Annual Report and Financial Statements

For the Financial Year ended 31 December 2018

Contents

Terms and Definitions

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

"**ACGC**"	Annotated UK Corporate Governance Code
"**AGM**"	Annual General Meeting of the Society
"**Board**"	Board of Directors of the Society
"ARC"	Audit and Risk Committee
"Associate"	An Income Protection Plus policy without the insurance benefits
"**FCA**"	Financial Conduct Authority
"**FFA**"	Fund for Future Appropriations
"**FOS**"	Financial Ombudsman Service
"**Income Protection Plus**"	The Society's Holloway Income protection insurance and investment product
"ICom"	Investment Committee
"**IFA**"	Independent Financial Advisor
"**KPI**"	Key Performance Indicators
"**LPC**"	Local Pharmaceutical Committee
"**LTBP**"	Long-Term Business Provision
"**MCM**"	Minimum Capital Margin
"OAC"	Oxford Actuarial Consultants
"**PRA**"	Prudential Regulation Authority
"**PSNC**"	Pharmaceutical Services Negotiating Committee
"**RLAM**"	Royal London Asset Management
"RNC"	Remuneration and Nomination Committee
"**Rules**"	The Rules of the Society
"**Secretary**"	Secretary of the Society
"**Society**"	Pharmaceutical and General Provident Society Limited, trading as PG Mutual

Society Information

Directors

S C Whale, BA (Hons)	Chair of the Board
J G Warner, BSc (Hons), FRPharmS, MRI, FRSPH	Senior Independent Director and Vice-Chair of the Board
M Dreaper, BSc (Hons), ACMA, CGMA	Independent Director
G Exton, LL.B (Hons), ACII	Independent Director
D W Gulland, BA (Hons), FIA	Independent Director
M Perry	Chief Executive Officer
D J McFarlane, FCCA	Finance Director

Officers

A D Bowater, LL.B (Hons), FICA, CCIBS	Secretary of the Society

Registered Office

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

Independent Advisors and Consultants

Appropriate Actuary	OAC, London
Auditor (Independent)	Moore Stephens, Bath
Auditor (Internal)	Gateway Assure, Gillingham
Bankers	HSBC PLC, St Albans
Compliance Services	Haven Risk Management, Chipping Campden
Investment Management	RLAM, London
	European Wealth, London
Medical Consultant	Dr M Allen, MA, MBBS, MRCP, MRCGP, St Albans

Strategic Report 2018

Chair of the Board's Introduction

I am pleased to report that the Society ended 2018 in a strong financial position despite persistent turbulence across financial markets throughout the year. The total assets of the Society as of the 31 December 2018 stood at £42.4m, down just 3.8% from the previous year (2017: £44m).

Many of the factors driving the volatility investors currently face, such as the ongoing uncertainty surrounding Brexit and the international trade disputes involving the US, will be well known to members given the prominent news coverage these issues have received. We are also aware of the growing consensus among economists and asset managers that we are approaching the end of the current global economic cycle and that a less favourable economic environment is in prospect as a result.

I wish to assure members that your Board, as always, closely monitors the investments it makes on our members' behalf, for your future benefit. The Board's Investment Committee ("ICom") fully reviewed the Society's investment strategy and performance in 2018 and is satisfied that the Society's asset allocation and capital contingency planning remain appropriate for the Board's long-term strategic objectives.

From an operating perspective, the Society achieved a 12% growth in the policy portfolio (2017: 8%), which contributed to an earned premium of £3.23m during the year, up 1.2% from 2017 (£3.18m). This positive result for 2018 means the Society has now achieved 10 consecutive years of growth in its premium income and policy portfolio. The Board remains confident that its growth strategy continues to be effective and to the benefit of the Society's members.

Management costs increased by 2% during the year to £1.4m (2017: £1.3m) in part as a result of additional spending on the development of new professional markets. Income benefit claims incurred increased by 14% to £1.2m (2017: £1m) following an increase in the number of claims for support from members during the year. In the interests of all members, we monitor claims very carefully, as you would expect, but the Society is here to help members in need and that is what we shall continue to do.

Having performed well in 2018, and after taking into consideration the advice of the Society's Appropriate Actuary and the Board's realistic view on the outlook for the Society, I am pleased to report that the Board has agreed an annual bonus to members for 2018. Interest on accumulated capital account balances has been set again at 3% (2017: 3%), and the dividend-per-share has been set at £3.00 (2017: £3.00). The loyalty bonus for retiring members has been set at 35% (2017: 35%), while the enhanced loyalty bonuses for any insured member who dies during the year has been set again at a minimum capital balance of £10,000 plus six-months of the deceased's weekly insurance cover to their registered nominees.

I wish to thank my colleagues, our staff, our partners and of course our loyal members for their contribution to a successful year that strengthens this Society and positions it well for 2019 and beyond.

The Society's 91st Annual General Meeting ("AGM") will take place at 9:00am on the 27 June 2019 at the Society's offices. There have been no changes in the composition of the Board during 2018, but Grahame Exton will be standing for re-election at the AGM after completing his first three-year term as a director, and Gary Warner and I will also be standing for re-election as we have served more than nine years and now serve one-year terms on the Board under the Rules of the Society. The Board strongly recommends that members return all three directors to the Board at the AGM. This recommendation follows a thorough review of the Board's collective performance, and individual performance appraisals of each director. My own performance appraisal was carried out by Gary Warner, in his last year as our Senior Independent Director, who consulted with the wider Board before undertaking that assessment.

While the Board hopes you will be able to attend the AGM, we appreciate that this may not be practical for many of you, so we strongly urge you to give us your feedback through one of the means the Society has made available to you. Please visit the Society's website for more information about getting in touch. This is your Society, and the Board is fully committed to ensuring that you have the best possible membership experience.

Chief Executive Officer's Report

In 2018 the Society achieved record levels of new Income Protection Plus sales and total policies in force. New policies increased by 34% from 539 in 2017 to 720, and total policies in force grew by 12% to 4,514. This excellent performance was driven by the Society continuing to reach out to new professions, and by our ongoing commitment to enhancing the 'Plus' value of our Income Protection Plus product.

The introduction of the 'enhanced loyalty bonus' in February 2018 means that in addition to its core income protection cover, a full Income Protection Plus member now enjoys:

- A profit-share account;
- The prospect of a retirement 'loyalty bonus' to your profit-share account;
- An enhanced loyalty bonus scheme that aims to top-up your profit-share account to a minimum sum should you die during your insurance membership, and provide a further sum to your nominees based on your insurance cover;
- A membership benefits scheme that gives you access to a wide range of discounts and cash-back schemes with leading high-street brands; and
- Access to a GP24/7 App and Telephone Counselling services.

We are determined to build on our 'Plus' strategy and the executive team intends to try and identify new opportunities to make Income Protection Plus membership even better value for our members.

While the Society's commitment to its 'Plus' strategy has helped to increase our rate of new admissions, I am proud to report that the core purpose of the Income Protection Plus product – supporting members incapacitated by illness or injury – continues to fulfil that purpose for those of our members who have needed it. In 2018, the Society received 225 new claims from members seeking income benefit and just four failed to meet the eligibility requirements that members must meet under the Society's Rules.

The Society's 98% claims eligibility rate demonstrates that Income Protection Plus remains a comprehensive product. However, with total claims incurred costs increasing from £1m in 2017 to £1.2m in 2018, I want to take this opportunity to assure members that the Society takes all reasonable measures to ensure that claims are genuine and legitimate.

I want to express my gratitude to the Society's Board and staff for all their hard work in 2018. It is the commitment and loyalty of the team here that has enabled the Society to achieve one of the strongest years in its 90-year history. I especially wish to thank you, our members. Your continued support for PG Mutual is the foundation of the Society's robust health and crucial to our work in promoting the value of your mutual Society to a growing range of people.

Business Permissions and Market Influences

The Society is an incorporated friendly society authorised and regulated by the PRA and the FCA for long-term investment and insurance business in the UK, and is limited by its memorandum to providing among other things permanent health insurance, life assurance, pensions, and annuities. All the business activities of the Society and its subsidiary, PG Mutual Services, during the last financial year have been carried out within their respective memorandums and the permissions granted to them by the relevant regulatory authorities.

The Society promotes 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.

Business Purpose, Model and Strategic Objectives

The Society's purpose is the provision of Income Protection Plus to UK-based professionals. Income Protection Plus 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 yield 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 and directly via our website. Our products are not sold with advice from the Society.

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 Minimum Capital Margin ("MCM"), 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 yields. The ICom monitors the adequacy of the asset mix on behalf of the Board on a regular basis and will make adjustments where it is considered appropriate in the context of the Board's investment strategy.

Investments	2018 (£)	2018 %	2017 (£)	2017 %
Shares and Other Variable Yield Securities	18,316,492	45	19,650,282	46
Debt and Other Fixed Income Securities	22,371,920	55	22,541,868	53
Deposits with Credit Institutions	84	<1	250,086	<1
Investment in Subsidiary and Other	7,061	<1	6,644	<1
Total	**40,695,557**	**100**	**42,448,880**	**100**

In 2018 the value of the Society's total investment portfolio fell by £1.8m to £40.7m (2017: £42.5m). A more volatile investment environment driven by several destabilising global economic and political issues have been the primary cause for this depreciation in asset values. However, as the ICom's strategy is focused on long-term yields, this variance is comfortably within the Board's risk tolerance range for market risk.

The Society achieved an income from investments of £1.1m in 2018 (2017: £2.5m), a decrease of £1.4m. It should be noted that the margin of the decrease is exacerbated by the 2017 performance including gains of £973k on the realisation of investments following the ICom's decision to move the Society's managed funds to RLAM's Global Multi-Asset Portfolio ("GMAP") fund.

From a capital strength perspective, as of the end of 2018 the Society's MCM was £1.4m (2017: £1.3m) and the FFA was £15.9m (2017: £19.5m).

Commercial KPI's

The Society's Income Protection Plus policy portfolio increased from 4,048 at end of 2017 to 4,513 by the end of 2018. This growth in policyholders enabled the Society to increase its premium income from Income Protection Plus business by £45K to £3.23m (2017: £3.18m) and achieve an operating surplus (premium income less management expenses and Income Protection Plus claims incurred) of £775k (2017: £858k).

Risk Management and Principal Business Risks

Through its Audit and Risk Committee ("ARC") the Board maintains a system of risk management to ensure that potential threats to the Society's ability to achieve its investment and business objectives are identified, and then mitigated or managed as appropriate in accordance with the Board's appetite for those risks. The Board has appointed a Chief Risk Officer to provide oversight of the system of the risk management on behalf of the ARC, and to monitor risk behaviour against the appetite for that risk.

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

Market 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:

- *Volatility 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.
- *Currency risk*: this is 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.
- *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.

The ICom's approach to mitigating these market risks in accordance with the Board's risk appetite has been to focus the Society's investment strategy on a multi-asset, UK based investment fund actively managed by Royal London Asset Management ("RLAM"). This diversified fund enables the Society to enjoy exposure to a broad range of asset classes consistent with its investment objectives, including where appropriate overseas assets.

Insurance Risk

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

When valuing the Society's insurance liabilities, our actuaries take a prudent view of future sickness rates, mortality experience, management expenses, investment performance and future annual bonus distributions.

Strategic Risk

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

- *Reputation risks*: 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 risks*: the risk that adverse changes in macro or micro economic circumstances may diminish demand for income protection products.
- *Concentration risks*: 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.

Strategic 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:

- *Data governance risks*: the risk of significant fines being levied by the Information Commissioner for failing to appropriately protect the personal data of the Society's customers from miss-use, theft or loss.
- *System risks*: the risks, beyond data governance 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 risks*: 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.
- *Business resilience risk*: the risk of disruption to normal business operations from adverse events.
- *Bribery and corruption risks*: 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.

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.

KPIs Summary and Future Outlook

The Board is pleased with the Society's position at the end of the year and is confident that the Society can withstand any reasonably foreseeable risk events without compromising the solvency of the Society.

The continued growth of our premium income and Income Protection Plus portfolio assures the Board that its strategy will continue to deliver the stable growth necessary to maintain distributions within the reasonable expectations of our members.

Approval of the Strategic Report

This report is approved unanimously by the Board.

Simon Whale, **Chair of the Board, 28 March 2019**	**Mike Perry,** **Chief Executive Officer, 28 March 2019**

Corporate Governance Report

Compliance with the Annotated UK Corporate Governance Code ("ACGC")

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

1. The Chair of the Board did not meet the ACGC criteria for 'independence' upon first appointment because he had been a non-executive director of the Society for more than nine years at the time of his appointment. The Board believes this departure from the governance code to be reasonable given the experience and expertise of the Chair, and note that the rest of the non-executive directors do meet the independence criteria. As explained under "Board Performance Evaluation", the performance of the Chair is reviewed annually, and the most recent review was satisfactory including confirmation of his independence in practice. All directors who have served more than nine years are limited to annual terms on the Board by the Society's Rules.
2. The Board has not established a dedicated member's forum to facilitate member feedback on the Society's strategy and corporate governance arrangements. Given the current size and scale of the Society, the Board believes it is more practical and cost effective for the Society to utilise alternative means for gaining feedback from our members such as through our claims experience surveys. The Board also considers the AGM to be an appropriate forum to allow members the opportunity to meet all the Society's directors and senior officers, including the Chair of the Board, the Chief Executive Officer, the Senior Independent Director and the Chairs of the Board's committees. All members are welcome and are entitled to nominate a proxy to attend on their behalf should they be unable to attend the AGM in person.

How the Board Operates

The Board is responsible for the direction and management of the Society and comprises five non-executive directors and two executive directors, led by the Chair of the Board. The Board is responsible for, among other things, the Society's business model, strategy and annual budget; the Society's investment strategy, and the internal governance and risk controls of the Society.

To ensure the Society operates efficiently the Board delegates a number of matters to the Society's executives. For example, decisions with regards to the admission of new members; admission of applications for increases in income protection cover; applications for Associate status and for capital withdrawals; and decisions with respect to the admission of claims for income benefit are delegated. To ensure it can appropriately direct and oversee the activities of the Society, the Board has a balance of skills and experience relevant to its responsibilities such as actuarial, communications, finance, investments and risk.

In 2018 the Board met on six occasions, including a meeting dedicated to a review of the Board's business strategy. The Board reviews its meeting arrangements on a regular basis and will vary the number of meetings necessary to strike the most appropriate balance between the need for the Board to properly direct the Society's business and monitor operational activities. Additional *ad hoc* meetings are arranged wherever necessary.

Each director is entitled to directly ask the Secretary of the Society to arrange for external expert advice at the Society's expense if they believe such advice is required.

Board Performance Evaluation

The Board is committed to ensuring that the performance of individual directors is properly assessed on an annual basis. The Chair of the Board is responsible for evaluating the performance of each non-executive director and the Chief Executive Officer. The Chair of the Board is appraised by the Senior Independent Director, who consults with other directors for their views on the Chair's performance before that appraisal is undertaken. The results of the most recent appraisals were satisfactory and did not result in any decision to alter the size or composition of the Board.

The Independence of Non-Executive Directors

The Board have determined the Chair of the Board to be the only non-executive director who did not meet the criteria for independence under the ACGC during 2018 as he had served more than nine years on the Board.

Election and Re-Election of Directors

All directors appointed to vacancies by the Board are required to stand for election at the next AGM of the Society. Once elected to the Board, directors are required to stand for re-election every three years until they complete nine years. The Rules of the Society require any director who has completed nine years on the Board to stand for re-election at every AGM thereafter.

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

Board Committees

There are three board committees: the RNC, the ARC, and the ICom. All board committees are required to work in accordance with their terms of reference, which includes compliance with the ACGC and any other relevant best practice guidance or requirements relevant to their work. The membership of each board committee can be seen in the Board of Directors Report.

Remuneration and Nomination Committee ("RNC")

The RNC is responsible for making recommendations to the Board in respect to any vacancies arising on the Board or the Society's officers, and in respect to policies for the remuneration of non-executive directors, executive directors and officers. When undertaking its recruitment responsibilities, the RNC first identifies the skills and experience that the appointee will need in order to achieve the desired balance of skills and experience required for the Board. The RNC then considers the most appropriate method of advertising the role, including the possible use of an external recruitment specialist. As there were no vacancies to fill in 2018, there was no need to follow these procedures during the year.

Audit and Risk Committee ("ARC")

The ARC has been tasked by the Board with the direction and oversight of the Society's governance and internal risk control systems. 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 for 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's policy towards the providers of its Appointed Auditor and internal audit functions is that while they are subject to annual performance reviews, these functions should subject to tender processes at intervals of no more than five years.

Investment Committee ("ICom")

The ICom was established by the Board to manage the Society's investment strategy on its behalf. It is delegated the responsibility of monitoring the performance of the Society's investments 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.

Review of Business Risks and Internal Controls

The Board, with the support of the ARC and the Chief Risk Officer, has carried out a review of the key risks facing the Society as part of its annual strategic review and is satisfied that the internal controls in place to manage, and wherever possible, mitigate these risks continue to be appropriate for the Society's size, scale and strategy.

Directors and Officers who are also Members

Directors and officers of the Society are no longer required to also be members of the Society by the Rules, but the Board wishes to report that in 2018 the following directors and officers were subscribing members of the Society:

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

The Board does not believe that subscribing for membership of the Society has compromised the independence of these individuals, nor has any conflict arisen as a consequence of their membership in 2018.

Communication with Members

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

The Board reminds members that all the Society's directors and officers are scheduled to attend the Society's AGM in June 2019. We hope you will take advantage of this opportunity to join us and remind you that if you are unable to attend in person, you are entitled to appoint a proxy to attend on your behalf.

Approval of the Corporate Governance Report

This report is approved unanimously by the Board.

Simon Whale,
Chair of the Board, 28 March 2019

Directors' Remuneration Report

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

The Remuneration and Nomination Committee ("RNC") is responsible for making recommendations to the full Board with regards to the remuneration of non-executive directors and the Chief Executive Officer, and for monitoring the remuneration policies and decisions for the rest of the Society's staff. No individual director or officer is able to make any decisions with regards to their own remuneration.

In 2018, the RNC was Chaired by Matthew Dreaper until the 27 July 2018, and since by Gary Warner, the Society's Senior Independent Director. Both directors held the appropriate approvals from the Prudential Regulation Authority and the Financial Conduct Authority for this role. The remaining RNC members during 2018 were Simon Whale, the Chair of the Board, and Grahame Exton. While Simon Whale is no longer considered an independent director as he has served more than nine years on the Board, Matthew Dreaper, Gary Warner and Grahame Exton did meet the ACGC criteria for independence during the year.

While no external expertise was requested by the RNC during the year, its members are authorised, collectively or individually, to ask the Secretary to arrange for such expert advice on remuneration matters at the Society's expense if they considered it appropriate.

The breakdown of directors' remuneration in 2018 was as follows:

Director	Basic Salary (£)	Benefits (£)	Annual Bonus (£)	Pension Contributions (£)	Total 2018 (£)	Total 2017 (£)
Executive Directors						
Mike Perry	126,835	9,000	£25,150	£18,506	£179,491	£130,940
Deborah McFarlane	66,478	-	£8,000	£2,659	£77,137	£72,780
Non-Executive Directors						
Simon Whale	22,450	-	-	-	22,450	£22,000
J. Gary Warner	15,300	-	-	-	15,300	£15,000
Matthew Dreaper	13,300	-	-	-	13,300	£13,000
Grahame Exton	13,000	-	-	-	13,000	£11,000
David Gulland	11,000	-	-	-	11,000	£4,583

The Board believes that its remuneration policy for directors strikes an appropriate balance between the need to ensure the Board is cost effective and its ability to attract and motivate individuals with the necessary expertise for the Board to properly undertake its responsibilities to members.

For the executive directors, the Board has also sought to find an appropriate balance between salary and rewards linked to performance. An executive bonus scheme is in place that is based on the achievement of KPI's agreed between the Chief Executive Officer and the RNC.

The RNC will continue to monitor the adequacy of the Board's remuneration policy for directors and officers during 2019.

The first table below shows the number of meetings each director was required to attend. The second table below confirms the actual number of meetings attended:

Director	Board 2018	IC 2018	ARC 2018	RNC 2018	Total 2018	Total 2017
Simon Whale	6	0	0	3	9	10
J. Gary Warner	6	0	4	2	12	9
Mike Perry	6	0	0	1	7	7
Matthew Dreaper	6	4	4	1	15	18
Grahame Exton	6	4	0	3	13	14
Deborah McFarlane	6	4	4	0	14	11
David Gulland	6	4	4	0	14	4*

Director	Board 2018	IC 2018	ARC 2018	RNC 2018	Total 2018	Total 2017
Simon Whale	6	1	1	3	11	12
J. Gary Warner	6	1	4	2	13	9
Mike Perry	6	2	2	1	11	10
Matthew Dreaper	6	4	4	1	15	18
Grahame Exton	6	4	0	3	13	14
Deborah McFarlane	6	4	4	0	14	13
David Gulland	6	4	4	0	14	4*

**Please note David Gulland joined the Board of Directors on the 1 August 2017.*

Simon Whale,
Chair of the Board, 28 March 2019

Directors' Report

The Directors

The names, profiles and roles of the directors at the end of 2018 are shown below. All the Society's directors and officers have the requisite regulatory approvals and continue to be fit and proper for their roles.

Simon Whale, BA (Hons)

Chair of the Board

RNC Member; Chair of PG Mutual Services

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

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

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

Senior Independent Director and Vice-Chair of the Board

Chair of the RNC; ARC Member

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

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

Mike Perry

Chief Executive Officer

Managing Director of PG Mutual Services

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

Matthew Dreaper, BSc (Hons), ACMA, CGMA

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.

Grahame Exton, LLB (Hons), ACII
Independent Director
Chair of the ICom; RNC Member
Grahame has spent over 30 years in the insurance, finance and money management industries. After a brief spell in general insurance, he moved into fund management, working through from invest analysis to the management of insurance funds, pension funds, unit linked funds, private client and charity accounts and a broad range of other mandates on a discretionary basis.

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

David Gulland, BA (Hons), FIA
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 on the Independent Governance Committee of Royal London, a member of the Compliance Committee of the Funeral Planning Authority and a Trustee to a number of charities.

Deborah-Jo McFarlane, FCCA
Finance Director
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.

Future Business Activities

In order to build on recent progress, the Society will continue to develop the plus features of its Income Protection Plus proposition and invest in an enhanced version of its current SIPS system. We will also continue to work closely with our strategic partnerships for mutual benefit.

Post Year End Events

The UK's withdrawal from the European Union is scheduled for the 29 March 2019 and although the Society's Income Protection Plus product is targeted at UK-based professionals, the Board is cognisant of the fact that any ongoing uncertainty around 'Brexit' is likely to impact on the UK's economic prospects and perpetuate the turbulent investment environment, which in turn may strain the Board's strategic plans. The Board will be actively monitoring this situation and will take appropriate actions if necessary. The Board does not expect any direct disruption in the Society's ability to continue to administer the business after 29 March 2019.

The Annual Bonuses to Members

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	2018	2017
Interest rate on accumulated members' profit share account balances	**3%**	**3%**
Dividend-per-share to members' profit share accounts	**£3.00**	**£3.00**

The loyalty bonus for retiring members will remain at 35%. The minimum profit share payment for any insured member who dies during 2019 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 improved.

Political Donations and Charitable Expenditure

Charitable Donations or Sponsorships	2018	2017
Table Tennis England	1,000	1,000
Cancer Research UK	-	100

The Table Tennis England contribution relates to the Society's participation in a scholarship scheme.

No other political or charitable donations or expenditure was incurred during 2018.

The Directors' Responsibilities

Under the Friendly Societies Act 1992, the Board is required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Society, and its income and expenditure, during that period. In preparing those financial statements, the Board is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Society will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

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

Disclosure to the Appointed Auditor

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

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

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

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

Going Concern

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

Business Viability

The Board is satisfied that the Society will remain a viable business over the course of its latest corporate plan 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.

Approval of the Corporate Governance Report

This report is approved unanimously by the Board.

Simon Whale,
Chair of the Board, 28 March 2019

Report of the Independent Auditor

Our Opinion

We have audited the financial statements of the Society for the year ended 31 December 2018 which comprise the income and expenditure account, balance sheet 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 at 31 December 2018 and of the Society's surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 group and 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.

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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

Key audit matters

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

Our assessment of risks of material misstatement

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

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

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

- The Society's membership system - we have tested the operation of the controls over membership records, premium income and claims paid to members. The controls were tested on a sample basis and the extent of testing varied depending on the frequency with which the control is operated;
- The Society's investments: ownership and valuation - we confirmed the entirety of the holdings to independent third-party confirmations provided by the Society's Custodian. These statements were compared to known movements in the investment holdings in the year through comparison to contract notes and testing of the management's monthly investment reconciliations. We obtained from independent third parties confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2018;
- The recording of investment transactions - we have tested a sample of transactions to independent documentation;
- Compliance with regulatory environment - we updated our understanding of the regulatory requirements and reviewed the Society's correspondence with its regulators, statutory filings and management's records of compliance with appropriate regulations;
- The membership system - we tested controls over the recognition of premium income and the process for ensuring the accuracy of changes to member's records, including new members. We also performed substantive testing on a sample of premium income and analytical procedures to validate whether revenue recognition procedures complied with UK Generally Accepted Accounting Practice;
- Management override of controls - we have reviewed all significant or unusual entries to ensure they are appropriate and reasonable. We have also reviewed key estimates and judgements for bias.

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgement we determined materiality for the Society to be £114,000 for items impacting the Statement of Comprehensive Income, which is approximately 2% of income. We determined materiality of £423,500 for items which require reclassification on the Statement of Financial Position, which is approximately 1% of gross assets. We agreed with the ARC that we would report to the Board all audit differences in excess of £1,000, as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

An overview of the scope of the audit

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Society when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with the assistance of appointed experts.

Effectiveness of the audit on the identification of possible fraud

The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Society and management. Our responsibilities are to gain reasonable assurance that the financial statements are not materially misstated as a result of fraud or otherwise. We have designed our audit approach to try and identify possible fraud in the financial statements. We consider the primary fraud risks to be around the misappropriation of assets and fraudulent reporting, as well as the valuation of technical provisions. Our approach to these areas has been addressed within the areas of risk identified on the previous page.

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;

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 accounting 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. A further description of our responsibilities for the audit of the consolidated financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Daniel Slocombe
Senior Statutory Auditor
For and on behalf of Moore Stephens Statutory Auditor
30 Gay Street, Bath BA1 2PA

Financial Statements as at 31 December 2018

Statement of Comprehensive Income

Technical Account: Long-Term Business	**Notes**	**2018** **£**	**2017** **£**
Earned Premium Income	5	3,227,678	3,183,139
Investment Income	6	1,086,163	2,523,960
Unrealised Gains on Investments	17	-	1,094,497
Total Technical Income		**4,313,841**	**6,801,596**
Income Protection Claims Incurred	7	(1,192,713)	(1,034,432)
In-Year Interest and Dividends (including Loyalty and Enhanced Loyalty Bonuses)	8	(290,124)	(239,672)
Management Costs	9	(1,351,592)	(1,290,303)
Investment Expenses and Charges	13	(111,732)	(139,944)
Unrealised Losses on Investments	17	(2,142,391)	-
Interest and Dividends to Members' Profit Share Accounts	18	(1,404,156)	(1,394,650)
Transfer (to) the LTBP	18	(1,416,179)	(1,192,725)
Transfer (to)/from the FFA	18	3,595,046	(1,509,870)
Balance on the Technical Account		**0**	**0**

Statement of Total Recognised Gains and Losses	**Notes**	**2018** **£**	**2017** **£**
Transfer (to)/from the FFA	18	3,595,046	(1,509,870)
Total recognised gains/(losses) since last Annual Report		**(3,595,046)**	**1,509,870**

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

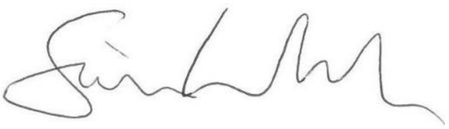
Please see the Notes to the Financial Statements section for more detail.

Financial Statements as at 31 December 2018 (continued)

Statement of Financial Position

	Notes	2018		2017	
		£	£	£	£
Fixed Assets					
Tangible Fixed Assets	15		**802,225**		**738,198**
Investments					
Investment in Subsidiary	16	4,721		4,721	
Other Financial Investments	16	40,691,536		42,444,159	
			40,695,557		**42,448,880**
Other Assets					
Cash at Bank			**522,331**		**510,832**
Prepayments and Accrued Income			**334,343**		**313,875**
Deferred Acquisition Costs	10		**830**		**1,071**
Total Assets			**42,355,286**		**44,012,856**
FFA	18		**15,917,901**		**19,512,948**
LTBP					
Members' Profit Share Accounts	18	16,292,672		15,775,765	
Mathematical Reserves	18	9,676,325		8,272,169	
			25,968,997		**24,047,934**
Creditors					
Creditors Arising from Insurance Activities		221,866		203,707	
Other Creditors	22	246,522		248,267	
			468,388		**451,974**
Total Liabilities			**42,355,286**		**44,012,856**

The financial statements were approved by the Board and signed on the 28 March 2019 on its behalf by:



Simon Whale
Chair of the Board

Notes to the Financial Statements

1. Basis of Accounting

The accounts have been prepared under the Historical cost convention, modified by the revaluation of certain assets as required by the Regulators. The Society has taken advantage of the exemption not to produce consolidated financial statements on the grounds that its subsidiary, P&G Insurance Services Limited trading as PG Mutual Services, is not material.

2. Significant accounting policies

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

Basis of preparation

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

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

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

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

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

After making enquiries, the directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

Earned Premiums

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

Claims and Benefits

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

Investment Income

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

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.

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

Leasing

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

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.

FFA

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 31 December 2017 on the 16 January 2018 using an Open Market basis by Allied Surveyors and Valuers, a RICs Registered Valuer at that time. Our policy is to value the Society's property every three years.

Pension Scheme Arrangements

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

Under the Pensions Act 2008, the Society was required to comply with automatic emrolment with a staging date of 1 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.

Depreciation

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

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

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

3. Critical Accounting Judgements and Estimates

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

Fair Value of Financial Assets

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

Long-Term Business Provision ("LTBP")

The valuation of participating contract liabilities is based on assumptions reflecting the best estimate at the time. The valuation of non-participating insurance contracts is based on prudent assumptions; a separate calculation is also performed to assess the non-participating value of in-force business which is based on best estimate assumptions allowing for a margin of risk and adverse deviation.

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

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

Capital and Risk Management

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

4. Capital Management

Policies and Objectives

The Society's key capital management objectives are:

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

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

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

Capital Statement	2018 (£)	2017 (£)
FFA		
Total Capital Resources Before Deductions	15,917,901	19,512,948
Regulatory Solvency Adjustments	(3,364,430)	(2,834,972)
Capital Available to Meet Regulatory Capital Requirements	12,553,171	16,677,976

Measurement and Monitoring of Capital

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

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

5. Earned Premium Income

	2018 (£)	2017 (£)
Income Protection Plus subscriptions	3,227,678	3,183,139
Earned Premium Income	**3,227,678**	**3,183,139**

6. Investment Income

	2018 (£)	2017 (£)
Listed Investments	1,066,539	1,527,649
Deposits with Banks and Fund Managers	19,624	23,365
Investment Income (excluding Realised Gains/(Losses))	**1,086,163**	**1,551,014**
Net Gains/(Losses) on the Realisation of Investments	-	972,946
Investment Income	**1,086,163**	**2,523,960**

7. Claims Incurred

	2018 (£)	2017 (£)
Income Protection Claim Payments	984,618	844,931
Claims Handling Expenses	208,095	189,501
Total Claims Incurred	**1,192,713**	**1,034,432**

8. Members' Profit Share Account Withdrawals

	2018 (£)	2017 (£)
Payments on Terminations	768,772	761,638
Payments on Partial Withdrawals	130,500	116,288
Total Members' Withdrawals	**899,272**	**877,926**
Mid-Year Interest and Dividends (including Loyalty and Enhanced Loyalty Bonuses)	290,124	239,672

9. Management Costs

	2018 (£)	2017 (£)
IFA Commissions (Note 10)	999	2,374
Other Acquisition Costs	688,983	630,323
Administration and Other Costs	661,610	657,606
Management Costs	**1,351,592**	**1,290,303**

10. Deferred Acquisition Costs

	2018 (£)	2017 (£)
Deferred Acquisition Costs Brought Forward	1,071	3,445
Plus New IFA Commissions	758	-
Less Deferred Acquisition Costs Carried Forward	(830)	(1,071)
IFA Commission Recognised in the Income Statement	**999**	**2,374**

11. Independent Auditor Remuneration

	2018 (£)	2017 (£)
Fees Paid to Moore Stephens for Audit Services	28,800	26,400

12. All Staff

	2018 (£)	2017 (£)
Salaries	730,074	676,941
Social Security Costs	77,747	67,763
Defined Contribution Pension Costs	21,442	18,925
Staff Costs	**829,263**	**763,629**

Senior Management Team

	2018 (£)	2017 (£)
Salaries (including the Chief Executive Officer)	364,690	270,739
Social Security Costs	44,569	31,870
Defined Contribution Pension Costs	20,914	11,731
Staff Costs	**430,173**	**314,340**

The number of employees at the end year, including executive directors, were:

	2018	2017
Board and Senior Management	10	8
Acquisition and member service	3	3
Administration	8	9
Total	**21**	**20**

13. Investment Expenses and Charges

	2018 (£)	2017 (£)
Management Charges	111,732	139,944

14. Non-Executive Board Director’s Remuneration

	2018 (£)	2017 (£)
Fees	75,050	72,083

15. Tangible Fixed Assets

	Freehold Properties £	Improvement to Buildings £	Fixtures, Fittings, Furniture £	Computers and Office Machinery £	Total £
At 1 Jan 2018	695,000	31,547	13,013	304,935	1,044,495
Adjustment to opening balance	-	-	-	-	-
Additions	-	1,981	-	84,342	86,323
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 Dec 2018	695,000	33,528	13,013	389,277	1,130,818
At 1 Jan 2018	-	19,661	12,833	273,803	306,297
Adjustment to opening balance	-	-	-	-	-
2018 Charge	-	2,586	135	19,575	22,296
Disposals	-	-	-	-	-
As 31 Dec 2018	-	22,247	12,968	293,378	328,593
Net Value 2018	695,000	11,281	45	95,899	802,225
Net Value 2017	695,000	11,886	180	31,132	738,198

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

16. Investments

The Society's investments were as follows:	**2018 (£)**	**2017 (£)**
UK investments	40,688,412	42,192,110
Overseas investments	-	-
	40,688,412	**42,191,110**

	Current value		Historical cost	
	2018 (£)	**2017 (£)**	**2018 (£)**	**2017 (£)**
Collective Investments	18,316,492	19,650,282	18,952,914	18,952,914
Debt and Other Fixed Income Securities	22,371,920	22,541,828	22,713,457	22,713,457
Deposits with Credit Institutions	84	250,086	84	250,086
Other (Deposits with Fund Managers)	2,340	1,963	2,340	1,963
Investment in Subsidiary	4,721	4,721	10,000	10,000
	40,695,557	**42,448,880**	**41,678,795**	**41,928,420**

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

17. New Unrealised Gains/(Losses) on Investments

	2018 (£)	2017 (£)
Investments at Fair Value through Income:		
Debt Securities	(919,530)	(38,041)
Collective Fund/ Equity Securities	(1,333,790)	807,142
Gains on property revaluation	-	272,000
Rebated fees through investment fund	110,929	53,396
Investments in Society Undertakings	**(2,142,391)**	**1,094,497**

18. LTBP and FFA

	Members' Profit Share Accounts (£)	Mathematical Reserves (£)	FFA (£)
At 1 January 2018	**15,775,765**	**8,272,169**	**19,512,948**
Transfer to the FFA			
Transfer from Mathematical Reserves		1,404,156	
Interest and Dividends on Members' Profit Share Accounts	1,416,179		
Members' Withdrawals (Note 5)	(899,272)		
Transfers from the Technical Account			(3,595,047)
At 31 December 2018	**16,292,672**	**9,676,325**	**15,917,901**

Details of the calculations of the LTBP and the accounting policy on the interest on members' Profit Share Accounts are shown below.

19. LTBP and Insurance Liabilities

a) LTBP

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	1.25%
Allowance for expenses	Per policy expense of £310 p.a. in 2019 increasing at 2.5% p.a. for Holloway level/premium and premium/standard benefit policies. Nil per policy expense for Associate policies (formerly commuted policies).
Allowance for future dividends	Explicit allowance of £1.75
Mortality	No mortality
Morbidity	Prudent assessment based on Society's experience

In addition, members' profit share 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 LTBP due to certain changes in financial and demographic assumptions are as follows:

A reduction in interest rates reduces the impact of discounting within the LTBP, resulting in an increase in the provision. If the valuation interest rate is reduced by 0.50% to 0.75%, the LTBP increases by £576,000. This does not include the corresponding impact on the valuation of assets.

Likewise, an increase in interest rates increases the impact of discounting within the LTBP, resulting in a decrease in the provision. If the valuation interest rate is increased by 0.50% to 1.75%, the LTBP reduces by £519,000. 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 £310 p.a. to £341 p.a., increases the LTBP by £1,331,000. This does not allow for any impact this would have on the closure expense reserve.

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 £310 p.a. to £279 p.a., decreases the LTBP by £1,222,000. Again, this does not allow for any impact this would have on the closure expense reserve.

The inception rate assumptions used within the calculation of the LTBP are a proportion of the Continuous Mortality Investigation (“CMIR12”) standard inception rate tables (for deferred period 1 week). The proportions by age and gender are:

Age	**Male**	**Female**
< 50	65%	75%
>= 50	55%	65%

An increase in sickness inceptions 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 inceptions increases the LTBP by £807,000.

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 inceptions decreases the LTBP by £668,000.

The recovery rate (or exit rate as it includes death in claim) assumptions used within the calculation of the LTBP are a proportion of the standard CMIR12 recovery rate tables. The proportions by duration of sickness for both genders are:

Duration of Sickness	
Weeks 0-4	80%
Weeks 4-13	100%
Weeks 13+	140%

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 £1,619,000.

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 £3,818,000.

The interest rate (before allowance for investment management expenses of 0.35%) used to discount the liabilities of the income protection business was limited to the reinvestment rate, which is set by the Prudential Regulations Authority (PRA). Since the FTSE UK 15-year long term gilt yield (LTGY) was below 3% at the valuation date, the reinvestment rate formula resulted in the annualised LTGY being the reinvestment rate (1.63%). The interest rate before allowance for investment management expenses was set to 1.60%.

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

The sickness recovery rates assumed in calculating the income protection reserves vary by duration of sickness and 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 income protection reserving.

Mortality in claim is allowed for within the CMIR12 recovery rates (see previous section).

The allowance for expenses is based on the Society's budgeted expenses for the next 12 months. The expense allowance is an amount of £310 p.a. in 2019 per premium/level and standard/reducing policy which increases at 2.75% p.a. Nil expenses are apportioned to Associate 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.

c) Insurance Liabilities

Capital Statement – Long Term Insurance Business

Capital Statement: Long-Term Insurance Business	**2018 (£)**	**2017 (£)**
Available Capital Resources:		
FFA	15,917,901	19,512,948
Adjustments onto Regulatory Basis:		
Adjustments to Assets	(14,730)	(14,971)
Resilience Reserve	(1,670,000)	(1,260,000)
Expenses Closure Reserve	(1,400,000)	(1.300,000)
Loyalty Bonus Reserve	(280,000)	(260,000)
	12,553,171	**16,677,976**

Summary

The total available capital resources of the Society's long-term insurance business amount to £12,553,171 (2017: £16,677,976). Its capital resource requirements amount to £1,366,421 (2017: £1,265,706) resulting in a surplus of available capital resources over regulatory capital of £11,186,751 (2017: £15,412,271).

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 19 a): Long- Term Business Provision. These assumptions have been derived based on recent operating experience with appropriate allowances for prudence as well as any PRA requirements within its Non-Solvency II Firms rulebook.

Restrictions on Available Capital

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

Basis of Calculation of Capital Requirements

The capital resource requirement amounts to £1,366,421 (2017: £1,265,706) and is determined in accordance with capital requirement as defined by PRA regulations, namely the Solvency Margin.

As at 31 December 2018, the Society's total available capital resources moved from £16,677,976 to £12,553,171 (919% of capital requirement).

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

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

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

The Society's management of market risk is summarised in the Strategic Report.

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

	(£)
Balance at 1 January 2018	16,677,976
Effect of assumptions variations	983,325
Effect of investment variations	(1,272,457)
Effect of variations in non-economic experience	(2,397,121)
Cash distributions	(1,438,552)
Balance as at 31 December 2018	**12,553,171**

20. Financial Commitments

As at 31 December 2018 the Society was committed to making the following payments under non-cancellable operating leases in the year.

Operating Leases Which Expire:	**2018 (£)**	**2017 (£)**
Within One Year	6,245	5,687
Between Two and Five Years	16,384	13,862
	22,629	**19,549**

21. Remuneration of the Appropriate Actuary

Neither the Society's Appropriate Actuary, Mr Christopher Critchlow of OAC Plc, nor any of OAC's staff or family, were members of the Society in 2018 and nor do they have any financial or pecuniary interest in the Society except for fees payable of £176,251 (2017: £138,537).

22. Other Creditors

	2018 (£)	2017 (£)
PAYE and National Insurance Contributions	19,757	20,338
Purchase Ledger Control	87,493	31,285
Pension Liability	3,686	3,221
Accruals	135,586	193,423
	246,522	**248,267**

23. Related Party Transactions

	2018 (£)	2017 (£)
Rail Season Ticket Loan to Michael Perry	4,365	2,956
	4,365	**2,956**

Notice to, and Agenda of Business for, the 91st AGM of the Society

Time and Venue

By order of the Board, notice is hereby given that the 91st AGM of the Society will be held at its head office in St Albans on Thursday, 27 June 2019 at 9:00 to consider and, if thought fit, pass the following by way of Ordinary Resolutions:

Agenda

1. To consider and approve the minutes of the 90th AGM of the Society;

2. To receive the Strategic Report for the year ended 31 December 2018;

3. To receive the Financial Statements for the year ended 31 December 2018;

4. To receive the Corporate Governance Report for the year ended 31 December 2018 (*non-binding resolution*);

5. To receive the Directors' Remuneration Report for the year ended 31 December 2018 (*non-binding resolution*);

6. To receive the Directors' Report for the year ended 31 December 2018;

7. To receive the Independent Auditor's Report for the year ended 31 December 2018;

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

9. To consider the appointment of the following directors standing for re-election:
   a) Mr Simon Whale;
   b) Mr J. Gary Warner;
   c) Mr Grahame Exton.

Please Note:

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

Andrew Bowater
Secretary of the Society, 28 March 2019