pg mutual

income protection plus

Annual Report and Financial Statements

For the Financial Year ended 31 December 2019

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
“AFM”	Association of Financial Mutuals
“AFM Code”	AFM 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	Vice-Chair of the Board
M Dreaper, BSc (Hons), ACMA, CGMA	Senior 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, CIA, 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, South West, Bath
Auditor (Internal)	Gateway Assure, Gillingham (*until 31 July 2019*) Business Risk Solutions, Telford (*1 August 2019 to 31 December 2019*) HWCA Controls & Assurance Limited (*from 1 January 2020*)
Bankers	HSBC PLC, St Albans
Compliance Services	Haven Risk Management, Chipping Campden
Investment Management	RLAM, London Kingswood Institution, London
Medical Consultant	Dr M Allen, MA, MBBS, MRCP, MRCGP, St Albans

Strategic Report

Chair of the Board's Report

The Board is pleased to report the Society continued to grow steadily during 2019. Premium income grew by 2% thanks to the loyal support of our members and the success we enjoyed from rebranding the investment element of our Income Protection Plus proposition as a 'profit share' scheme. This change in terminology was received well by members and partners and helped us to highlight why our status as a mutual insurer is to the long-term benefit of our members.

It was not only premium income that performed well in 2019. Income generated from investments increased by 6%, and while the Society and its Board takes a neutral position as far as elections are concerned, the outcome of the UK General Election did bring a clear resolution to the question of whether or not the UK would leave the European Union with a transitional agreement in place. This resolution was a factor in the buoyant performance of financial markets in the closing month of 2019, which meant the Society had achieved a 10% increase in the value of its assets as of the end of 2019.

Unfortunately, following the reporting period, the rapid evolution of COVID-19 ("coronavirus") into a world-wide pandemic caught many governments and businesses by surprise, leading to the most substantial falls in asset values across global financial markets since the Financial Crisis of 2007-2008, The exponential growth rate of coronavirus cases in February and March 2020, and the considerable strain it has placed on national healthcare resources has led to governments taking extraordinary measures to slow its spread despite the significant socio-economic consequences.

The Board's capital management strategy for the Society is based on its ability to absorb a significant stress event akin to this one and as such, despite the depreciation in the value of its assets since the 31 December, the Society has remained solvent throughout with no need to distress sell any of its assets. The Society is therefore well placed to weather the current financial market turbulence, and to benefit from their eventual recovery.

After careful consideration of the advice of our Appropriate Actuary and the uncertain short-to-medium term prospects for investment returns, the Board can confirm an annual bonus of 2.5% interest to members' profit share accounts; a dividend of £2.75 per share; and a loyalty bonus of 25%. The enhanced loyalty bonus will remain at a minimum final profit share payment of £10,000 for insured members who die during membership, and six months of their insured benefit to their registered nominees.

2019 is the first financial year that the Association of Financial Mutuals' ("AFM") new corporate governance code has applied to the Society. The new code is an adapted version of the Wates' Corporate Governance Principles for Large Private Companies that the AFM chose over the refreshed UK Corporate Governance Code due to the adaptability of the Wates' Principles to its diverse membership. As the Board has been following the full UK Corporate Governance Code for more than a decade now the impact to the Society has been minor, but in the spirit of the new code a refreshed Corporate Governance Report has been prepared by the Board to explain how it has applied the principles in its governance arrangements.

There were no changes to the composition of the Board during 2019 and I can confirm that all directors have had their performance appropriately appraised. However, following a review undertaken by the Remuneration and Nomination Committee ("RNC") it was decided that the Board should increase the number of non-executive members from five to six in 2020. The Board acted promptly on this recommendation and following a thorough recruitment process led by the RNC, I am delighted to announce the appointment of Paul Howley as an Independent Non-Executive Director from the 2 April 2020. Paul will therefore be standing for election to his first term as a Non-Executive Director at the 2020 AGM and standing for re-election will be myself, Gary Warner, Debbie McFarlane and Matthew Dreaper. I can confirm that the Board unanimously recommends to members that the directors standing at the AGM be returned to the Board.

The Society's Annual General Meeting ("AGM") will take place at 09:00 on the 24 September 2020 and as usual the location for the meeting will be the Society's registered office in St Albans. However, while we will welcome any member who wishes to attend the AGM in person, as the government anticipates its efforts to slow the growth rate of coronavirus cases will last throughout the year, the Board would encourage all members to use the proxy voting process rather than attending to vote in person, and to pass on any questions or feedback you may have to the Board via post or email.

I would like to extend the Board's thanks to our staff and our members for their considerable support during 2019 and for helping to make it a successful year. I would also like to take this opportunity on behalf of the Society to remember our former Chief

Executive and Secretary, Brian Dosser, who sadly passed away in September 2019. Brian was appointed as Chief Executive and Secretary after the untimely death of Tim Astill in 1996, and he served the Society with distinction in that role until his retirement in September 1999, with his most lasting achievement being the conversion of the Society in 1997 to a limited liability friendly society. Brian was a passionate advocate of the mutual insurance concept and continued to support the Society as a member until his passing last year.

Chief Executive Officer's Report

The Society launched its 'profit share' campaign in 2019 to draw more attention to the part of our Income Protection Plus product that makes it so special. The Society had for many years referred to it as an 'investment element', and our members' accumulated share of our assets as 'capital accounts', but we came to feel that this phrasing missed the spirit and purpose of this feature. Our mutual insurance purpose is to provide a replacement income to members in the event they are incapacitated by illness or injury, but any profits we make from our insurance business are invested for our members future. The average final payment to maturing members last year was more than £10,000, with some of our longest serving members departing with payments in excess of £20,000, after being insured against the peril of incapacity for much of their membership.

This Society doesn't just manifest its commitment to sharing profits through the annual bonus scheme, however. We have over the last decade been gradually adding 'benefits' of membership for qualifying members, such as access to a discounts and cashback scheme; and a 24 hour, seven day a week 'app' that can give you access to a GP, wherever you are.

The key to our mutual insurance philosophy is the principle that we are here to support our members should they become ill and unable to work; we have policyholders, not shareholders. I am therefore proud to report that while the cost of claims incurred fell by 13% in 2019, we managed a claims eligibility rate for new claims of 96% and continued to receive consistently strong feedback from our claimants on the service they received throughout their claim.

October 2019 saw the Prudential Regulation Authority's requirement for all regulated firms to nominate a senior manager to be responsible for the identification and management of potential climate change risks come into effect. The Board appointed our Finance Director, Debbie McFarlane, to undertake this task for the Society and with the support of our Audit and Risk Committee I am pleased to report that we have now integrated climate change risk management into our overall risk management framework. Climate change is a topical news item and a matter of importance to us and, as a mutual insurer, we now have a project underway to develop a corporate social responsibility policy for implementation during 2020.

Internally, the Society has throughout 2019 been working towards the launch of a new website and operating system, that I am pleased to confirm went live in February 2020. Landing these projects has involved a significant amount of work, both in the build-up to their launch and during the transformation process and I want to thank everyone involved for their effort throughout. With a new decade now upon us, these new modern platforms will facilitate our efforts to streamline processes and build on our work in recent years to allow members the ability to manage their membership via their Member Area.

Before concluding I would like to take this opportunity to recognise our former colleague and member of the Society, Joseph Joyce, who sadly passed away in October last year. Joe joined the Society in 2004 as its first field-based sales manager having enjoyed a long career as a financial adviser for several building societies and friendly societies. Joe became the Society's Head of Marketing and Distribution in 2010 and remained in that role until 2012 when he returned to sales. Joe semi-retired in 2015, taking on an ambassador role that meant he continued to represent the Society at shows and events across the country before ill-health led to his full retirement at the end of 2018. Throughout his time on our staff he brought he a real warmth and wit to his relationships with colleagues and members, and we all miss him dearly.

I would like to thank the Board, all our staff and our partners for their substantial effort on this Society's behalf in 2019, and I would especially like to thank our members for their loyalty. 2019 was a challenging year, but as a new decade begins, we are delighted to be starting it from a position of strength.

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. 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 member benefits.

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, appointed representatives and digital marketing. Our products are not sold with any advice provided by 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 Investment Committee ("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 and its principles and practices of financial management policy.

Investments	**2019 (£)**	**2019 %**	**2018 (£)**	**2018 %**
Shares and Other Variable Yield Securities	20,860,395	47	18,316,492	45
Debt and Other Fixed Income Securities	23,877,650	53	22,371,920	55
Deposits with Credit Institutions	84	<1	84	<1
Investment in Subsidiary and Other	4,721	<1	7,061	<1
Total	**44,742,850**	**100**	**40,695,557**	**100**

In 2019 the value of the Society's total investment portfolio increased by £4m to £44.7m (2018: £40.7m), and income from investments was £1.1m (2018: £1.1m). From a capital strength perspective, as of the end of 2019 the Society's MCM was £1.5m (2018: £1.4m) and the FFA was £16.1m (2018: £15.9m).

Factors such as a decisive result in the December UK General Election contributed to a strong finish to 2019, but since the 31st December the global effort to manage the coronavirus pandemic has had a significant socio-economic impact and there is considerable uncertainty as to how long the measures being taken will be needed for, and how long it will take for the most heavily effected parts of the economy to recover .

Commercial KPI's

The Society's Income Protection Plus policy portfolio increased from 4,513 at end of 2018 to 4,825 by the end of 2019. This growth in policyholders enabled the Society to increase its premium income from Income Protection Plus business to £3.3m (2018: £3.2m) and achieve an operating surplus (premium income less management expenses and Income Protection Plus claims incurred) of £764k (2018: £684k).

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 Finance Director was appointed by the Board in September 2019 to lead the identification and assessment of potential long-term climate change risks.

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 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:

- **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.
- **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 arise 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.

Strategic Risk

Strategic 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.

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:

- **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.

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.

Post 2019: COVID-19

The social and economic impact of the coronavirus containment measures have led to substantial falls in global asset values, but these falls have so far been within the Board's tolerance range for market and liquidity risk and there has been no need for any distress selling of assets.

As the Society's business is concentrated in the UK, the Board sees no direct risk to the business as a result of the international trade and travel restrictions currently in place, but the Board is aware that the adverse consequences for some sectors of the UK economy could impact on both our new business prospects and the ability of some members to afford their premiums in the short-term.

The Society's in-force business is potentially insured for incapacity caused by the coronavirus and the Board anticipates an increase in claims from members on short-deferment periods in the coming months. However, recognising we are a small Society, the Board has taken the prudent decision to maintain the Society's normal terms and procedures for claiming income benefit, including the fraud prevention measure of requiring certification of incapacity.

Operationally, the Society has implemented the Board's operational resilience strategy and all staff are now working from home. The Society's executive is monitoring service standards and business levels closely to ensure standards are being maintained, and the Board are being kept apprised.

KPIs Summary and Future Outlook

The Board was pleased with the Society's position at the end of the year, but despite the impact of coronavirus since the reporting period the Board remains confident that the Society can weather this difficult period without compromising the solvency of the Society, its commitments to its members and of course to our regulators.

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 deliver long-term sustainable value to our members.

Approval of the Strategic Report

This report is approved unanimously by the Board.

Simon Whale,
Chair of the Board, 2 April 2020

Mike Perry,
Chief Executive Officer, 2 April 2020

Corporate Governance Report

Compliance with the AFM Corporate Governance Code

The Association of Financial Mutuals ("AFM") introduced the AFM Corporate Governance Code ("AFM Code") for financial mutual firms in January 2019 to replace the Annotated Corporate Governance Code ("ACGC"). The 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:

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' 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 the introduction in 2019 of 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 Board actively take steps to engage with operational staff. Board meetings are arranged to ensure that managers from across the business have the opportunity to engage with the Board, both to provide the views of their team and to allow the non-executive members, the opportunity to ask questions of those working closely with members. From 2020, the Board is building further on this approach by incorporating into its continuing professional development ("CPD") plan presentations from team managers about the work their teams do. The Chair of the Board visits the Society on a regular basis between Board meetings to meet the Chief Executive and to talk informally with operational staff and senior managers about their work, the challenges they are having and the feedback they are getting from members. The Chair of the Investment Committee ("ICom") and the Chair of the Audit and Risk Committee ("ARC") maintain contact with the Finance Director and Chief Risk Officer respectively between meetings as well.

As the trustees of a small mutual insurer, the Board appreciates many members are unable to attend AGM's and meet with the Board, so it has therefore implemented a survey process for members who have recently had need to claim income benefit from the Society to formally ask for feedback on the service they received. The Board pays careful attention to this feedback from members alongside the claims eligibility rate and uses it to identify potential improvements to the Society's service and its membership proposition. The ARC also monitors complaints from members and reports to the Board on any service failures.

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 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 was comprised of seven directors throughout 2019, two executives and five non-executives of whom three met the independence criteria throughout the year, but the composition will be increased to eight from April 2020 in recognition of the Board's increasing workload. While the Board is aware that its composition is predominantly white and male, the Board does have 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. This process was followed by the RNC during the recent recruitment process for a new independent non-executive member.

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 and this assessment in 2019 led to the recommendation that the number of non-executive directors be increased in 2020. 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.

The Chair leads the appraisal of individual directors 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 Secretary 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 Secretary 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 are 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 expect directors and officers to be objective and transparent during the course of their work for the Society so as to ensure, 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, the Board also requires directors and officers who are also members of the Society to disclose this interest. The Board can confirm that Simon Whale, Gary Warner, Matthew Dreaper, Mike Perry, Debbie McFarlane and Andrew Bowater were members 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 take responsibility collectively 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 Finance Director 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 Chief Risk Officer 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 Chief Risk Officer 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.

In October 2019, the PRA's requirement that the Board of every financial services firm must appoint a senior management function holder to take responsibility for the identification and assessment of long-term risks to their businesses from climate change came into effect. The Board acted promptly on this matter and allocated this responsibility to the Finance Director. Since her appointment the Finance Director has worked with the ARC and Chief Risk Officer to incorporate climate change risk into the Board's system of risk management, and the ICom have engaged with its principal asset manager, Royal London Asset Management ("RLAM"), with regards to their approach to assessing the environmental, social and governance impact of companies before deciding to invest the Society's funds on its behalf. The ICom has also worked with RLAM to understand the Society's current exposure to fossil fuel firms so that this exposure can be monitored.

As part of its business plan for 2020, the Board have tasked the executive with the development of a detailed corporate social responsibility policy for the Society. While the Board believes the Society does conduct its business in a manner that seeks to minimise any adverse environmental impact it may have, and has contributed to social causes, the Board nevertheless believe the Society can do more. To lead this project, a member of staff has been formally designated as CSR Manager and will report on the progress being made.

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, post or fax. 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, which will be held at the Society's offices on the 2 July 2020.

The Audit and Risk Committee

The 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 takes effect from the 1 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 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, 2 April 2020

Directors' Remuneration Report

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, Gary Warner; the Chair of the Board, Simon Whale; and the Chair of the Investment Committee, Grahame Exton.

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 directors and the Chief Executive Officer. The RNC believes that its remuneration for policy for the non-executive directors and the Chief Executive Officer 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 Chief Executive Officer's performance incentives are aligned with the Society's premium income, the annualised new premium generated from new membership admissions, and the management expense ratios as a proportion of premium income. The Board is aware that the AFM Code Remuneration Principle refers to the Board promoting executive remuneration structures, but the Board has chosen to delegate remuneration decisions for the Finance Director and Secretary to the Chief Executive Officer.

The Board has departed from the AFM Code in 2019 in that the Chair of the Board is also member of the RNC despite not being independent upon appointment, and that since the 2019 AGM there has only been one non-executive member of the RNC who meets the AFM Code definition of independent. The Board has been made aware that the Chair of the RNC intends to retire from the Board at the end of 2020 and will be planning a refreshment of the RNC's composition for 2021. In the meantime, the Board is satisfied that the Chair of the RNC and the Chair of the Board continue to be sufficiently separate from the day-to-day affairs of the business to be able to exercise independent judgement in their roles.

While no external expertise was requested by the RNC during the year, the Board can confirm its members are authorised, collectively and individually, to ask the Secretary to arrange for 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.

2019 Directors' Remuneration Disclosure

The breakdown of directors' remuneration in 2019 was as follows:

Director	Basic Salary (£)	Benefits (£)	Annual Bonus (£)	Pension Contributions (£)	Total 2019 (£)	Total 2018 (£)
Executive Directors						
Mike Perry	140,000	9,000	3,500	£7,800	£160,300	£168,273
Deborah McFarlane	71,169	-	6,000	£2,847	£80,016	£77,137
Non-Executive Directors						
Simon Whale	24,000	-	-	-	24,000	22,450
J. Gary Warner	16,250	-	-	-	16,250	15,300
Matthew Dreaper	14,000	-	-	-	14,000	13,300
Grahame Exton	14,000	-	-	-	14,000	13,000
David Gulland	14,500	-	-	-	14,500	11,000

2019 Directors' Meeting Attendance Disclosure

The table below shows the number of meetings each director attended in 2019:

Director	Board 2019	IC 2019	ARC 2019	RNC 2019	Total 2019	Total 2018
Simon Whale	6	-	1	3	10	11
J. Gary Warner	5	1	4	3	13	13
Mike Perry	6	-	1	1	8	11
Matthew Dreaper	6	4	4	-	14	15
Grahame Exton	6	4	-	3	13	13
Deborah McFarlane	6	4	4	-	14	14
David Gulland	6	4	4	-	14	14

Simon Whale,
Chair of the Board, 2 April 2020

Directors' Report

The Directors

The names, profiles and roles of the directors at the end of 2019 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

Chair of PG Mutual Services; RNC Member

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

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

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

Vice-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.

Matthew Dreaper, BSc (Hons), ACMA, CGMA

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.

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, the Chair of Scottish Friendly's With-Profits Committee, a non-executive director and Chair of Hodge Life's Risk and Conduct Committee and a member of the Compliance Committee of the Funeral Planning Authority.

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.

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

2020 will be a consolidation year for the Society as it embeds new operational staff and a new website and management system. The Board will also be undertaking a review of its recent strategy with a view to implementing a new five-year plan for the business.

Post Year End Events

The global coronavirus pandemic has led to a substantial fall in asset values across financial markets relative to their position at the end of 2019. Governments and Central Banks have sought to offset the considerable economic impact that efforts to slow the growth rate of the virus are having through bold stimulus actions and cuts to base rates. How significant the longer-term effects of the coronavirus pandemic will be is uncertain at this point but the Board is confident its financial and operational resilience strategies are robust and effective.

The UK's withdrawal from the EU took place on the 31 January 2020 and is now in a transitional period with the EU until the end of 2020. How the coronavirus pandemic will impact on this timetable is unknown at this point but the Board will be monitoring the progress of the UK governments negotiations with the EU, particularly with regards to financial services and the regulation of this sector. However, the Board is not anticipating material disruption to the Society's strategic objectives as a result of this transition.

The Board will be increasing its composition from seven to eight from the second quarter of 2020 and can confirm that Paul Howley has been appointed as an independent director with effect from the 2 April 2020.

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	2019	2018
Interest rate on accumulated members' profit share account balances	**2.5%**	**3%**
Dividend-per-share to members' profit share accounts	**£2.75**	**£3.00**

The loyalty bonus for retiring members has been set at 25% and the minimum profit share payment for any insured member who dies during 2020 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

Charitable Donations or Sponsorships	2019	2018
Table Tennis England	1,000	1,000
PHAB	750	-
Camp Tanzania	1,000	-

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 2019.

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 South West 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.

Subsequent to the reporting period, the Society has seen a substantial fall in the value of its assets as a result of the social and economic measures being taken to contain the coronavirus pandemic. Whilst the Board anticipates that further losses may be incurred in the coming months, it does not believe that the impact will cast any significant doubt on the Society's ability to continue as a going concern.

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 Directors Report

This report is approved unanimously by the Board.

Simon Whale,
Chair of the Board, 2 April 2020

Report of the Independent Auditor

Our Opinion

We have audited the financial statements of the Society for the year ended 31 December 2019 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 at 31 December 2019 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.

Conclusions relating to principal risks, going concern and viability statement

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you whether we have anything material to add or draw attention to:

- The disclosures in the Annual Report set out on pages 6 -8 that describe the principal risks and explain how they are being managed or mitigated;
- The directors' confirmation set out on pages 6-8 in the Annual Report that they have carried out a robust assessment of the principal risks facing the society, including those that would threaten the business model, future performance, solvency or liquidity;
- The directors' statement set out on page 18 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the Financial Statements and the directors' identification of any material uncertainties in the Group and the parent Society's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;

We have nothing to report in respect of these matters.

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 policyholders;
- 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-party confirmations of the prices for the purpose of subscription or redemption of interest in the underlying investments in investee funds as at 31 December 2019;
- 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 £100,000 for items impacting the Statement of Comprehensive Income, which is approximately 2.25% of income. We determined materiality of £925,000 for items which require reclassification on the Statement of Financial Position, which is approximately 2% of gross assets. We agreed with the AC 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 audit of the financial statements includes the audit of the Society and its subsidiary. 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.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of the valuation of technical provisions which are subject to management judgement and estimation.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. These included but were not limited to compliance with Companies Act 2006, PRA and FCA rules, FRS 102 and FRS 103. We obtained our understanding through internal and external training and the use of an appropriately qualified and experienced audit team.

We designed audit procedures to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error. We focused on laws and regulations that could give rise to a material misstatement in the Society's financial statements. Our tests included, but were not limited to:

- Agreement of the financial statement disclosures to underlying supporting documentation;
- Enquiries of management;
- Review of minutes of board meetings throughout the period;
- Obtaining an understanding of the control environment in monitoring compliance with laws and regulations;
- Review of correspondence with the PRA and FCA; and
- Review of the Society's compliance plan, annual MLRO report, breaches register and Internal Audit reports.

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. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely, as auditor of the financial statements, we would become aware of it. As in all of our audits we also address the risk of management override of internal controls, including testing journals and evaluation whether there was evidence of bias by the directors that might reasonably represent a risk of material misstatement due to fraud.

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 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.

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.

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

Financial Statements as at 31 December 2019

Statement of Comprehensive Income

Technical Account: Long-Term Business	Notes	2019 £	2018 as restated £
Earned Premium Income	5	3,284,300	3,227,678
Investment Income	6	1,149,495	1,086,163
Total Technical Income		**4,433,795**	**4,313,841**
Income Protection Claims Incurred	7	(1,032,816)	(1,192,713)
In-Year Interest and Dividends (including Loyalty and Enhanced Loyalty Bonuses)	8	(408,373)	(290,124)
Management Costs	9	(1,487,870)	(1,351,592)
Investment Expenses and Charges	13	(149,349)	(111,732)
Unrealised Gains/Losses on Investments	17	3,701,837	(2,142,391)
Interest and Dividends to Members' Profit Share Accounts	18	(1,282,812)	(1,404,156)
Transfer (to) the LTBP	18	(2,560,336)	(2,445,561)
Transfer (to)/from the FFA	18	(1,214,076)	4,624,428
Balance on the Technical Account		**0**	

Statement of Total Recognised Gains and Losses	Notes	2019 £	2018 £
Transfer (to)/from the FFA	18	(1,214,076)	4,624,428
Total recognised gains/(losses) since last Annual Report		**1,214,076**	**(4,624,428)**

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 2019 (continued)

Statement of Financial Position

	Notes	2019		2018 as restated	
		£	£	£	£
Fixed Assets					
Tangible Fixed Assets	15		**817,036**		**802,225**
Investments					
Investment in Subsidiary	16	4,721		4,721	
Other Financial Investments	16	44,738,129		40,690,836	
			44,742,850		**40,695,557**
Other Assets					
Cash at Bank			**373,073**		**522,331**
Prepayments and Accrued Income			**500,987**		**334,343**
Deferred Acquisition Costs	10		**1,031**		**830**
Total Assets			**46,434,977**		**42,355,286**
FFA	18		**16,109,440**		**14,888,519**
LTBP					
Members' Profit Share Accounts	18	16,335,602		16,292,672	
Mathematical Reserves	18	13,266,043		10,705,707	
			29,601,645		**25,968,997**
Creditors					
Creditors Arising from Insurance Activities		446,278		221,866	
Other Creditors	22	277,614		246,522	
			723,892		**468,388**
Total Liabilities			**46,434,977**		**42,355,286**

The financial statements were approved by the Board and signed on the 2 April 2020 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.

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. Subsequent to the reporting period, the Society has seen a substantial fall in the value of its assets as a result of the social and economic measures being taken to contain the coronavirus pandemic. Whilst the Board anticipates that further losses may be incurred in the coming months, it does not believe that the impact will cast any significant doubt on the Society's ability to continue as a going concern.

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 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	2019 (£)	2018 (£)
FFA		
Total Capital Resources Before Deductions	16,109,440	15,917,901
Regulatory Solvency Adjustments	(3,984,931)	(3,364,430)
Capital Available to Meet Regulatory Capital Requirements	12,124,509	12,553,171

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 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

	2019 (£)	2018 (£)
Income Protection Plus subscriptions	3,284,300	3,227,678
Earned Premium Income	**3,284,300**	**3,227,678**

6. Investment Income

	2019 (£)	2018 (£)
Listed Investments	1,138,972	1,066,539
Deposits with Banks and Fund Managers	10,523	19,624
Investment Income (excluding Realised Gains/(Losses))	**1,149,495**	**1,086,163**
Net Gains/(Losses) on the Realisation of Investments	-	-
Investment Income	**1,149,495**	**1,086,163**

7. Claims Incurred

	2019 (£)	2018 (£)
Income Protection Claim Payments	833,829	984,618
Claims Handling Expenses	198,987	208,095
Total Claims Incurred	**1,032,816**	**1,192,713**

8. Members' Profit Share Account Withdrawals

	2019 (£)	2018 (£)
Payments on Terminations	1,128,385	768,772
Payments on Partial Withdrawals	104,652	130,500
Total Members' Withdrawals	**1,233,037**	**899,272**
Mid-Year Interest and Dividends (including Loyalty and Enhanced Loyalty Bonuses)	408,373	290,124

9. Management Costs

	2019 (£)	2018 (£)
IFA Commissions (Note 10)	583	999
Other Acquisition Costs	769,430	688,983
Administration and Other Costs	717,857	661,610
Management Costs	**1,487,870**	**1,351,592**

10. Deferred Acquisition Costs

	2019 (£)	2018 (£)
Deferred Acquisition Costs Brought Forward	830	1,071
Plus New IFA Commissions	784	758
Less Deferred Acquisition Costs Carried Forward	(1,031)	(830)
IFA Commission Recognised in the Income Statement	**583**	**999**

11. Independent Auditor Remuneration

	2019 (£)	2018 (£)
Fees Paid to Moore for Audit Services	24,000	28,800

12. All Staff

	2019 (£)	2018 (£)
Salaries	838,238	730,074
Social Security Costs	90,884	77,747
Defined Contribution Pension Costs	23,956	21,442
Staff Costs	**953,078**	**829,263**

Senior Management Team

	2019 (£)	2018 (£)
Salaries (including the Chief Executive Officer)	396,862	364,690
Social Security Costs	47,456	44,569
Defined Contribution Pension Costs	21,571	20,914
Staff Costs	**465,889**	**430,173**

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

	2019	2018
Board and Senior Management	10	10
Acquisition and member service	3	3
Administration	8	8
Total	**21**	**21**

13. Investment Expenses and Charges

	2019 (£)	2018 (£)
Management Charges	149,349	111,732

14. Non-Executive Board Director's Remuneration

	2019 (£)	2018 (£)
Fees	82,750	75,050

15. Tangible Fixed Assets

	Freehold Properties £	Improvement to Buildings £	Fixtures, Fittings, Furniture £	Computers and Office Machinery £	Total £
At 1 Jan 2019	695,000	33,528	13,013	389,277	1,130,818
Adjustment to opening balance	-	-	-	-	-
Additions	-	4,200	11,826	18,666	34,692
Revaluation	-	-	-	-	-
Disposals	-	-	-	-	-
At 31 Dec 2019	695,000	37,728	24,839	407,943	1,165,510
At 1 Jan 2019	-	22,247	12,968	293,378	328,593
Adjustment to opening balance	-	-	-	-	-
2019 Charge	-	2,298	367	17,216	19,881
Disposals	-	-	-	-	-
As 31 Dec 2019	-	24,545	13,335	310,594	348,474
Net Value 2019	695,000	13,183	11,504	97,349	817,036
Net Value 2018	695,000	11,281	45	95,899	802,225

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:	2019 (£)	2018 (£)
UK investments	44,738,045	40,688,412
Overseas investments	0	0
	44,738,045	**40,688,412**

	Current value		Historical cost	
	2019 (£)	**2018 (£)**	**2019 (£)**	**2018 (£)**
Collective Investments	20,860,395	18,316,492	18,862,940	18,952,914
Debt and Other Fixed Income Securities	23,877,650	22,371,920	23,611,504	22,713,457
Deposits with Credit Institutions	84	84	84	250,086
Other (Deposits with Fund Managers)	0	2,340	0	1,963
Investment in Subsidiary	4,721	4,721	10,000	10,000
	44,742,850	**40,695,557**	**42,484,528**	**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

	2019 (£)	**2018 (£)**
Investments at Fair Value through Income:		
Debt Securities	1,103,855	(919,530)
Collective Fund/ Equity Securities	2,543,903	(1,333,790)
Gains on property revaluation	0	0
Rebated fees through investment fund	54,079	110,929
Investments in Society Undertakings	**3,701,837**	**(2,142,391)**

18. LTBP and FFA

	Members' Profit Share Accounts (£)	**Mathematical Reserves (£)**	**FFA (£)**
At 1 January 2019	**16,292,672**	**9,676,325**	**15,917,901**
Prior Year Adjustment		**1,029,382**	**(1,029,382)**
As restated at 1 January 2019	**16,292,672**	**10,705,707**	**14,888,519**
Transfer to the FFA	(6,845)		6,845
Transfer from Mathematical Reserves		2,560,336	
Interest and Dividends on Members' Profit Share Accounts	1,282,812		
Members' Withdrawals (Note 5)	(1,233,037)		
Transfers from the Technical Account			1,214,076
At 31 December 2019	**16,335.602**	**13,266,043**	**16,109,440**

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	0.7%
Allowance for expenses	Per policy expense of £325 p.a. in 2020 increasing at 2.75% p.a. for Holloway level/premium and reducing/standard benefit policies. Nil per policy expense for Associate Holloway 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 0.2%, the LTBP increases by £890,000. 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 1.2%, the LTBP reduces by £798,000. 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 £325 p.a. to £357.5 p.a., increases the LTBP by £1,911,000. 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 £325 p.a. to £292.5 p.a., decreases the LTBP by £1,776,000. 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 £1,480,000.

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 £1,214,000.

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 0-8	80%
Weeks 8-13	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 £2,771,000.

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 £6,464,000.

The interest rate (before allowance for investment management expenses of 0.4%) 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 (1.11%). The interest rate before allowance for investment management expenses was set to 1.10%.

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).777

The allowance for expenses is based on the Society's budgeted expenses for the next 12 months. The expense allowance is an amount of £325 p.a. in 2020 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	2019 (£)	2018 (£)
Available Capital Resources:		
FFA	16,109,440	15,917,901
Adjustments onto Regulatory Basis:		
Adjustments to Assets	(14,931)	(14,730)
Resilience Reserve	(2,180,000)	(1,670,000)
Expenses Closure Reserve	(1,500,000)	(1,400,000)
Loyalty Bonus Reserve	(290,000)	(280,000)
	12,124,509	**12,553,171**

Summary

The total available capital resources of the Society's long-term insurance business amount to £12,124,509 (2018: £12,553,171). Its capital resource requirements amount to £1,539,924 (2018: £1,366,421) resulting in a surplus of available capital resources over regulatory capital of £10,584,586 (2018: £11,186,751).

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 £1,539,924 (2018: £1,366,421) and is determined in accordance with capital requirement as defined by PRA regulations, namely the Solvency Margin.

As at 31 December 2019, the Society's total available capital resources moved from £12,553,171 to £12,124,509 (787% of capital requirement).

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

	(£)
Balance at 1 January 2019	12,553,171
Effect of assumptions variations	(1,468,050)
Effect of investment variations	4,620,751
Effect of variations in non-economic experience	(2,298,551)
Cash distributions	(1,282,812)
Balance as at 31 December 2019	**12,124,509**

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.

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

20. Financial Commitments

As at 31 December 2019 the Society was committed to making the following payments under non-cancellable operating leases in the year.

Operating Leases Which Expire:	**2019 (£)**	**2018 (£)**
Within One Year	5,367	6,245
Between Two and Five Years	14,746	16,384
	20,113	**22,629**

21. Remuneration of the Appropriate Actuary

Neither the Society's Appropriate Actuary, Sally Butters of OAC Plc, nor any of OAC's staff or family, were members of the Society in 2019 and nor do they have any financial or pecuniary interest in the Society except for fees payable of £83,384 (2018: £176,251).

22. Other Creditors

	2019 (£)	**2018 (£)**
PAYE and National Insurance Contributions	25,341	19,757
Purchase Ledger Control	43,832	87,493
Pension Liability	-	3,686
Accruals	208,441	135,586
	277,614	**246,522**

23. Related Party Transactions

	2019 (£)	2018 (£)
Rail Season Ticket Loan to Michael Perry	-	4,365
	-	**4,365**

24. Subsequent Events

COVID-19

Subsequent to the Society's reporting period, the World Health Organisation announced a global health emergency on the 31 January 2020 with regards to Coronavirus. The pandemic is having a major social and economic impact around the world, and in the UK where the Society's business is concentrated.

The Board has remodelled and reviewed its cashflow forecasts and taken steps to mitigate the impact of falling asset values by reducing the loyalty bonus to 25%.

The full impact of this pandemic is not yet known, however the Board considers its financial and operational resilience planning to be sufficiently robust to allow the Society to remain solvent throughout this period, to meet our commitments to members and to remain open to new business. We therefore believe the going concern basis to remain the appropriate basis on which to draw up these financial statements.

25. Prior Year Adjustment

In preparing the actuarial valuation report for the year ended 31 December 2019, an error was identified in the sickness assumptions used in calculating the free assets position as at 31 December 2018. The error arose in the recovery rates assumed from weeks 4-8 which were assumed to be 100% when 80% was intended. This was discovered by an internal review of the model assumptions carried out by the actuary. The impact has seen an increase to the Long-Term Business Provision as at 31 December 2018 of £1,029,382 and an equal and opposite reduction to the FFA.

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

Time and Venue

By order of the Board, notice is hereby given that the 92nd AGM of the Society will be held at its head office in St Albans on Thursday, 24 September 2020 at 9:00 to consider and, if thought fit, pass the following by way of Ordinary Resolutions:

Please note that due to the coronavirus outbreak, while the AGM will go ahead, the Board stresses the need for members to follow any government advice that may be in force at the time, and to vote using your proxy voting form rather than seek to attend in person to vote.

Agenda

1. To consider and approve the minutes of the 91st AGM of the Society;

2. To receive the Strategic Report for the year ended 31 December 2019;

3. To receive the Financial Statements for the year ended 31 December 2019;

4. To receive the Corporate Governance Report for the year ended 31 December 2019 (*non-binding resolution*);

5. To receive the Directors' Remuneration Report for the year ended 31 December 2019 (*non-binding resolution*);

6. To receive the Directors' Report for the year ended 31 December 2019;

7. To receive the Independent Auditor's Report for the year ended 31 December 2019;

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

9. To consider the appointment of the following directors standing for election and re-election:
    a) Simon Whale
    b) Gary Warner
    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.

Andrew Bowater
Secretary of the Society, 2 April 2020