pg mutual

income protection plus

Annual Reports and Financial Statements 2020

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2020 Management and Legal Information

Directors

Simon Whale	Chair of the Board
J. Gary Warner	Vice-Chair of the Board - until 31 December 2020
Matthew Dreaper	Senior Independent Director
Grahame Exton	Independent Director
David Gulland	Independent Director
Paul Howley	Independent Director - from 2 April 2020
Mike Perry	Chief Executive Officer
Debbie McFarlane	Finance Director

Senior Management Functions

Mike Perry	SMF1 Chief Executive
	SMF7 Group Entity Senior Manager
Debbie McFarlane	SMF2 Chief Finance
Andrew Bowater	SMF4 Chief Risk Officer
	SMF16 Compliance Oversight
	SMF17 Money Laundering Reporting Officer
Simon Whale	SMF9 Chair of the Governing Body
David Gulland	SMF10 Chair of the Risk Committee
	SMF11 Chair of the Audit Committee
J. Gary Warner	SMF12 Chair of the Remuneration Committee
	SMF13 Chair of the Nomination Committee
Matthew Dreaper	SMF14 Senior Independent Director

Certification Functions

Andrew Bowater	Secretary
Hannah Crossley	Head of Operations
Stephen Schofield	Head of Development
Taryn Ferguson	Head of Marketing
Richard Pettifer	Head of ICT
Mo Shaikh	Account Manager
Tom Coan	Account Manager
L. Ann Sturgess	Membership Payments Manager
Gary Ranson	Development Executive

Legal Name and Registered Office

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

Authorised Trading Names

PG Mutual
GP Mutual

Independent Advisors and Consultants

Appropriate Actuary	OAC, London
Auditor (Independent)	Moore, Bath, Somerset
Auditor (Internal)	HW Controls & Assurance, Farnborough, Hampshire
Asset Management	Royal London Asset Management, London Kingswood Institution, London
Bankers	HSBC PLC, St Albans, Hertfordshire
Underwriting Services	Nugent Business Solutions, Kanturk, Ireland
Compliance Services	Haven Risk Management, Chipping Campden, Gloucestershire
Chief Medical Officer	Dr Mark Allen, St Albans, Hertfordshire

The Chair of the Board's Report

2020 Summary

This report to our members follows one of the most extraordinary years in PG Mutual's almost 100-year history. The social and economic turmoil caused by COVID-19 has left very few organisations or individuals unaffected.

Global financial markets became turbulent in the early months of 2020 as news of the new coronavirus and its transmissibility and mortality threat became more commonly known and, in particular, the difficulties that even economically advanced countries were having responding to it. Prompt monetary policy interventions by the Bank of England and other central banks abated the financial market turmoil, but as national health services became overwhelmed and nationwide lockdowns necessary to slow the spread of COVID-19, businesses of all sizes faced significant challenges to their ability to continue operating.

I am pleased to report to members that despite our small size and risk exposure to the pandemic as an income protection insurer, our financial and operational resilience planning proved to be effective under these significant stress conditions. At no point did the fall in our asset values or the increase in our claims threaten either the solvency or liquidity of the Society. Our remote working contingency model ensured all of our team members were safely and effectively working from home a week before the first national lockdown was announced. Throughout, we have been able to operate smoothly, and our usual high levels of customer service have been maintained. We did not make use of the furlough scheme.

Performance

By the end of 2020, the Society had seen its income protection claims expenditure increase by 36% relative to 2019. This is due to both the direct and indirect impact of the pandemic as explained in the Chief Executive's report. Management costs increased by 9%, though an increase was anticipated by the Board as 2020 saw the planned launch of the Society's new bespoke operating system and website. Remote working enabled us to achieve some significant savings that aided our efforts to minimise this growth in management costs and the Board expects to incorporate a number of these efficiencies into our future business planning.

From a revenue perspective, the Board is pleased to report that the Society achieved its new business and business retention objectives for 2020 and, as such, managed to increase earned premium income from income protection business by 2%, which helped to offset a 6% fall in our investment income.

Brexit

December 2020 saw the UK Government reach an agreement with the European Union to finalise the UK's withdrawal and agree the terms for future trade. We can report that the final terms do not have a material impact on the Society's finances or operations.

2020 Annual Bonus

Looking ahead, 2020 has given the Board assurance that the Society's business model is robust and that our strategic focus on long-term organic, sustainable membership growth is the correct approach for this organisation. However, the short and medium-term challenges facing PG Mutual and other insurers will require us to be prudent in our decision making. At the time of writing, the UK government is implementing its vaccination programme with a view to enabling the country to gradually return to normalcy. Normalcy, however, is unlikely to mean a return to life as it was before the pandemic.

What is known about COVID-19 is still considerably less than what is not known. Of particular interest to PG Mutual as an income protection insurer is how effectively the vaccines will impede the ability of the virus to evolve, but also what the longer-term health consequences are for those who have had COVID-19. There are also the indirect consequences of the pandemic that are likely to present themselves in the years to come. Due to the significant strain on health services during 2020, many people managing medical conditions had appointments postponed or cancelled, and many others who would normally have sought medical appointments did not do so as a result of access to services being compromised and a natural desire to avoid situations in which COVID-19 infection would be more probable. Taken together, it is likely that population morbidity trends may deteriorate, and this will have implications for the Society's income protection business.

Financial markets recovered strongly towards the end of 2020. The monetary policy interventions of central banks helped to boost market confidence in the short term, but they also perpetuate the very low interest yield environment facing investors. This situation could be further exacerbated if we were to see base rates drop to zero or even into negative territory.

With all these factors in mind, and after taking into consideration the Society's overall performance in 2020 and the advice of our Appropriate Actuary, the Board is pleased to be able to award an annual bonus of 2% interest to the accumulated profit share account balances held throughout 2020, and a dividend-per-share held throughout 2020 of £2.00.

Climate Change

The 2020 Annual Reports and Financial Statements is the first reporting year in which we are including a separate report on our response to the climate emergency. Climate change is a global challenge; one that presents material long-term risks to the viability of businesses, communities, and important habitats. The Prudential Regulation Authority has taken steps to ensure the importance of this systemic threat is formally recognised by regulated firms and to ensure they begin the process of planning for and managing its impact. Notwithstanding that action, your Board also believes that PG Mutual has a responsibility to play its part and we intend to use the Board's Climate Change Strategy Report to keep members informed on the work the Society is doing to live up to this responsibility.

Governance

In late 2019, the Board was informed by Gary Warner, Vice-Chair and Senior Independent Director, that he wished to step down. The Remuneration and Nomination Committee ("RNC") led the process to recruit a new board member, and a specialist recruitment agency was engaged to prepare a diverse short list of candidates. I am delighted to report that this resulted in Paul Howley joining the Board in April 2020 Gary Warner therefore retired from the Board at the end of 2020, and on behalf of the Board I wish to express our considerable thanks to Gary Warner for his 11 years of service to PG Mutual. Of particular note was Gary's leadership, during his tenure as Chair of our Audit and Risk Committee, in strengthening the Society's information technology and communications infrastructure that prepared the business well for the operational challenges 2020 presented. We wish him well.

Following Gary Warner's retirement, the Board decided to revert to a balance of five non-executive directors and two executive directors. I am the only non-executive director who does not meet the criteria for independence, but the Board does consider me to be independent from the business and therefore unanimously agree with this departure from corporate governance practice. Matthew Dreaper has been appointed as the Board's Vice-Chair in addition to his role as Senior Independent Director, while Paul Howley has been appointed as a member of the Audit and Risk Committee and as the new Chair of the Remuneration and Nomination Committee subject to PRA and FCA approval. The Board will carry out a further review of its size, balance, and performance later in 2021 as part of our strategic review of the business.

The directors who will be standing for re-election to the Board will be David Gulland, Mike Perry, and me. I am pleased to confirm that all the directors standing has received more than satisfactory performance appraisals. My own appraisal was undertaken by the Senior Independent Director with feedback from the rest of the Board taken into consideration. The Board unanimously recommends that all three directors be re-elected at the AGM in June 2021.

Acknowledgements

I wish to express the gratitude of the Board for the impressive effort that was made by our Society's staff to adapt to a new working norm and manage a much greater workload than anticipated in 2020. I also wish to thank my fellow directors for the support they gave to the Society throughout the year.

Most importantly, I wish to express the Board's thanks to our members for their patience and support during a challenging year. Many of our members were key workers throughout 2020 and therefore risked their own safety to continue performing essential roles. We are particularly grateful to them for their commitment.

Simon Whale, Chair of the Board
25 March 2021

The Chief Executive's Report

2020 Review

Following the arrival of COVID-19 to the UK in March last year I do not believe any of us would have thought we would still be in the grip of the pandemic over 12 months later with many families not able to meet face-to-face during that time. The strain felt by all has been considerable whether it be in our personal or business lives, however I am optimistic we are now heading towards the finish line with the role out of the vaccine programme.

After two years of work, our new operating system was ready for operational implementation, and we had also developed a new website platform ready for launch to compliment the new system. Alongside these important operational changes, we were in advanced discussions with a number of partners that we anticipated would strength our growth prospects. COVID-19 therefore introduced a significant strategic challenge as well as a financial and operational one.

From a new business point of view, I am delighted to report that the Society achieved its targets for 2020 despite the most hostile economic environment we have faced for more than a decade. I wish to thank our partners for continuing to support our promotion of income protection to their members despite the impact COVID-19 had on their own operations. As a result, the Society has now seen steady, consistent growth for more than 10 consecutive years and provides us with further reassurance that the strategy we are following is the right one to deliver long-term sustainable value for our members.

Corporate Social Responsibility ("CSR")

Over the last two years, the Society has undertaken an assessment of the potential risks the climate change emergency could present to our business in the medium-to-long term, and we have therefore integrated climate change risks into our enterprise risk framework. However, while this work ensures PG Mutual complies with the expectations of the Prudential Regulation Authority ("PRA"), as a mutual insurer we took the view that we should go further.

The first step of our CSR strategy was taken in 2020 and it involved a business wide assessment of how we could reasonably change our working practices to reduce our carbon footprint. This effort was given a boost by our switch to remote working, enabling us to reduce the amount of carbon produced from our staff commuting to work and traveling for business meetings, and we intend to build on this by modernizing our methods of processing in the coming years to both improve operational efficiency and to further diminish our use of paper and post.

The second strand to our CSR strategy is to ensure we are an active participant in our communities and use our more fortunate position to lend support to charitable causes working in and around these communities. In response to this we launched a new scheme that enables our members to nominate and vote for charities whose missions are consistent with our own mutual values.

The third component of our CSR strategy has been to appoint a dedicated CSR project manager and to create an internal CSR committee to involve a wide range of staff from across the business in the CSR process. The committee's composition is mostly from staff who work closely with customers in their roles so that they can use this experience to inform their CSR contributions.

Member Benefits

It has been pleasing for us to see the range of additional membership benefits we have introduced over the last half-decade becoming more used. While our most recent addition, the one-off health assessment, has been impacted by the lockdowns during the pandemic, we have seen both our membership discounts and GP24 service be used more and more.

We are committed to ensuring that members find their premiums to be good, all-round value for money and will therefore keep these additional benefits under review with a view to enhancing them further where suitable.

COVID-19 and the future

The Board's Report on Business Strategy deals with this important issue in more detail. However, COVID-19 is likely to remain a significant area of concern for income protection insurers like PG Mutual due to the uncertainties associated with what is currently being referred to as "Long-COVID" and the future implications for other medical conditions as a result of the National Health Service' focus on COVID-19 in 2020.

Acknowledgements

2020 presented challenges that we did not anticipate while developing our plans for that year, but I am very proud of how well everyone across the business adapted and that our prudent approach to risk management prepared us to transition to remote working with almost no interruption.

I am grateful to everyone who worked on PG Mutual's behalf in 2020 for both their impressive performances and their willingness to reach out to colleagues while working remotely to ensure we maintained a strong team spirit throughout.

I also want to record my thanks to our members for their continued support during a difficult year, and in particular, those who continued to provide critical medical and healthcare services despite the risk to their own health. The damage caused by the pandemic would have been so much worse had it not been for their bravery.

Mike Perry, Chief Executive Officer
25 March 2021

The Board’s Report on Business Strategy

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 income and capital growth prospects, and the second is to grow the Society’s Income Protection Plus portfolio and premium income to diminish management costs as a proportion of premium income.

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

Business Permissions and Market Influences

The Society is an incorporated friendly society authorised and regulated by the PRA and the FCA for long-term investment and insurance business in the UK and is currently limited by its Memorandum and Rules to providing investment based permanent health insurance. The Rules of the Society authorise the Board to introduce additional, discretionary benefits for qualifying groups of members and this authority has been used in recent years to introduce a number of benefits for members.

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

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

Key Business Performance Indicators

The Board evaluates the investment pillar of its strategy by carefully monitoring the Society’s Fund for Future Appropriations (“FFA”) and Capital Resource Requirement (“CRR”), the asset mix of the investment portfolio, and the performance of the investment portfolio. When considering the business performance of the Society, the Board focuses on the net growth of the Income Protection Plus portfolio, its earned premium income, claims payments and level of management expenses.

Investment KPI’s

As the Society’s Income Protection Plus product aims to provide a lump sum payment to members in their retirement years, the Board looks to ensure that an appropriate proportion of the Society’s investment portfolio is held in asset classes with good prospects for long-term income and capital growth. The Investment Committee (“ICom”) monitors the adequacy of the asset mix on behalf of the Board on a regular basis and will adjust where it is considered appropriate in the context of the Board's investment strategy and its principles and practices of financial management policy.

Investments	2020 (£)	2020 (%)	2019 (£)	2019 (%)
Shares and Other Variable Yield Securities	20,076,170	45	20,860,395	47
Debt and Other Fixed Income Securities	24,543,399	55	23,877,650	53
Deposits with Credit Institutions	84	<1	84	<1
Investment in Subsidiary and Other	4,721	<1	4,721	<1
	44,624,374	**100**	**44,742,850**	**100**

In 2020 the value of the Society's total investment portfolio decreased by £118k to £44.6m (2019: £44.7m), and income from investments was £1.1m (2019: £1.1m). From a capital strength perspective, as of the end of 2020 the Society's CRR was £1.5m (2019: £1.5m) and the FFA was £17.2m (2019: £16.1m).

Commercial KPI's

The Society's Income Protection Plus policy portfolio decreased from 4,825 at end of 2019 to 4,686 by the end of 2020. However, despite this anticipated marginal decrease in policies due to the closure of the DIA Plus scheme to new membership, the Society nevertheless achieved a premium income of £3.3m (2019: £3.3m) and an operating surplus[1] of £271k (2019: £764k).

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 has been appointed by the Board to lead the efforts to identify and assess the potential long-term financial risks to the Society from climate change.

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

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

Investment Risk

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

- Market Value Risk: this is the most significant market risk the Society is exposed to and concerns fluctuations in the asset values of the Society's investments.

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

- 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 arises from the UK and global economies' transition to low carbon economies, and from the risks environmental changes will potentially bring.

Insurance Risk

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

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

Distribution Risk

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

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

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

Operational Risk

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

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

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

Conduct Risk

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

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

COVID-19

PG Mutual adapted as well as could be hoped to a challenging environment in 2020. The Society had seen its income protection claims expenditure increase by 36% relative to 2019, though it should be noted that this is not all due to incapacity claims caused directly by COVID-19. The pandemic had an adverse impact on morbidity experiences generally, particularly in mental health terms and from the ability of people to access timely medical appointments. Remote working throughout the pandemic enabled us to achieve some savings to minimise the increases in costs and the Board expect to incorporate a number of these efficiencies into future business planning.

The UK Government's vaccination program is picking up pace and there is optimism that by mid-2021 there will have been enough progress made that lockdown conditions can be eased and for an economic recovery to begin. Post COVID-19, we believe there will be a greater appreciation for the importance of income protection products. However, despite these opportunities, there are some crucial uncertainties we will be monitoring carefully.

The first concerns what is currently being referred to as Long-COVID. Understandably, the mortality risk of COVID-19 has been given the most prominent news coverage, but it has also become increasingly clear that a number of those who were infected never fully recovered and are living with a number of side effects; side effects that can significantly inhibit an individual's ability to return to work. We anticipate that much more will become known about Long-COVID in the next few years.

The second relates to the impact of COVID-19 on normal medical and healthcare services since the pandemic arrived in the UK in March 2020. Many health assessment and routine check-up appointments were cancelled, and access to normal services such as General Practice were heavily disrupted by the concurrent desire to minimise the strain on the National Health Service and avoid the risk of spreading COVID-19 further. It will be difficult to quantify this impact until more is known, but we intended to be prudent in our planning and are therefore assuming that the claims expenditure of 2020 will be our new norm for the next few years.

KPIs Summary and Future Outlook

2020 was the most difficult commercial environment the Society has faced since 2009 and the Board is delighted that both new business and premium targets were achieved despite the obstacles. PG Mutual also found how effective our remote working contingency model is in practice and has enabled us to make some important cost savings.

Having now achieved continuous growth for more than 10 consecutive years despite the challenges posed by 2020, the Board is assured that its strategy will continue to deliver the stable growth necessary to deliver long-term sustainable value to our members.

Approval of the Business Strategy Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board
25 March 2021

The Board's Report on Corporate Governance

Compliance with the AFM Corporate Governance Code

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

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

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

Purpose and Leadership

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

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

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

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

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[2] https://financialmutuals.org/files/files/AFM%20corporate%20governance%20code,%20jan19.pdf
[3] https://www.handbook.fca.org.uk/handbook/glossary/G502.html?starts-with=H

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 eight directors from April 2020, two executives and six non-executives of whom four met the independence criteria throughout the year. However, following Gary Warner's retirement from the Board the composition will return to seven pending a review in 2021. 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 as part of the process that recruited Paul Howley to the Board.

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

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

The Board takes responsibility for the integrity of the Society's management information and the systems used to manage it and have appointed senior management personnel to manage key aspects of the Society's information systems. The 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.

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.

The Audit and Risk Committee

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

The ARC is also responsible to the Board for assessing the performance of the Society's Appointed Auditor and internal audit function, and for making recommendations to the Board in respect to the appointment, re-appointment, remuneration or dismissal of the Appointed Auditor and internal audit function. The ARC undertook a tender process for the provision of its internal audit services in 2019 and HW Controls & Assurance Limited were the successful candidate. Their appointment took effect from the 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 Investment Committee ("ICom") was established by the Board to manage the Society's investment strategy on its behalf and is led by the Chair of the ICom. It is delegated the responsibility of monitoring the performance of the Society's investments against the Board's strategic KPI's and its market risk appetite. This responsibility also extends to oversight of the Society's asset managers, and to any decisions necessary on asset allocation arrangements, asset sales or any corrective actions considered necessary to protect the Society's capital strength such as reductions in the value of the Society's loyalty bonus, enhanced loyalty bonus, annual bonuses, and profit share accounts.

Approval of the Corporate Governance Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board
25 March 2021

The Board's Report on Climate Change Strategy

The climate emergency is a worldwide issue that requires us to be more aware of how we all live and how we all operate, and to be willing to make changes now to help manage the rate of climate change and to avoid potentially catastrophic consequences. These changes will affect all of society, and we all have our part to play in mitigating the risks. This report outlines the steps the Board has taken to reduce the Society's impact on the climate change, and also the opportunities that effective action will likely bring.

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

Governance

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

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

Strategy and Risk Management

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

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

Climate Change and Investments

The ICom have taken a prudent view of the short, medium, and long-term investment considerations and have determined that the most sensible and proportionate course of action for the Society to take with regards to traditional carbon-heavy markets and also emerging low-carbon markets is to support our appointed asset manager, Royal London Asset Management ("RLAM"), who actively undertake a thorough appraisal of the environmental, social and governance sustainability factors of investment opportunities prior to investment[5].The ICom use metrics such as Royal London Asset Managers ("RLAM") published Climate Change Risk Policy, to assess its exposure to climate change risk and continues to investigate with the managers other metrics on climate change. The Society's portfolio exposure to fossil fuel (both direct and indirect), was 4.10% compared to 5.21% for 2019:

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

[5] https://employer.royallondon.com/globalassets/docs/shared/investment/69348-stewardship-and-ri-report-2020.pdf

Climate Change and Income Protection

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

Scenario Analysis

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

As a non-Solvency II insurer, the Society uses a model office to stress its balance sheet and cashflow, and we base our investment risk appetite on our ability to withstand a significant multi-scenario stress. For the time being, the Board is satisfied that this approach remains appropriate and proportionate to both our business model and our likely exposure to climate change trends.

Oversight

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

Approval of the Climate Change Strategy Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board
25 March 2021

The Board's Directors Report

The Directors

The names, profiles, and roles of the directors at the end of 2020 are shown below. All the Society's directors and officers have the requisite regulatory approvals and continue to be fit and proper for their roles.

Simon Whale
Chair of the Board
Chair of PG Mutual Services; RNC Member
Simon is the managing director and co-owner of Luther Pendragon, the leading corporate communications consultancy based in the City of London.

His firm has advised a wide range of clients in the financial services sector and in the world of healthcare., including Aviva, Endsleigh, and HSBC. He worked with the Association of Friendly Societies for more than ten years, ensuring the benefits of mutuality were better understood by the government, politicians, and the public. He has worked extensively with healthcare organisations including NHS England, the Department of Health & Social Care, various royal colleges, charities and healthcare regulators, and bodies representing pharmacy, dentistry, optometrists, and opticians. In 2017 he was appointed as one of three members of the panel of the Independent Medicines and Medical Devices Safety Review, commissioned by the Secretary of State for Health & Social Care to examine avoidable harm suffered by thousands of patients in relation to two medicines and one medical device. The Review's report, 'First Do No Harm', was published in July 2020.

J. Gary Warner
Vice-Chair of the Board *– until December 2020*
Chair of the RNC; ARC Membe*r – until December 2020*
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
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
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
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.

Paul Howley
Independent Non-Executive Director *– from April 2020*
Paul has 30 years of experience within financial services, utilities, airlines, and consulting. He has undertaken a variety of roles in Operations, IT and Change but throughout his career there has been a constant theme of improving customer service and business performance.

He is currently Director of IT and Transformation for YBS.

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
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

2021 will be a further consolidation year for the Society as it looks to finish addressing those matters delayed by the COVID-19 pandemic. The Board will also be undertaking a review of its strategy with a view to implementing a new five-year plan for the business.

Annual Bonus

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

Annual Bonus	2020	2019
Interest rate on accumulated members' profit share account balances	**2.0%**	**2.5%**
Dividend-per-share to members' profit share accounts	**£2.00**	**£2.75**

The loyalty bonus for retiring members has been set at 25% and the minimum profit share payment for any insured member who dies during 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	2020 (£)	2019 (£)
Atherton Cricket Club	500	-
Camp Tanzania	-	1,000
Douglas Macmillan Hospice	555	-

PHAB	1,500	750
Table Tennis England	-	1,000
Just Giving – Nathan Coyne	250	-
Carbon Footprint	258	-
TAMBA	215	-
St Albans & District Food Bank	500	
Total Charitable Donations or Sponsorships	**3,778**	**2,750**

No other charitable donations were made during 2020. No political donations were made.

The Directors' Responsibilities

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

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

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

Disclosure to the Appointed Auditor

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

a) so far as each director is aware, there is no relevant audit information of which the Society's independent auditors are unaware.
b) each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Society's independent auditors are aware of that information.

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

Going Concern

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

Business Viability

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

Complaints Procedure Policy

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

Approval of the Directors' Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board
25 March 2021

The Board's Report on Remuneration

The Remuneration and Nomination Committee ("RNC")

As recommended by the AFM Code, the Board has established a Remuneration and Nomination Committee ("RNC") of the Board, which is led by the Chair of the RNC. The Chair of the RNC has been approved for this role by the PRA and the FCA. The RNC members during the year were the Chair of the RNC, 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 2020 in that the Chair of the Board is also a member of the RNC despite not being independent upon appointment, and that there was only one non-executive member of the RNC who meets the AFM Code definition of independent. Subject to PRA and FCA approval, Paul Howley shall become the Chair of the RNC in 2021 to ensure there are two independent directors on the RNC, and the Board is satisfied that the Chair of the Board continues to be sufficiently separate from the day-to-day affairs of the business to be able to exercise independent judgement on the RNC.

While no external expertise was requested by the RNC during the year, the Board can confirm its members are authorised, collectively and individually, to seek such expert advice on remuneration and recruitment matters as they consider necessary to discharge their responsibilities. Such expert advice would be arranged at the Society's expense.

Directors’ Remuneration Disclosure

The breakdown of directors’ remuneration in 2020 was as follows:

Director	Basic Salary (£)	Benefits (£)	Annual Bonus (£)	Pension Contributions (£)	Total 2020 (£)	Total 2019 (£)
Executive Directors						
Mike Perry	140,209	9,000	24,000	7,800	181,009	168,273
Deborah McFarlane	73,357	-	10,000	2,847	86,204	77,137
Non-Executive Directors						
Simon Whale	24,400	-	-	-	24,400	24,000
J. Gary Warner	14,250	-	-	-	14,250	16,250
Matthew Dreaper	15,250	-	-	-	15,250	14,000
Grahame Exton	14,250	-	-	-	14,250	14,000
David Gulland	15,250	-	-	-	15,250	14,500
Paul Howley[6]	9,000	-	-	-	9,000	-

Directors’ Meeting Attendance Disclosure

The table below shows the number of meetings each director attended in 2020:

Director	Board of Directors	Investment Committee	Audit and Risk Committee	Remuneration and Nomination Committee	Total 2020	Total 2019
Simon Whale	5	-	-	3	8	10
J. Gary Warner	5	-	4	3	12	13
Mike Perry	5	-	-	-	5	8
Matthew Dreaper	5	4	4	-	13	14
Grahame Exton	5	4	1	3	13	13
Deborah McFarlane	5	4	4	-	13	14
David Gulland	5	4	4	-	13	14
Paul Howley	5	-	-	-	5	-

Approval of the Remuneration Report

This report is approved unanimously by the Board.

Simon Whale, Chair of the Board
25 March 2021

[6] Paul Howley joined the Board in April 2020.

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

Our Opinion

We have audited the financial statements of the Society for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 103 Insurance Contracts (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the Society's financial statements:

- give a true and fair view of the state of the Society's affairs as of 31 December 2020 and of the Society's surplus for the year then ended.
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.
- have been prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

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

Conclusions relating to 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 that describe the principal risks and explain how they are being managed or mitigated.
- The directors' confirmation 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 within the accounting policies of 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 Society and the 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.

Conclusions relating to going concern:

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

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

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.
- 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 of 31 December 2020.
- 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 £88,000 for items impacting the Statement of Comprehensive Income, which is approximately 1.98% of income. We determined materiality of £922,000 for items which require reclassification on the Statement of Financial Position, which is approximately 2% of gross assets. We agreed with the ARC that we would report to the Board all audit differences in excess of £1,000, as well as differences below that threshold that in our view warranted reporting on qualitative grounds.

An overview of the scope of the audit

The audit of the financial statements includes the audit of the Society. 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 Society and the industry in which it operates and considered the risk of acts by the Society 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.

- Review of the Society's compliance plan, annual MLRO report, breaches register and Internal Audit reports.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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

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

Our approach was as follows:

- We obtained an understanding of the legal and regulatory requirements applicable to the Society and considered that the most significant are [the Companies Act 2006, UK financial reporting standards as issued by the Financial Reporting Council, and UK taxation legislation]
- We obtained an understanding of how the Society complies with these requirements by discussions with management and those charged with governance.
- We assessed the risk of material misstatement of the financial statements, including the risk of material misstatement due to fraud and how it might occur, by holding discussions with management and those charged with governance.
- We inquired of management and those charged with governance as to any known instances of non-compliance or suspected non-compliance with laws and regulations.
- Based on this understanding, we designed specific appropriate audit procedures to identify instances of non-compliance with laws and regulations. This included making enquiries of management and those charged with governance and obtaining additional corroborative evidence as required.

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.

D Slocombe

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

The Financial Statements as of 31 December 2020

Statement of Comprehensive Income

Technical Account: Long-Term Business	Notes	2020 (£)	2019 (£)
Earned Premium Income	5	3,341,728	3,284,300
Investment Income	6	1,104,335	1,149,495
Total Technical Income		**4,446,063**	**4,433,795**
Income Protection Claims Incurred	7	(1,443,032)	(1,032,816)
In-Year Interest and Dividends (including Loyalty and Enhanced Loyalty Bonuses)	8	(300,063)	(408,373)
Management Costs	9	(1,628,163)	(1,487,870)
Investment Expenses and Charges	13	(163,660)	(149,349)
Unrealised Gains/Losses on Investments	17	(118,477)	3,701,837
Interest and Dividends to Members’ Profit Share Accounts	18	(987,585)	(1,282,812)
Transfer (to)/from the LTBP	18	1,333,345	(2,560,336)
Transfer (to)/from the FFA	18	(1,138,428)	(1,214,076)
Balance on the Technical Account		**0**	**0**

Statement of Total Recognised Gains and Losses	Notes	2020 (£)	2019 (£)
Transfer (to)/from the FFA	18	(1,138,428)	(1,214,076)
Total recognised gains/(losses) since last Annual Report		**1,138,428**	**1,214,076**

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.

Statement of Financial Position

	Notes	2020 (£)		2019 (£)	
Fixed Assets					
Tangible Fixed Assets	15		**809,572**		**817,036**
Investments					
Investment in Subsidiary	16	4,721		4,721	
Other Financial Investments	16	44,619,653		44,738,129	
			44,624,374		**44,742,850**
Other Assets					
Cash at Bank			**264,123**		**373,073**
Prepayments and Accrued Income			**455,479**		**500,987**
Deferred Acquisition Costs	10		**0**		**1,031**
Total Assets			**46,153,548**		**46,434,977**
Fund for Future Appropriations	18		**17,247,868**		**16,109,440**
Long Term Business Provision					
Members' Profit Share Accounts	18	16,186,106		16,335,602	
Mathematical Reserves	18	11,932,698		13,266,043	
			28,118,804		**29,601,645**
Creditors					
Creditors Arising from Insurance Activities		410,896		446,278	
Other Creditors	22	375,980		277,614	
			786,876		**723,892**
Total Liabilities			**46,153,548**		**46,434,977**

Approval of the Financial Statements

These financial statements are approved unanimously by the Board.

Simon Whale, Chair of the Board
25 March 2021

The 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.

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.

Fund for Future Appropriations

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

Taxation

The Society is not subject to income, capital gains or corporation tax.

Valuation of Investments

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

Regarding note 15 below, the Society's freehold properties are held at valuation. The property was valued as of the 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	2020 (£)	2019 (£)
FFA		
Total Capital Resources Before Deductions	17,247,868	16,109,440
Regulatory Solvency Adjustments	(4,543,900)	(3,984,931)
Capital Available to Meet Regulatory Capital Requirements	12,703,968	12,124,509

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

	2020 (£)	2019 (£)
Income Protection Plus subscriptions	3,341,728	3,284,300
Earned Premium Income	**3,341,728**	**3,284,300**

6. Investment Income

	2020 (£)	2019 (£)
Listed Investments	1,095,611	1,138,972
Deposits with Banks and Fund Managers	8,724	10,523
Investment Income (excluding Realised Gains/(Losses))	**1,104,335**	**1,149,495**
Net Gains/(Losses) on the Realisation of Investments	-	-
Investment Income	**1,104,335**	**1,149,495**

7. Claims Incurred

	2020 (£)	2019 (£)
Income Protection Claim Payments	1,206,416	833,829
Claims Handling Expenses	236,616	198,987
Total Claims Incurred	**1,443,032**	**1,032,816**

8. Members' Profit Share Account Withdrawals

	2020 (£)	2019 (£)
Payments on Terminations	1,088,531	1,128,385
Payments on Partial Withdrawals	48,550	104,652
Total Members' Withdrawals	**1,137,081**	**1,233,037**
Mid-Year Interest and Dividends (including Loyalty and Enhanced Loyalty Bonuses)	300,063	408,373

9. Management Costs

	2020 (£)	2019 (£)
IFA Commissions (Note 10)	1,031	583
Other Acquisition Costs	796,982	769,430
Administration and Other Costs	830,150	717,857
Management Costs	**1,628,163**	**1,487,870**

10. Deferred Acquisition Costs

	2020 (£)	2019 (£)
Deferred Acquisition Costs Brought Forward	(1031)	830
Plus New IFA Commissions	1031	784
Less Deferred Acquisition Costs Carried Forward	0	(1,031)
IFA Commission Recognised in the Income Statement	**0**	**583**

11. Independent Auditor Remuneration

	2020 (£)	2019 (£)
Fees Paid to Moore for Audit Services	23,500	24,000

12. All Staff

	2020 (£)	2019 (£)
Salaries	957,576	838,238
Social Security Costs	103,816	90,884
Defined Contribution Pension Costs	26,381	23,956
	1,087,773	**953,078**

Senior Management Team

	2020 (£)	2019 (£)
Salaries (including the Chief Executive Officer)	463,938	396,862
Social Security Costs	59,930	47,456
Defined Contribution Pension Costs	22,032	21,571
	545,900	**465,889**

The number of employees at the end year, including directors

	2020	2019
Board and Senior Management	11	10
Acquisition and member service	3	3
Administration	9	8
	23	**21**

13. Investment Expenses and Charges

	2020 (£)	2019 (£)
Management Charges	163,660	149,349

14. Non-Executive Board Director’s Remuneration

	2020 (£)	2019 (£)
Fees	92,400	82,750

15. Tangible Fixed Assets

Cost:	Freehold Properties (£)	Improvement to Buildings (£)	Fixtures, Fittings, Furniture (£)	Computers and Office Machinery (£)	Total (£)
At 1 Jan 2020	695,000	37,728	24,839	407,943	1,165,510
Additions	-	3,224	547	26,480	30,251
Revaluation	-	-	-	-	-
Disposals	-	-	-	(284,431)	(284,431)
Cost: At 31 Dec 2020	695,000	40,952	25,386	149,992	911,330
Depreciation:					
At 1 Jan 2020	-	24,545	13,335	310,594	348,474
2019 Charge	-	2,727	1,547	33,441	37,715
Disposals	-	-	-	(284,431)	(284,431)
Depreciation: As 31 Dec 2020	-	27,272	14,882	59,604	101,758
Net Value 2020	695,000	13,680	10,504	90,388	809,572
Net Value 2019	695,000	13,183	11,504	97,349	817,036

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:	2020 (£)	2019 (£)
UK investments	44,619,653	44,738,129
Overseas investments	-	-
	44,619,653	**44,738,129**

	Current value		Historical cost	
	2020 (£)	**2019 (£)**	**2020 (£)**	**2019 (£)**
Collective Investments	20,076,170	20,860,395	18,952,914	18,862,940
Debt and Other Fixed Income Securities	24,543,399	23,877,650	22,713,457	23,611,504
Deposits with Credit Institutions	84	84	84	84
Other (Deposits with Fund Managers)	0	0	0	0
Investment in Subsidiary	4,721	4,721	10,000	10,000
	44,624,374	**44,742,850**	**41,676,455**	**42,484,528**

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

	2020 (£)	2019 (£)
Investments at Fair Value through Income:		
Debt Securities	665,749	1,103,855
Collective Fund/ Equity Securities	(784,226)	2,543,903
Gains on property revaluation	--	--
Rebated fees through investment fund	--	54,079
Investments in Society Undertakings	**(118,477)**	**3,701,837**

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

	Members' Profit Share Accounts (£)	Mathematical Reserves (£)	FFA (£)
At 1 January 2020	**16,335,602**	**13,266,043**	**16,109,440**
Transfer to the FFA			
Transfer from Mathematical Reserves		(1,333,345)	
Interest and Dividends on Members' Profit Share Accounts	987,585		
Members' Withdrawals	(1,137,081)		
Transfers from the Technical Account			1,138,428
At 31 December 2020	**16,186,106**	**11,932,698**	**17,247,868**

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

19. Long Term Business Provision and Insurance Liabilities

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	0.15%
Allowance for expenses	Per policy expense of £335 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' capital accounts have been included at face value.

Aggregate provisions calculated for the purposes of the prudential Non-Solvency II Firms rulebook have been excluded.

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

A reduction in interest rates reduces the impact of discounting within the LTBP, resulting in an increase in the provision. If the valuation interest rate is reduced by 0.50% to -0.35%, the LTBP increases by £813,000. 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 0.65%, the LTBP reduces by £727,000. 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 £335 pa to £368.50 pa, increases the LTBP by £1,866,000. This does not allow for any impact this would have on the expense reserve.

A decrease in the policy expense allowances (caused by decreases in management expenses) would result in a decrease in the LTBP. A 10% decrease in policy expense allowances, from £335 pa to £301.50 pa, decreases the LTBP by £1,708,000. Again, this does not allow for any impact this would have on the expense reserve.

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

Age	Male	Female
< 50	55%	55%
>= 50	55%	55%

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 £1,298,000.

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 £1,089,000.

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 £2,550,000.

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 £6,016,000.

The interest rate (before allowance for investment management expenses of 0.35%) used to discount the liabilities of the income protection business was limited to the reinvestment rate, which is set by the Prudential Regulations Authority (PRA). Since the FTSE UK 15-year long term gilt yield (LTGY) was below 3% at the valuation date, the reinvestment rate formula resulted in the annualised LTGY being the reinvestment rate (0.53%). The interest rate before allowance for investment management expenses was set to 0.50%.

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

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

Nil mortality in deferment has been assumed within the income protection reserving.

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

The allowance for expenses is based on the Society's budgeted expenses for the next 12 months. The expense allowance is an amount of £335 p.a. in 2021 per premium/level and standard/reducing policy which increases at 2.75% p.a. Nil expenses are apportioned to Associate Holloway policies.

Finally, the explicit allowances for future dividends are £1.75. This allowance for future dividends is deducted from the share premiums when calculating the income protection reserve. Any distribution above these amounts will be paid out of the Society's surplus.

Insurance Liabilities

Capital Statement: Long-Term Insurance Business	2020 (£)	2019 (£)
Available Capital Resources:		
FFA	17,247,868	16,109,440
Adjustments onto Regulatory Basis:		
Adjustments to Assets	(13,900)	(14,931)
Resilience Reserve	(2,050,000)	(2,180,000)
Expenses Closure Reserve	(1,500,000)	(1,500,000)
Loyalty Bonus Reserve	(330,000)	(290,000)
Additional Covid 19 provision	(650,000)	-
	12,703,968	**12,124,509**

Summary

The total available capital resources of the Society's long-term insurance business amount to £12,703,968 (2019: £12,124,509). Its capital resource requirements amount to £1,506,456 (2019: £1,539,924) resulting in a surplus of available capital resources over regulatory capital of £11,197,512 (2019: £10,584,585).

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

Basis of Calculation of Available Capital Resources

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

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

Restrictions on Available Capital

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

Basis of Calculation of Capital Requirements

The capital resource requirement amounts to £1,506,456 (2019: £1,539,924) and is determined in accordance with capital requirement as defined by PRA regulations, namely the Solvency Margin.

As of 31 December 2020, the Society's total available capital resources of £12,703,968 (2019: £12,124,509) (843% of capital requirement).

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

	(£)
Balance at 1 January 2020	**12,124,509**
Effect of assumptions variations	16,817
Effect of investment variations	801,168
Effect of variations in non-economic experience	749,059
Cash distributions	(987,586)
Balance as at 31 December 2020	**12,703,968**

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 stated in the Business Strategy Report.

20. Financial Commitments

As at 31 December 2020 the Society was committed to making the following payments under non-cancellable operating leases in the year.

Operating Leases Which Expire:	2020 (£)	2019 (£)
Within One Year	6,481	5,367
Between Two and Five Years	15,922	14,746
	22,403	**20,113**

21. Remuneration of the Appropriate Actuary

Neither the Society's Appropriate Actuary, John Burgum of OAC Plc, nor any of OAC's staff or family, were members of the Society in 2020 and nor do they have any financial or pecuniary interest in the Society except for fees payable of £84,004 (2019: £83,384).

22. Other Creditors

	2020 (£)	2019 (£)
PAYE and National Insurance Contributions	29,490	25,341
Purchase Ledger Control	78,614	43,832
Pension Liability	10,019	-
Accruals	257,857	208,441
	375,980	**277,614**

The 2021 Annual General Meeting

Time and Venue

By order of the Board, notice is hereby given that the 93rd Annual General Meeting of the Society will be held at its head office in St Albans on the 24 June 2021 at 9am to consider and, if thought fit, pass the following by way of Ordinary Resolutions:

Please note that due to the ongoing 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. We would encourage all members 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 92nd AGM of the Society.
2. To receive the Business Strategy Report for the year ended 31 December 2020.
3. To receive the Financial Statements for the year ended 31 December 2020.
4. To receive the Corporate Governance Report for the year ended 31 December 2020[7].
5. To receive the Climate Change Strategy Report for the year ended 31 December 2020[8].
6. To receive the Directors' Report for the year ended 31 December 2020.
7. To receive the Directors' Remuneration Report for the year ended 31 December 2020[9].
8. To receive the Independent Auditor's Report for the year ended 31 December 2020.
9. To re-appoint Moore as the Independent Auditor of the Society and to authorise the Board to determine their remuneration.
10. To consider the appointment of the following directors standing for election and re-election:
    a. Simon Whale
    b. David Gulland
    c. Mike Perry

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
25 March 2021

[7] Non-binding resolution
[8] Non-binding resolution
[9] Non-binding resolution