutual organisations. Directors are also encouraged to share their experiences from other boards and forums they participate in.

The Chair leads the appraisal of individual directors, collecting feedback on directors' performance from all board members, and takes into consideration whether the directors are committing the amount of time necessary to undertake their responsibilities. The Senior Independent Director undertakes an appraisal of the Chair after consultation with the rest of the Board. All directors undertake their own continuing professional development, but the Chair also ensures the Board receives regular continuing professional development as part of its meeting schedule. The Head of Governance and Risk of the Society supports the Chair and the Board, and all directors are authorised to request either information from the Secretary or access to independent third-party specialist advice at the Society's expense should they consider it necessary. The Board has reserved to itself the right to appoint or remove the Secretary under its schedule of matters reserved.

Director Responsibilities

"The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge."

Both to ensure its compliance with the AFM Code and the Senior Managers and Certification Regime for financial service firms, the Board has adopted a detailed management responsibilities map that is a reporting item at each full meeting of the Board. The policy clearly outlines the management structure of the Society's organisation; the key function holders and their prescribed responsibilities; the function lines of accountability to the Board; and the operational supervision arrangements for the Society day-to-day. The management responsibilities map also incorporates a schedule of matters the Board has reserved to itself for collective discussion and decision making, and the terms of reference for the ARC, ICom, RNC and the subsidiary company's board.

The Chair of the Board and the Head of Governance and Risk discuss the adequacy of the Board's system of governance for the Society during the course of each year, including whether the memorandum and rules for the Society continues to be appropriate. The rules of the Society were refreshed in 2015 and the Board is satisfied they remain fit for the purpose of a modern, mutual financial services firm. Members can obtain a copy of the current memorandum, rules, and schedules from the Society's website.

The Board expects directors and officers to be objective and transparent during the course of their work for the Society, and the Chair of the Board promotes this culture by requiring the Secretary to include on each Board meeting agenda the Society's gifts and hospitality register and the declaration of interests register for review. As it is no longer a requirement for directors of the Society to also be policyholders, the Board requires those directors and officers who are policyholders to disclose this interest. The Board can confirm that Simon Whale and Matthew Dreaper were policyholders of the Society during the last year. The Board is satisfied that none of the individuals concerned had their judgement compromised by their membership.

The Board takes responsibility for the integrity of the Society's management information and the systems used to manage it and have appointed senior management personnel to manage key aspects of the Society's information systems. The Chief Finance and Operations officer is responsible for the integrity of the Society's systems for recording financial transactions, and the Chief Executive is responsible for ensuring appropriate policies and processes are in place for the accurate monitoring of business and personnel performance data. The Secretary is responsible to the Chair for coordinating the preparation of management information for Board meetings.

Opportunity and Risk

"A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks."

The Board has determined that in order for the Society to generate long-term sustainable value for both members and workers in line with its mission and culture statement, the Society must offer a competitive, comprehensive income protection package to the professional communities it serves and must manage its capital in such a manner that the long-term reasonable expectations of members for their profit share funds can be met.

As part of its system of risk management, the Board has agreed a set of risk appetites for each of the key risks described in the Board's Strategic Report, and the Society's executives are responsible to the Board for ensuring that the risks associated with any business opportunities are properly identified, assessed, and managed. The Head of Governance and Risk provides operational level oversight in accordance with an agreed monitoring plan to ensure the effectiveness of the Board's system of risk management. The ARC receives reports from the Head of Governance and Risk at appropriate intervals throughout the year, and duly report to the Board on any risk areas that require action.

Stakeholder Relationships and Engagement

"Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions."

The Board's mission and culture statement is used to promote the Society's purpose, its culture, and its values throughout the Society's organisation, but the Board also looks to engage staff in the running of the Society and the strategic planning process. The Chief Executive arranges regular team meetings of the staff to encourage staff from different business functions to talk with each other about what they are working on, and operational management meetings to coordinate activities. While the Board's strategy meetings are limited to non-executive and executive staff, the feedback from these meetings is provided to a Senior Management Committee for their own assessment and feedback, which is then provided to the Board for further discussion. While these meetings are designed to engage staff, the Board has also taken steps to ensure the staff handbook is clear that they have confidential whistleblowing rights in order to raise sensitive matters with a more senior member of the Society, including the Board if necessary. The Board has allocated overall responsibility for the Society's whistleblowing system to the Senior Independent Director.

The Board encourages members to provide feedback with regards to the Society's management, its strategy, its products or its overall service and the Board has set out these Annual Reports and Financial Statements in a manner designed to provide you with the information need to appraise the Boards performance, and you can provide your feedback to the Society via email, telephone, or post. If you would prefer to meet with the Board or the executive, the Board requires all directors and officers to be in attendance for the AGM.

The Audit and Risk Committee

The Audit and Risk Committee ("ARC") has been tasked by the Board with the oversight of the Society's systems of governance, internal control, and risk management. This responsibility includes the scrutiny of all audit reports and all statutory reports to regulators and members, and for making recommendations to the Board regarding these matters before being approved by the Board. Neither the ARC nor the Society's Appointed Auditor identified any significant issues with the Society's financial controls or its financial statements for the year.

The ARC is also responsible to the Board for assessing the performance of the Society's Appointed Auditor and internal audit function, and for making recommendations to the Board in respect to the appointment, re-appointment, remuneration or dismissal of the Appointed Auditor and internal audit function. The ARC undertook a tender process for the provision of its internal audit services in 2019 and HW Controls & Assurance Limited were the successful candidate. Their appointment took effect from the 1st of January 2020.

The ARC is led by its Chair, who has been authorised by the PRA and FCA for this role. Both the Chair of the ARC and the Senior Independent Director are financial professionals with the financial expertise required by the AFM Code, and the Board can confirm the Chair of the Board is not a member and the overall balance of expertise of the ARC is appropriate for its risk management and internal control oversight responsibilities.

Investment Committee

The Investment Committee ("ICom") was established by the Board to manage the Society's investment strategy on its behalf and is led by the Chair of the ICom. It is delegated the responsibility of monitoring the performance of the Society's investments against the Board's strategic KPI's and its market risk appetite. This responsibility also extends to oversight of the Society's asset managers, and to any decisions necessary on asset allocation arrangements, asset sales or any corrective actions considered necessary to protect the Society's capital strength such as reductions in the value of the Society's loyalty bonus, enhanced loyalty bonus, annual bonuses, and profit share accounts.

Approval of the Corporate Governance Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board

30th March 2023

The Board's Report on Climate Change Strategy

The climate emergency is a worldwide issue that requires us to be more aware of how we all live and how we all operate, and to be willing to make changes now to help manage the rate of climate change and so avoid potentially catastrophic consequences. We accept that these changes may affect PG Mutual as an organisation, and we all have our part to play in mitigating the risks. This report outlines the steps the Board has taken to reduce the Society's adverse impact on our environment.

In preparing this report, the Board has taken into consideration the Task Force on Climate-Related Financial Disclosures[4] ("TCFD") recommendations:

- The society's *governance* in relation to climate-related risks and opportunities
- The impact of climate change on our business *strategy* and financial planning
- How the society identifies, assesses, and manages climate change *risk*
- The *metrics and targets* used to manage climate change risk.

Governance

The Board has appointed our Chief Finance and Operations Officer, Debbie McFarlane, as the senior manager responsible for leading the process of identifying and assessing climate change risks internally, and the ICom reviews the adequacy of climate change risk management as part of its remit to manage our investment strategy and capital adequacy.

To underpin the integration of climate change risk assessment into our broader enterprise risk framework, function leaders are expected to identify and assess how their functions could be impacted by climate change in the future as part of their normal risk management responsibilities.

Strategy and Risk Management

The physical risks that climate change potentially poses through changes in weather, sea levels and average temperatures and the transitional risks to our business from the global effort to move towards a new, low-carbon economy have been integrated into our corporate planning and risk management frameworks in a manner proportionate to our Society.

PG Mutual is a dedicated provider of an investment-based income protection insurance products. Most of our membership are engaged in healthcare occupations, and our new business efforts focus exclusively on the UK. Our largest areas of potential business exposure in the short, medium, and long-term is therefore likely to be our exposure as an institutional investor to companies and markets that will be impacted by the move towards a low-carbon global economy, and as an income protection insurer to the potential adverse impact of the changing climate on morbidity trends.

To ensure effective oversight of our climate change risk assessment process, the Chief Risk Officer includes climate change risk monitoring within their oversight work and the risk framework broadly is overseen by the Audit and Risk Committee.

Metrics and Targets

To focus on PG Mutual's activities to reduce its own emissions, and to aligned with a 1.5°C pathway, we have been mapping out our scope 1-3 emissions for the last 3 years and have so far instigated the following: -

- We have taken steps to reduce our energy consumption in our office by introducing LED lighting in all office areas.

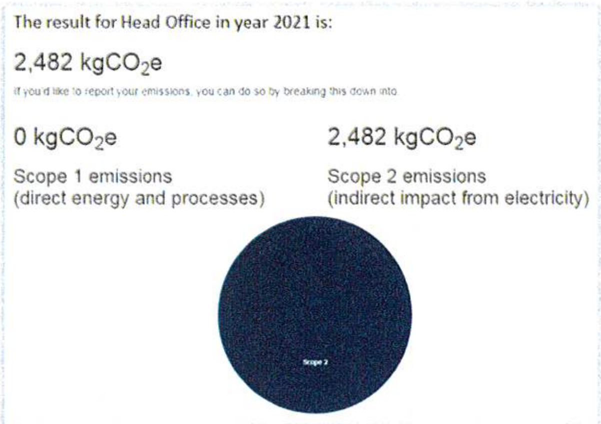
[4] https://www.fsb-tcfd.org/recommendations/

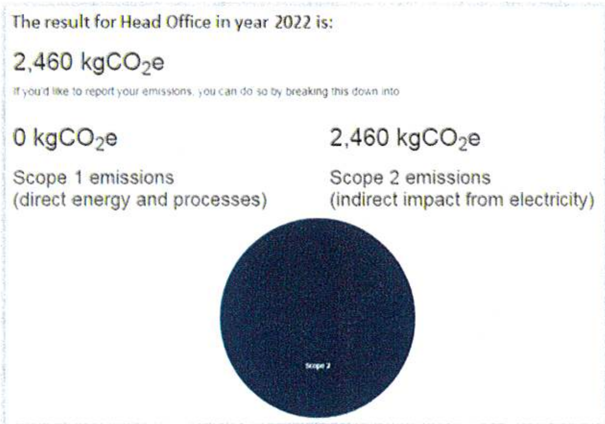
- We use 100% recycled paper for marketing leaflets and the AGM booklet.
- We have made significant member interactivity improvements in our Member Area during 2022 resulting in fewer paper communications and helping us reduce our environmental impact still further.
- We continually review our recycling of office waste and procedures and ensure suppliers services and products are in-line and meet our CSR strategy requirements.
- We have limited the use of the office dishwasher to reduce the use of electricity and water consumption in 2022.
- We now operate hybrid-working for staff and continue to monitor our carbon emission saving. We also contributed to The Queen's Green Canopy carbon off-set tree purchasing project in 2022.
- We continue to donate to the Woodland Trust 'Plant a Tree' scheme for every new member joining PG Mutual.

Scope 1 Emissions: As the society's activity does not involve direct extraction of materials or manufacturing and does not operating a company car scheme or it has no direct exposure to Scope 1 greenhouse gas ("GHG") emissions. The society is not exposed to any other direct emissions under its control.

Scope 2 Emissions: The Society's main exposure to Scope 2 indirect emissions has been identified as the source of electricity purchased to run our Head Office.

Our indirect scope 2 emissions impact from electricity for 2022 and 2021 is highlighted below:





Scope 3 Emissions:

Throughout 2022 the Society sought to define a more robust framework to assess its Scope 3 emissions. The indirect upstream activity giving rise to Scope 3 emissions, can been assessed through its leased assets, purchases of goods and supplies, and our employees' commuting and business travel.

We will continue to develop our framework in relation to climate change and seek to broaden our understanding of our supplier chain activity to adequately assess the indirect exposure to Scope 3 emissions over time. This framework will include any current and emerging regulatory requirements in relating to the management of climate change risk.

The indirect downstream activity identified as the largest exposure to GHG emissions is in relation to our investments in stocks and shares, and this we rely on our investment managers to provide transparency on.

During 2023, the Society's appointed asset manager, Royal London Asset Management ("RLAM"), will be publishing the below data for the 2022-year end:

- Scope 1 GHG emissions (EVIC based)
- Scope 2 GHG emissions (EVIC based)
- Scope 3 GHG emissions (EVIC based)
- Total Carbon Emissions (Scope 1 + 2 only)
- Total Carbon Emissions (Scopes 1-3)
- Carbon Footprint (Scope 1 + 2 only)
- Carbon Footprint (Scopes 1-3)

The ICom have taken a prudent view of the short, medium, and long-term investment considerations and have determined that the most sensible and proportionate course of action for the Society to take with regards to traditional carbon-heavy markets, and also emerging low-carbon markets, is to support our appointed asset manager, RLAM, who actively undertake a thorough appraisal of the environmental, social and governance sustainability factors of investment opportunities prior to investment[5]. RLAM monitors the exposure of its funds to green[6] and brown[7] revenue sources and the position as of the end of 2022 is as follows:

Climate Change and Income Protection

The ICom have taken a prudent view of the short, medium, and long-term investment considerations and have determined that the most sensible and proportionate course of action for the Society to take with regards to traditional carbon-heavy markets and also emerging low-carbon markets is to support our appointed asset manager, Royal London Asset Management ("RLAM"), who actively undertake a thorough appraisal of the environmental, social and governance sustainability factors of investment opportunities prior to investment[8]. RLAM monitors the exposure of its funds to green and brown revenue sources and the position as of the end of 2022 is as follows:

Fund	Brown revenue %	Green revenue %	PGM Holding (31 December 2021)	PGM exposure to brown revenue	PGM exposure to green revenue	WACI as at 31 Dec 2022
Sterling Credit	5% (2022) 6.55% (2021)	11% (2022) 17.63% (2021)	£11,634,347 (2022)	£2,114,383 (2022)	£4,651,642 (2022)	56 tCO2e/$M sales

[5] https://www.rlam.com/globalassets/media/literature/reports/rlam-stewardship--responsible-investment-report-2022.pdf

[6] The percentage of instruments (by value) held in the portfolio through equity stake or bonds that have any exposure to revenues from renewable energy, energy efficiency, green building, sustainable water and agriculture, and pollution prevention. This does not measure the total green revenue derived from the portfolio just the count of issuers with any exposure to green activities. As RLAM's trust on the revenue calculations increase, they will re-evaluate this metric.

[7] The percentage of instruments (by value) held in the portfolio through equity stake or bonds that have any exposure to revenues from oil and gas activity, coal mining and/or coal-based generation of electricity. This does not measure the total brown revenue derived from the portfolio just the count of issuers with any exposure to these activities. As RLAM's trust in the revenue calculations increase, they will re-evaluate this metric.

[8] https://www.rlam.com/uk/intermediaries/responsible-investment/responsible-investment-at-rlam/stewardship-and-responsible-investment-report/

			£14,536,090 (2021)	£3,076,210 (2021)	£8,279,937 (2021)	
Short Duration Credit	5% (2022) 14.46% (2021)	11% (2022) 15.65% (2021)	£4,243,544 (2022) £4,706,789 (2021)	£2,114,383 (2022) £2,094,641 (2021)	£4,651,642 (2022) £7,350,029 (2021)	61 tCO2e/$M sales
Enhanced Cash Plus	0% (2022) 0.20% (2021)	3% (2022) 3.46% (2021)	£3,319,928 (2022) £3,395,979 (2021)	£0 (2022) £93,930 (2021)	£1,268,630 (2022) £1,624,991 (2021)	10 tCO2e/$M sales
Cash Plus	0% (2022) 0.00% (2021)	0.00% (2022) 0.00% (2021)	£1,053,100 (2022) £1,054,298 (2021)	£- (2022) £- (2021)	£- (2022) £- (2021)	4 tCO2e/$M sales
GMAP Adventurous	8% (2022) 7.46% (2021)	20% (2022) 21.77% (2021)	£22,036,733 (2022) £23,271,888 (2021)	£3,383,012 (2022) £3,503,592 (2021)	£8,457,530 (2022) £10,224,290 (2021)	91 tCO2e/$M sales
TOTAL	18.00 (2022) 18.67% (2021)	45% (2022) 58.51% (2021)	£42,287,652 (2022) £46,965,044 (2021)	£7,611,777 (2022) £8,768,373 (2021)	£19,029,443 (2022) £27,479,247 (2021)	

The Society's portfolio exposure to green revenue sources therefore exceeds revenue from brown sources by 27% as of the end of 2021 (39.84%: 2021).

It is not clear how significantly morbidity trends would be affected by climate change, but from a long-term perspective there are indications of health risks that advances in medical science may not adequately offset. A sustained increase in morbidity trends would most likely lead to an increase in claims and associated costs would most likely require an increase in pricing to ensure the profit share feature can be maintained at levels that meet our members' reasonable expectations.

Scenario Analysis

With so many aspects of how climate change will impact on the Society unclear, there is a proportionate need for us to perform scenario analyses to consider potential financial impacts over time.

As a non-Solvency II insurer, the Society uses a model office to stress its balance sheet and cashflow, and we base our investment risk appetite on our ability to withstand a significant multi-scenario stress. The Board is satisfied that this approach remains appropriate and proportionate to both our business model and our likely exposure to climate change trends, however, we will be collaborating with our Appropriate Actuary during 2023 to enhance our financial modelling capability in relation to climate change.

PG Mutual and our work towards Net Zero

In addition to our efforts to manage the potential impact of the climate crisis on the Society, we are pleased to report that we are working towards being a Net Zero firm by 2050 and to have reduced our operational emissions footprint by at least 50% by 2030. This time period takes into consideration the challenges the Society is likely to face in maintaining a reasonable return on the investment of our members funds while moving towards a green investment portfolio. Our journey outlined above will, continue throughout 2023 to achieve more transparency on our Scope 3 emissions.

Approval of the Climate Change Strategy Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board

30th March 2023

The Board's Directors Report

The Directors

The names, profiles, and roles of the directors at the end of 2022 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

Chair of the Board
Chair of PG Mutual Services; RNC Member

Simon is the joint 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 and in the world of healthcare., including Aviva, Endsleigh, and HSBC. He worked with the Association of Friendly Societies for more than ten years, ensuring the benefits of mutuality were better understood by the government, politicians, and the public. He has worked extensively with healthcare organisations including NHS England, the Department of Health & Social Care, various royal colleges, charities and healthcare regulators, and bodies representing pharmacy, dentistry, optometrists, and opticians. In 2018 he was appointed as one of three members of the panel of the Independent Medicines and Medical Devices Safety Review, commissioned by the Secretary of State for Health & Social Care to examine avoidable harm suffered by thousands of patients in relation to two medicines and one medical device. The Review's report, 'First Do No Harm', was published in July 2020, and its recommendations are currently being implemented.

Matthew Dreaper

Vice-Chair and Senior Independent Director
ARC Member; ICom Member

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.

David Gulland

Independent Director
Chair of the ARC; ICom Member

David has spent his whole career working in the life insurance market, both in the UK and overseas. He initially spent 25 years as a consulting actuary working for a wide range of insurers on issues such as financial management, product design, strategy, and mergers & acquisitions. This included a focus on both the mutual sector and on protection business.

David went on to be the Managing Director of RGA's UK reinsurance business until 2011 before taking on the role of Chief Risk Officer and then Chief Executive of Marine & General Mutual until 2015.

He is currently the Chair of Scottish Friendly's With-Profits Committee, and a non-executive director and Chair of Hodge Life.

Paul Howley

Independent Non-Executive Director
Chair of the RNC; ARC Member

Paul has 30 years of experience within financial services, utilities, airlines, and consulting. He has undertaken a variety of roles in Operations, IT and Change but throughout his career there has been a constant theme of improving customer service and business performance.

He is currently Chief Technology and Transformation Officer, Nottingham Building Society.

Denise Hadgill

Independent Non-Executive Director
RNC Member; Chair of the ICom

Denise has spent over 35 years in the investment management industry. After being a research analyst first in the Eurobond market at SGST and then in the equity oil sector at Smith New Court, she moved into fund management at Schroders where she was a UK Equity Fund Manager and Director responsible for the firm's relationship with UK pension funds and charity clients with multi asset portfolios. Denise went on to be a Managing Director and Head of the UK Product Strategy group at BlackRock where she was responsible for delivering the firm's investment message and economic outlook to an extensive range of UK clients. She currently holds non-executive directorships with Henderson Diversified Income Trust, Chelverton UK Dividend Trust and Smithson Investment Trust.

Andy Elkington

Chief Executive Officer

Andy joined PG Mutual as Chief Executive Officer and Director in May 2022.

He brings over 30 years of experience working in the financial services industry and has significant experience in sales, marketing, operations, and stakeholder management. Before joining PG Mutual, Andy worked as Sales and Marketing Director for the Police Mutual Group and has held a variety of senior management roles at Legal & General, Virgin Money and RSA.

Deborah-Jo McFarlane

Chief Finance and Operation Officer
ARC Member; ICom Member

Deborah McFarlane was appointed as Finance Director in January 2017. Deborah joined PG Mutual as Financial Officer in January 2013. She brings over 16 years of experience to the Society overseeing all aspects of finance within the financial services sector.

Prior to joining the PG Mutual, Deborah worked for Communication Workers Friendly Society for 10 years and was instrumental in overseeing its transfer of engagements to Forester Life in 2011. She also worked for CS Healthcare as Director of Finance during 2012. Deborah qualified as a Certified Accountant whilst working at Communication Workers Friendly Society as Head of Finance in 2009 and has held a number of senior finance roles both in the financial services and public sector since 2001.

In May 2022, the board appointed Debbie McFarlane as Chief Finance and Operations Officer.

Annual Bonus

The Board can confirm that after receiving the advice of the Society's Appropriate Actuary, the interest to members' profit share accounts and the dividend-per-share for the year can be declared as follows:

Annual Bonus	2022	2021
Interest rate on accumulated members' profit share account balances	**2.00%**	**1.75%**
Dividend-per-share to members' profit share accounts	**£1.75**	**£1.75**

The loyalty bonus for retiring members has been set at 25% and the minimum profit share payment for any insured member who dies during 2023 has been set by the Board at £10,000, and an additional sum equal to the deceased member's monthly income benefit will be paid to their nominated next of kin for six months.

The Board wishes to remind members that annual bonuses and your profit share accounts are provisional and are not guaranteed. Should financial markets become distressed, and the assets of the Society materially reduced, the Board would temporarily reduce all loyalty bonuses, enhanced loyalty bonuses, annual bonuses, and profit share account balances, if necessary, in proportion to the anticipated loss the Society would incur upon the realisation of any investment losses. Such temporary reductions would be reversed as the investments subsequently improve.

Political Donations and Charitable Expenditure

The following charitable donations were made during the year in accordance with our Corporate Social Responsibility ("CSR") strategy:

Charitable Donations or Sponsorships	2022 (£)	2021 (£)
Atherton Cricket Club	-	500
Douglas Macmillan Hospice	-	375
Physical Handicapped and Abled Bodied	2,500	2,100
St Albans & District Food Bank	1,000	500
The National Benevolent Charity	-	3,450
Facebook- Charity Award	-	67
Open Door	-	500
Young minds.org	-	1,000
Woodland Trust	2,015	1,805
Alzheimer's Society	-	1,000
Fareshare	-	1,000
Shelter	-	1,000
The Queens Green Canopy	550	-
VetLife	1,000	-
Pharmacist Support	1,000	-
Ruth Strauss Foundation	1,000	-
The Trussell Trust	1,000	-

Guide Dogs	2,500	-
Total Charitable Donations or Sponsorships	12,565	13,297

No other charitable donations were made during 2022. No political donations were made.

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.
- 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.
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 have indicated 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 based on the strategy described in the Strategic Report. This viability assessment took into consideration the Society's prospective Income Protection Plus 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.

Complaints Procedure Policy

It is the Society's policy to investigate and resolve all complaints received from members 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.

pg mutual
income protection plus

Approval of the Directors' Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board

30th March 2023

The Board's Report on Remuneration

The Remuneration and Nomination Committee ("RNC")

As recommended by the AFM Code, the Board has established a Remuneration and Nomination Committee ("RNC") of the Board, which is led by the Chair of the RNC. The Chair of the RNC has been approved for this role by the PRA and the FCA. The RNC members during the year were the Chair of the RNC, Paul Howley; the Chair of the Board, Simon Whale; the Chair of the Investment Committee, Denise Hadgill.

The AFM Code Remuneration Principle

"A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation."

The RNC is responsible to the Board for making recommendations with regards to the remuneration of non-executive and executive directors. The RNC believes that its remuneration for policy for the non-executive directors and executive director strikes and 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 undertake its responsibilities.

The Board has departed from the AFM Code in 2022 in that the Chair of the Board is also a member of the RNC despite not being independent upon appointment. The Board is satisfied that the Chair of the Board continues to be sufficiently separate from the day-to-day affairs of the business to be able to exercise independent judgement on the RNC. While no external expertise was requested by the RNC during the year, the Board can confirm its members are authorised, collectively and individually, to seek such expert advice on remuneration and recruitment matters as they consider necessary to discharge their responsibilities. Such expert advice would be arranged at the Society's expense.

Directors' Remuneration Disclosure

The breakdown of directors' remuneration in 2022 was as follows:

Director	Basic Salary (£)	Benefits (£)	Annual Bonus (£)	Pension Contributions (£)	Total 2022 (£)	Total 2021 (£)
Executive Directors						
Mike Perry (to 30 April 2022)[9]	46,667	3,000	-	2,600	52,267	167,112
Andy Elkington (from 1 May 2022)	95,762	5,000	22,000	-	122,762	-
Deborah McFarlane	113,999	-	17,000	4,495	135,494	93,986
Non-Executive Directors						
Simon Whale	25,000				25,000	24,525
Matthew Dreaper	16,000				16,000	15,325
David Gulland	16,000				16,000	15,325
Paul Howley	15,000				15,000	13,500
Denise Hadgill	15,000				15,000	2,250
Graham Exton					-	14,250

[9] Mike Perry earned a further £99,437 in salary and benefits, and a further £5,200 was paid in relation to pension contributions, between 1st May 2022 and 31st December 2022 for his role as Chief Transition Officer

Directors' Meeting Attendance Disclosure

The table below shows the number of meetings each director attended in 2022:

Director	Board of Directors	Investment Committee	Audit and Risk Committee	Remuneration and Nomination Committee	Total 2022	Total 2021
Simon Whale	5	1	-	4	10	9
Matthew Dreaper	5	4	4	-	13	13
David Gulland	5	4	4	-	13	13
Paul Howley	5	1	3	4	13	13
Denise Hadgill	5	4	1	4	14	3
Mike Perry	1	-	-	-	1	6
Andy Elkington	3	3	3	2	11	-
Deborah McFarlane	5	4	4	2	15	13

Approval of the Remuneration Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board

30th March 2023

The Independent Auditor's Report to the Members of PG Mutual

Our Opinion

We have audited the financial statements of the Society for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, Statement of Financial Position, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Society's financial statements:

- give a true and fair view of the state of the Society's affairs as of 31 December 2022 and of the Society's deficit for the year then ended.
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- have been prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Opinion on Corporate Governance Statements

In accordance with our instructions from the Society, we review whether the Corporate Governance Statement reflects the Society's compliance with those 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:

In the light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified material misstatements in:

- The strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the account records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Respective responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit in respect of fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses to those assessed risks; and to respond appropriately to instances of fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both management and those charged with governance of the Company.

Our approach was as follows:

- agreement of the financial statement disclosures to underlying supporting documentation.
- our responses to significant audit risks (technical provisions and management override of controls) are intended to sufficiently address the risk of fraudulent manipulation. In particular we engaged an independent external actuary as auditor's expert to review the assumptions and methodology applied by the Society in the valuation of long-term business provisions to check the methods utilised are appropriate.
- enquiries of management.
- review of minutes of board meetings throughout the period.
- obtaining an understanding of the legal and regulatory framework applicable to the Society's operations.
- obtaining an understanding of the control environment in monitoring compliance with laws and regulations.
- review of correspondence with the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA).

  As part of an audit in accordance with ISAs (UK) we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

  Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the company's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

Use of our report:

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

Mark Powell, Senior Statutory Auditor

For and on behalf of Moore, Chartered Accountants and Statutory Auditor, 30 Gay Street, Bath, BA1 2PA

The Financial Statements as of 31 December 2022

Statement of Comprehensive Income

Technical Account: Long-Term Business	Notes	2022 (£)	2021 (£)
Earned Premium Income	5	3,626,777	3,487,793
Investment Income	6	1,114,980	1,010,958
Total Technical Income		4,741,757	4,498,751
Income Protection Claims Incurred	7	(1,474,645)	(1,322,076)
In-Year Interest and Dividends (including Loyalty and Enhanced Loyalty Bonuses)	8	(306,052)	(293,307)
Management Costs	9	(2,083,442)	(1,720,977)
Investment Expenses and Charges	13	(141,295)	(136,886)
Unrealised Gains/(Losses) on Investments	17	(4,677,392)	2,725,939
Interest and Dividends to Members' Profit Share Accounts	18	(974,498)	(904,107)
Transfer (to)/from the LTBP	18	734,961	299,137
Transfer from/(to) the FFA	18	4,180,606	(3,146,474)
Balance on the Technical Account		-	

Statement of Total Recognised Gains and Losses	Notes	2022 (£)	2021 (£)
Transfer (to)/from the FFA	18	4,180,606	(3,146,474)
Total recognised gains/(losses) since last Annual Report		(4,180,606)	3,146,474

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.

Statement of Financial Position

	Notes		2022 (£)		2021 (£)
Fixed Assets					
Tangible Fixed Assets	15		739,850		771,455
Investments					
Investment in Subsidiary	16	4,721		4,721	
Other Financial Investments	16	42,287,652		46,965,044	
			42,292,373		46,969,765
Other Assets					
Cash at Bank			202,530		487,632
Prepayments and Accrued Income			347,889		384,396
Total Assets			43,582,642		48,613,248
Fund for Future Appropriations	18		16,122,548		20,303,154
Long Term Business Provision					
Members' Profit Share Accounts	18	15,906,683		16,097,780	
Mathematical Reserves	18	10,898,600		11,633,561	
			26,805,283		27,731,341
Creditors					
Creditors Arising from Insurance Activities		323,817		254,492	
Other Creditors	22	330,994		324,261	
			654,811		578,753
Total Liabilities			43,582,642		48,613,248

Approval of the Financial Statements

These financial statements are approved unanimously by the Board.

Simon Whale, Chair of the Board

30th March 2023

The Notes to the Financial Statements

1. Basis of Accounting

PG Mutual is a Friendly Society incorporated in the United Kingdom under the Friendly Societies Act. The address of the registered office can be found under the Management and Legal Information section on page 7.

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, P&G Insurance Services Limited trading as PG Mutual Services, is not material.

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.

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.

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, P&G Insurance Services Limited trading as PG Mutual Services, 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.

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.

Annual Bonuses on Members' Profit Share Accounts

Annual bonuses to members in the form of interest and dividends-per-share are recognised in the Technical Account Long-Term Business when declared, and loyalty bonuses and enhanced loyalty bonuses when paid.

Fund for Future Appropriations

The FFA incorporates amounts which have yet to be allocated to members. 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, capital gains 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 15 below, the Society's freehold properties are held at valuation. The property was valued as of the 31st December 2021 on the 9th Feberuary 2022 using an Open Market basis by Lambeth Smith Hampton Valuers, a RICs Registered Valuer at that time. Our policy is to value the Society's property every three years.

Using the historical cost model, the amount recognised would be materiall different to tp that disclosed.

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 1st 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 1st November 2010, the employer will match the employee's contribution up to a maximum contribution of 4%.

Under the Pensions Act 2008, the Society was required to comply with automatic emrolment with a staging date of 1st January 2017. All staff who have joined the Society after that date have been automtically enrolled into the Scottish Widows Scheme under terms that comply with that specified by the Pension Regulators.

Tangible and Intangible fixed assets

Tangible and Intangible assets are initially measured at cost. After initial recognition, assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Building Improvements	10.0%
Fixtures, Fittings and Furniture	12.5%
Computer Equipment Software & Office Machinery	25.0%

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 insurance contracts is based on policy data held on the Society's administration systems and prudent assumptions set using internal and external data as inputs to actuarial valuation models. The assumptions used for mortality and morbidity are based on standard industry tables, adjusted where appropriate to reflect the Society's own experience.

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 ties 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.

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 in accordance with Board's internal principles and practices of financial management policy.

4. Capital Management

Policies and Objectives

The Society applies three overarching principles to the management of its Income Protection Plus business. These are set out below in the order in which they would normally apply:

- meet all contractual obligations, in particular the timely payment of contractual benefits;
- always meet the appropriate prudential tests for solvency and capital adequacy;
- treat all policyholders fairly, taking into account their reasonable expectations.

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	2022 (£)	2021 (£)
FFA		
Total Capital Resources Before Deductions	16,122,550	20,303,154

Regulatory Solvency Adjustments	(1,361,981)	(4,373,900)
Capital Available to Meet Regulatory Capital Requirements	14,760,569	15,929,254

Measurement and Monitoring of Capital

The capital position of the Society is monitored internally on a regular basis and reviewed periodically by the Board. These objectives are reviewed, and actions taken, if necessary, 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 action as explained under "Available Capital" below.

Available Capital

An allowance is made for actions that management would take in adverse conditions, such as reducing loyalty bonuses, enhanced loyalty bonuses, annual bonuses and profit share 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.

The Board is responsible for reviewing the risks faced by the Society and approving the required level of capital to be held against each risk element.

The assets held in the fixed income funds as at 31 December 2022 split by duration were as follows:

Assets as at 31 December 2022					
Fund	Within 1 year	1-5 years	5-10 years	Over 10 years	Total
	%	%	%	%	%
Fixed Income Funds	59.88	23.09	11.32	5.71	100

The assets held in the fixed income funds as at 31 December 2021 split by duration were as follows:

Assets as at 31 December 2021					
Fund	Within 1 year	1-5 years	5-10 years	Over 10 years	Total
	%	%	%	%	%
Fixed Income Funds	56.95	18.67	14.76	9.62	100

Market risk is the risk that as a result of market movements the Society may be exposed to fluctuations in the value of its assets, the amount of its liabilities, or the income from its assets. Sources of general market risk include movements in interest rates. The Investment Strategy is kept under regular review by the Investment Committee. The Investment Committee oversees investment activity, monitors the Society's Investment Managers, and ensures that the investment policy and asset allocations are maintained in accordance with the Terms of Reference set by the Board from time to time.

The Society has appointed Royal London on a non-discretionary mandate to assist in managing the risks set out below, whilst also optimising investment performance within the prudent strategy and protocols laid down by the Society.

The Appropriate Actuary to the Society advises on aspects of the capital consequences of given investment strategy and the prudent interests of members in the context of the investment of their funds.

Market risk can be further broken down into the following risks:

Interest rate risk

Interest rate risk exists for all assets and liabilities which are sensitive to changes in the term structure of interest rates or interest rate volatility. Due to the nature of the Society's products, the available capital may be impacted by these interest rate movements.

Asset-liability matching is performed to broadly match expected liability cash flows on a realistic basis in each fund. However, this can never be exact due to the uncertainties involved. A 0.5% increase in interest rates (i.e. from 3.58% to 4.08%) would lead to a reduction in the LTBP of £1.1m.

Exchange rate risk

The Society does not directly invest in or hold equity investments; however, we do hold indirect investments through our GMAP Fund that may give rise to exchange rate risk. The Society's indirect holdings shown by currencies are listed below:

Equity market values by currency	2022	2021
	%	%
GBP	76.28%	77.43%
USD	12.93%	12.95%
EUR	2.95%	2.77%
Other	7.84%	6.85%
Total	100%	100%

Credit Spread Risk

Credit spread risk is the risk of loss due to default (or fall in value due to increase in spread risk over risk-free assets) by debtors, reinsurers and market counterparties of the Society in meeting their financial obligations.

As at 31 December 2022 the Society held £20.3m (2021: £23.3m) in debt and other fixed income securities.

These are analysed by credit rating below:

Credit Rating	2022	2021
	£000	£000
AAA	4.72%	4.27%
AA	10.17%	9.33%
A	12.14%	11.75%
BBB	22.91%	24.03%
BB and below	6.12%	6.29%
Unrated [10]	43.94%	44.33%
Total	100%	100%

Liquidity Risk

Liquidity risk is the risk that the Society is unable to meet its own commitments to pay its liabilities when they become due. The Investment Committee overseas liquidity management and cash flow requirements to ensure that sufficient liquidity is available to operate the Society and meet members' claims.

5. Earned Premium Income

	2022 (£)	2021 (£)
Income Protection Plus subscriptions	3,626,777	3,487,793
Earned Premium Income	**3,626,777**	**3,487,793**

6. Investment Income

	2022 (£)	2021 (£)
Listed Investments	1,114,980	900,108
Deposits with Banks and Fund Managers	-	6,313
Investment Income (excluding Realised Gains/(Losses))	1,114,980	906,421
Net Gains/(Losses) on the Realisation of Investments	-	104,537
Investment Income	1,114,980	1,010,958

7. Claims Incurred

	2022 (£)	2021 (£)
Income Protection Claim Payments	1,210,648	1,095,015
Claims Handling Expenses	263,997	227,061
Total Claims Incurred	**1,474,645**	**1,322,076**

[10] Unrated securities are assessed internally by RLAM to ensure that they meet the risk appetite of the underlying fund. The Investment Committee is satisfied with this approach.

8. Members' Profit Share Account Withdrawals

	2022 (£)	2021 (£)
Payments on Terminations	1,043,346	961,480
Payments on Partial Withdrawals	122,249	122,141
Total Members' Withdrawals	**1,165,595**	**1,083,621**
Mid-Year Interest and Dividends (including Loyalty and Enhanced Loyalty Bonuses)	306,052	293,307

9. Management Costs

	2022 (£)	2021 (£)
Other Acquisition Costs	890,750	802,704
Administration and Other Costs	1,158,246	880,156
Depreciation and Amorisation	34,446	38,117
Management Costs	**2,083,442**	**1,720,977**

10. Independent Auditor Remuneration

	2022 (£)	2021 (£)
Fees Paid to Moore for Audit Services	30,700	23,500

11. All Staff

	2022 (£)	2021 (£)
Salaries	1,131,230	969,609
Social Security Costs	131,580	106,067
Defined Contribution Pension Costs	31,275	27,064
	1,294,085	**1,102,740**

Senior Management Team

	2022 (£)	2021 (£)
Salaries (including the Chief Executive Officer)	645,746	471,761
Social Security Costs	84,079	66,069
Defined Contribution Pension Costs	22,536	22,496
	752,361	**560,326**

The number of employees at the end year, including directors

	2022	2021
Board and Senior Management	13	12
Acquisition and member service	3	3
Administration	10	9

	26	24

12. Investment Expenses and Charges

	2022 (£)	2021 (£)
Management Charges	141,295	136,886

13. Non-Executive Board Director's Remuneration

	2022 (£)	2021 (£)
Fees	87,000	85,750

14. Tangible & Intangible Assets

Cost:	Freehold Properties (£)	Improvement to Buildings (£)	Fixtures, Fittings, Furniture (£)	Computers and Office Machinery (£)	Total (£)
At 1 Jan 2022	695,000	40,952	25,386	149,992	911,330
Additions	-	-	-	2,841	2,841
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
Cost: At 31 Dec 2022	695,000	40,952	25,386	152,833	914,171
Depreciation:					
At 1 Jan 2022	-	29,661	16,429	93,785	139,875
2022 Charge	-	1,884	1,547	31,015	34,446
Disposals	-	-	-	-	-
Depreciation: As 31 Dec 2022	-	31,545	17,976	124,800	174,321
Net Value 2022	695,000	9,407	7,410	28,033	739,850
Net Value 2021	695,000	11,291	8,957	56,207	771,455

14A. Tangible Assets

Cost:	Freehold Properties (£)	Improvement to Buildings (£)	Fixtures, Fittings, Furniture (£)	Computers and Office Machinery (£)	Total (£)
At 1 Jan 2022	695,000	40,952	25,386	32,119	793,457
Additions	-	-	-	2,841	2,841
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-

Cost: At 31 Dec 2022	695,000	40,952	25,386	34,960	796,298
Depreciation:					
At 1 Jan 2022	-	29,661	16,429	29,561	75,651
2022 Charge	-	1,884	1,547	3,739	7,170
Disposals	-	-	-	-	-
Depreciation: As 31 Dec 2022	-	31,545	17,976	33,300	82,821
Net Value 2022	695,000	9,407	7,410	1,660	713,477
Net Value 2021	695,000	11,291	8,957	2,558	717,806

14B. Intangible Assets

Cost:	**Computer Software (£)**	**Total (£)**
At 1 Jan 2022	117,873	117,873
Additions	-	-
Revaluation	-	-
Disposals	-	-
Cost: At 31 Dec 2022	117,873	117,873
Depreciation:	-	-
At 1 Jan 2022	64,224	64,224
2022 Charge	27,276	27,276
Disposals	-	-
Depreciation: As 31 Dec 2022	91,500	91,500
Net Value 2022	26,373	26,373
Net Value 2021	53,649	53,649

Please see the Valuation of Investments section in Note 2 for details of the valuation basis of the Society's property.

15. Investments

The Society's investments were as follows:	**2022 (£)**	**2021 (£)**
UK investments	42,287,652	46,965,044
Overseas investments	-	-
	42,287,652	**46,965,044**

	Current value	**Historical cost**

	2022 (£)	2021 (£)	2022 (£)	2021 (£)
Collective Investments	22,036,733	23,271,888	18,467,914	18,467,914
Debt and Other Fixed Income Securities	20,250,919	23,693,156	22,713,457	22,713,457
Deposits with Credit Institutions	-	-	-	-
Other (Deposits with Fund Managers)	-	-	-	-
Investment in Subsidiary	4,721	4,721	15,000	15,000
	42,292,373	**46,969,765**	**41,196,371**	**41,196,371**

The Society owns all the issued share capital of its subsidiary, P&G Insurance Services Limited trading as PG Mutual Services.

16. New Unrealised Gains/(Losses) on Investments

	2022 (£)	2021 (£)
Investments at Fair Value through Income:		
Debt Securities	(3,442,237)	(469,780)
Collective Fund/ Equity Securities	(1,235,155)	3,195,719
Gains on property revaluation	-	-
Rebated fees through investment fund	-	-
Investments in Society Undertakings	**(4,677,392)**	**2,725,939**

17. Long-Term Business Provision and Fund for Future Appropriations

	Members' Profit Share Accounts (£)	Mathematical Reserves (£)	FFA (£)
At 1st January 2022	**16,097,780**	**11,633,561**	**20,303,154**
Transfer to the FFA	-	-	-
Movement in Long Term Business Provisions (LTBP)	-	(734,961)	-
Interest and Dividends on Members' Profit Share Accounts	974,498	-	-
Members' Withdrawals	(1,165,595)	-	-
Transfers from the Technical Account	-	-	(4,180,606)
At 31st December 2022	**15,906,683**	**10,898,600**	**16,122,548**

Details of the calculations of the Long-Term Business Provision and the accounting policy on the interest on members' Profit Share Accounts are shown below.

18. Long Term Business Provision and Insurance Liabilities

LTBP

The society had not adopted the Solvency 2 reporting for 2022, as when the assessment is made under the solvency 2 framework the thresholds are not met.

The Long-Term Business Provision ("LTBP") has been calculated by the Society's Appropriate Actuary having due regard to the requirements of the Friendly Societies' (Accounts and Related Provision) Regulations 1994 using a modified statutory basis. The key elements are as follows:

Method	Gross premium
Interest rate	3.58%
Allowance for expenses	Per policy expense of £400 p.a. in 2023 increasing at 9.6% p.a in 2024 and 6.3% for 2025 and 3.1% thereafter for Holloway level/premium and reducing/standard benefit policies. Nil per policy expense for Associate Holloway policies.
Allowance for investment expenses	0.45%
Allowance for future dividends	Explicit allowance of £1.75
Mortality	No mortality
Morbidity	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 prudential Non-Solvency II Firms rulebook 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 3.08%, the LTBP increases by £1,362,883. 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 4.08%, the LTBP reduces by £1,115,885. Again, this does not include the corresponding impact on the valuation of assets.

An increase in the policy expense allowances (caused by increases in management expenses) would result in an increase in the LTBP. A 10% increase in policy expense allowances, from £400 pa to £440 pa, increases the LTBP by £1,872,066.

A decrease in the policy expense allowances (caused by decreases in management expenses) would result in a decrease in the LTBP. A 10% decrease in policy expense allowances, from £400 pa to £360 pa, decreases the LTBP by £1,708,127.

The sickness rate assumptions used within the calculation of the LTBP are a proportion of the Continuous Mortality Investigation Report ("CMIR12") standard sickness rate table starting at age 30 with initial state healthy (for deferred period 1 week). The proportions by sickness duration and gender are:

Duration (weeks)	Male	Female
0-1	25%	25%

1-4	30%	40%
4-13	40%	70%
13-26	50%	110%
26-52	50%	140%
52-104	50%	75%
104+	40%	40%

An increase in sickness rates 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% increase in sickness rates increases the LTBP by £751,927.

A decrease in sickness inceptions 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% decrease in sickness rates decreases the LTBP by £684,807.

The recovery rate assumptions used within the calculation of the LTBP are actual recovery rates based on the Society's experience. The recovery rate assumptions for both genders are:

Duration (weeks)	<1	2	3	4-7	8-12	13-26	27-52	53-104	105+
Recovery Rate	**28.0%**	**18.0%**	**12.0%**	**9.0%**	**4.0%**	**2.0%**	**1.0%**	**0.2%**	**0.2%**

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 £113,664.

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 £122,944.

The interest rate 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). The FTSE UK 15-year long term gilt yield (LTGY) was 4.02%. The reinvestment rate formula resulted in the reinvestment rate of 3.68%. After an additional prescribed reduction, the interest rate was set to 3.58%.

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

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

Nil mortality in deferment has been assumed within the LTBP.

The allowance for expenses is based on the Society's budgeted expenses for the next 12 months. The expense allowance is an amount of £400 p.a. in 2023 per premium/level and standard/reducing policy which increases at 9.6% for 2024, 6.3% for 2025 and 3.1% p.a. thereafter. Nil expenses are apportioned to Associate Holloway policies.

Finally, the explicit allowances for future dividends are £1.75. This allowance for future dividends 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.

Insurance Liabilities

Capital Statement: Long-Term Insurance Business	2022 (£)	2021 (£)
Available Capital Resources:		
FFA	16,122,548	20,303,154
Adjustments onto Regulatory Basis:		
Adjustments to Assets	(58,657)	(13,900)
Resilience Reserve	-	(1,880,000)
Expenses Closure Reserve	-	(1,500,000)
Loyalty Bonus Reserve	(353,321)	(330,000)
Additional Covid 19 provision	(650,000)	(650,000)
General Contingency Reserve	(300,000)	-
	14,760,570	**15,929,254**

Summary

The total available capital resources of the Society's long-term insurance business amount to £14,760,570 (2021: £15,929,254). Its capital resource requirements amount to £1,341,947 (2021: £1,492,921) resulting in a surplus of available capital resources over regulatory capital of £13,418,623 (2021: £14,436,333).

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 required margin solvency amounts to £1,341,947 (2021: £1,492,921) and is determined in accordance with capital requirement as defined by PRA regulations, namely the Solvency Margin.

As of 31st December 2022, the Society's total available capital amounts to £14,760,570 (2021: £15,929,254) (1,100% of capital requirement).

As at 31 December 2022, the Society's surplus capital, its available capital in excess of its regulatory capital, amounts to £13,418,623 (2021: £14,436,333).

The table below summarises the movement in capital during the year:

	(£)
Balance at 1 January 2022	**14,436,333**
Modelling changes	349,446
Methodology changes	3,074,745
Unwinding of expected cashflows	1,447,830
Actual cashflows in excess of expected	813,878
Investment return	-4,035,967
Impact of new business	-1,923,627
Changes in assumptions	636,820
Bonus recommendation	-1,380,837
Balance as at 31 December 2022	**13,418,623**

Risk Management

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.

Insurance risk is the risk that arises from uncertainties as to the occurrence, amount and timing of insurance liabilities. The insurance risks to which the Society is exposed arise from morbidity, expense variances and lapse rates. Systems are in place to measure, monitor and mitigate exposure to all of these risks.

The Society's mathematical reserves and maturity profile as at 31 December 2022 are as follows:

Figures in £000s	Within 1 year	1-5 years	5-10 years	10-20 years	Over 20 years	Total
Mathematical reserve	564	1,410	1,602	2,385	4,938	10,899

Details of the assumptions used to calculate the mathematical reserves are set out above. The impact on the mathematical reserves to key assumptions are shown below:

Assumption	Impact on Mathematical Reserve	% Change
Sickness rates +10%	752	6.9%
Recovery rates -10%	123	1.1%
Expenses +10%	1,872	17.2%
Inflation +1%	2,359	21.6%
Discount rate -0.5%	1,363	12.5%

The Society's management of market risk is stated in the Business Strategy Report.

19. Financial Commitments

As at 31st December 2022, the Society was committed to making the following payments under non-cancellable operating leases in the year.

Operating Leases Which Expire:	2022 (£)	2021 (£)
Within One Year	6,255	6,615
Between Two and Five Years	18,430	16,347
	24,685	**22,962**

During the year, the society recognised £5,796 (2021: £6,107) through the profit and loss as an expense.

20. Remuneration of the Appropriate Actuary

Neither the Society's Appropriate Actuary, Kim Durniat of Barnett Waddingham, nor any of Barnett Waddingham's staff or family, were members of the Society in 2022 and nor do they have any financial or pecuniary interest in the Society except for fees payable of: OAC- *to May 2022*: £71,760, Barnett Waddingham- *from June 2022*: £66,900 (2021: £115,384).

21. Other Creditors

	2022 (£)	2021 (£)
PAYE and National Insurance Contributions	36,965	26,918
Purchase Ledger Control	51,793	72,998
Pension Liability	-	5,194
Accruals	242,236	219,151
	330,994	**324,261**

The 2023 Annual General Meeting

Time and Venue

By order of the Board, notice is hereby given that the 95th Annual General Meeting of the Society will be held at its head office in St Albans on the 29th of June 2023 at 9am to consider and, if thought fit, pass the following by way of Ordinary Resolutions:

Agenda

1. To consider and approve the minutes of the 94rd AGM of the Society.
2. To receive the Business Strategy Report for the year ended 31st December 2022.
3. To receive the Financial Statements for the year ended 31st December 2022.
4. To receive the Corporate Governance Report for the year ended 31st December 2022[11].
5. To receive the Climate Change Strategy Report for the year ended 31st December 2022[12].
6. To receive the Directors' Report for the year ended 31st December 2022.
7. To receive the Directors' Remuneration Report for the year ended 31st December 2022[13].
8. To receive the Independent Auditor's Report for the year ended 31st December 2022.
9. To re-appoint Moore as the Independent Auditor of the Society and to authorise the Board to determine their remuneration.
10. To consider the appointment of the following directors standing for election and re-election:

a) Andy Elkington
b) Simon Whale
c) Matthew Dreaper
d) Debbie McFarlane
e) Paul Howley

Please Note:

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.

Jayne Chong, Secretary of the Society

30th March 2023

Jayne B. Chong

[11] Non-binding resolution.
[12] Non-binding resolution.
[13] Non-binding resolution.