



metfriendly

Metropolitan Police Friendly Society Limited
2013 Annual Report & Accounts

Metropolitan Police Friendly Society Limited
Annual Report & Accounts

For the year ended 31 December 2013

Authorised by the Prudential Regulation Authority and regulated by the
Financial Conduct Authority and the Prudential Regulation Authority (110026)

Incorporated under the Friendly Societies Act 1992 and registered in the United Kingdom No. 496F

Registered Office

Berwick House, 8-10 Knoll Rise, Orpington BR6 0EL

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Chair's Report



I succeeded Mick Messinger as Chair in July last year so this is my first report to members.

It was a very proud moment for me when my fellow Directors asked me to become Chair. I only hope that I have a rather less turbulent time than my predecessor.

Mick Messinger was Chair of the Society for six years – six years of constant challenge. He has been a calm and reassuring presence during the economic turmoil since the potential collapse of the banking system. The current strength of the Society is a testament to his stewardship and his ability and desire to embrace change and get the very best out of those around him.

I am extremely grateful that Mick has agreed to remain as a Director for the present to see me through my first tentative steps as Chair.

The Chair's Report in previous Annual Reports has included comment on the Society's past performance and future strategy. We have reviewed the content of this Report and Accounts and, in accordance with best practice, we now lead (after the Chief Executive's Report) with a Strategic Report. This not only includes the financial highlights but also explains the Society's main objectives in the context of our "mission statement".

These remain difficult times, especially in the public sector. We are delighted that our members continue to trust us with their money, and our premium income grew in 2013, helped by a record level of lump sum business. In part this reflects the work we have undertaken over the last 2 years in reaching members, and potential members, who are close to retirement – of whom, over 1300 have now attended our "Options" seminars.

In 2013, we launched presentations for police staff, many of whom face an uncertain future. These seminars build on workplace material developed by the Money Advice Service and have proved very popular with 600 staff attending, mainly since last July.

Our websites, both on the internet and the MPS intranet, explain more about the Friendly Society, and how to register for our events. Our internet site www.metfriendly.org.uk is regularly updated.

If we are to continue to thrive in the future, then the Society needs to broaden its membership base with increases in the number of new members to counterbalance inevitable departures. This means that we have to reach out to younger officers in greater numbers, as we used to do. We need the help of every one of our existing members and supporters in this area.

Our 2013 AGM was again held at Wood Street, with grateful thanks to the City of London Police. We had our usual high attendance with strong support from the Federation. Additionally, many members exercised their right to cast their vote by proxy. We urge all members who are unable to attend in person this year to send in their proxy form, and we will be donating £2 to charity for each form returned.

I want to finish with some personal thanks. The continuing strength of the Society is entirely due to the service provided by our staff at Orpington to our members. The high reputation of the Society with our members is a tribute to the efforts of all our staff.

The current strong solvency position of the Society results from the efforts of our Chief Executive, Stuart Bell. I am grateful for his support and firmly believe that we can work together, with other Directors, to safeguard the continuing future of the Society.

The Metropolitan Police Federation are constant and steadfast supporters. We would be much less likely to be able to make members of their younger officers without their help.

My final thanks go to the members of the Society. Their loyalty and support speaks volumes for the benefits of mutuality.

Mike McAndrew QPM CFCIPD

Chief Executive's Report



During 2013, there has been continuing progress in recovering from the global financial crisis. Market conditions remain fragile, with very low returns available on cash, but longer term interest rates rising to more normal levels.

We are pleased to say that the Society's investments did well in 2013, with bonds increasing modestly in value despite the adverse short-term impact of rising yields, and confidence returning to equities – where we built on the advances of recent years.

We sold our holdings in government bonds early in 2013, reinvesting the proceeds largely in cash and corporate bond funds. Our timing proved fortunate, with corporate bonds consistently outperforming government bonds during 2013.

Our equity funds benefited from the global recovery, especially in developed economies, although there was some concern in May at the prospect of the US Treasury tapering its bond purchases – those purchases have helped the economic recovery globally.

The Society places a high priority on maintaining its financial strength and the Board sets a low appetite for risk – with particular reference to our investment strategy. We meet our capital requirements by a considerable margin, with about 400% cover in our regulatory return (based on the same figures reported in the attached accounts). We consider this level of cover to be fully consistent with our low risk appetite.

We largely met our business plan targets in 2013 and expenses were well within budget. We have reviewed the way we monitor risks in 2013. More details are given in the Strategic Report.

The Business Plan for 2014 includes an objective to strengthen our new business development, building on the work outlined by the Chair, and recognising we can do more with enhanced resources, especially in attracting younger members.

We have maintained our annual bonus for 2013 at the same level as the previous year. Pay-outs for 2014 are only slightly down on 2013. A separate report to with-profit members follows the main Board report.

Our investment record is reflected in the claims that we pay out. For example, the returns on With-Profit Bonds cashed in after 5 and 10 years are 3.7% p.a. and 5.1% p.a. respectively – and, for ISAs cashed in after 5 and 10 years, the returns are 4.0% p.a. and 5.5% p.a. respectively tax free.

Stuart Bell MA FIA



Strategic Report

'**met**friendly' exists to service the savings and life insurance needs of the police service with fair value products. Through its reputation and performance, '**met**friendly' aims to be the provider of choice in the London area.

In delivering our mission statement, we aim to focus on achieving good investment returns at an acceptable level of risk, and to control our costs. In particular, we recognise that we need economies of scale to spread the expenses of our business. In the short term we focus on generating good levels of new business; and we also recognise the strategic importance of recruiting new members.

The Society regularly reviews the risks inherent in our business and assigns these risks to Board Committees. The full Board considers the principal risks and uncertainties -

- critical mass, in particular in the longer term - where we intend to expand our resources aimed at attracting new and younger members,
- expense levels, which are monitored closely - and have proved stable in recent years, and
- market risks
 - the matching of assets to liabilities is monitored quarterly and our investment strategy is refreshed annually to incorporate the results of our work on capital
 - investment performance is also monitored quarterly - we seek a well diversified portfolio to manage the risk on uncompetitive performance.

We are seeking to improve new membership to at least 1000 per annum over the next 3 years, which will ensure a stable long-term base over which to spread our costs. New members in 2013 were 590 (2012: 610), but the launch of a new plan on 1 January 2014 resulted in over 100 new members not joining us until that date.

Expense ratios were assisted by a record year for lump sum business, and by our costs coming in below budget. We are planning to increase our budget in 2014, and in particular to expand the resources devoted to new business development. We continue to address new recruits during their induction, and now sponsor an introductory pack given to them by the Constables' Branch of the Federation.

We enjoyed considerable success in 2013 with an expanded program of pre-retirement "Options" seminars, which clearly play a major part in attracting lump sum investments with the Society. In 2014, we plan to extend these seminars to address the requirements of officers in mid-service. We also address members and potential members at training centres when invited to do so. In 2013, we successfully introduced presentations to police staff, initially focused on the implications of the early departure scheme.

In 2013, the Society benefited from an investment return of over 7%, helped by our equity funds returning 18%. The Society sold out its government stock early in the year, thereby avoiding the fall in this market, and it achieved a return of over 2% on its bond fund holdings.

The Society's assets have grown strongly in recent years, and this helps us further to spread our costs -

Year	Assets* at Year End
2009	£84.4 million
2010	£91.5 million
2011	£90.6 million
2012	£97.6 million
2013	£105.3 million

*excluding reinsurance purchased

At the end of 2013, our investments were distributed approximately 35% in equities (including specialist funds), 12% in property, 46% in bonds (mainly corporate) and 7% in cash. We expect to increase our exposure to property funds in 2014.

Over recent years our business has changed in nature as we recognise that the discipline of a fixed term savings contract does not suit everyone. We have promoted lump sum business strongly and encouraged members to make the most of their tax allowances, particularly through our ISA (which takes flexible regular savings as well as lump sums).

All lump sum and flexible contracts are for life. There is no maturity date - encashment is by way of "surrender" with final bonuses normally paid after the first 3 years.

Management expenses have remained close to 2012 levels. The table shows how business has developed with the trend to flexible business evident -

£000s						
Year	Regular Premiums	Single Premiums	Maturity Claims	Surrender Claims	Death and Health Claims ¹	Management Expenses ²
2009	10,276	3,231	11,512	2,185	558	1,831
2010	9,711	6,894	11,335	2,797	743	1,658
2011	9,156	7,809	12,114	3,157	849	1,721
2012	8,542	7,847	9,908	4,169	1,381	1,719
2013	8,071	9,401	8,270	5,072	1,651	1,723

¹ Before reinsurance recoveries. Health comprises Income Protection and Critical Illness

² Some exceptional costs were incurred in 2009



Board of Management 2013

Non-Executive Directors

Mr M Messinger LVO QPM	Chair until 23 July 2013; Vice Chair from 23 July 2013; Marketing Committee (since 23 July 2013); Finance & Investment Committee; Nomination & Remuneration Committee (until 13 November 2013); and Nomination Committee (since 13 November 2013)
Mr T Birse MA FIA	Chair of the Finance & Investment Committee (since 31 January 2013); Audit, Risk and Compliance Committee; With-Profits NED
Ms J Cassettari	Chair of the Marketing Committee
Inspector P Clarke BSc	Audit, Risk & Compliance Committee; Nomination & Remuneration Committee (until 13 November 2013); Senior Independent Director (interim since 21 May 2013 and substantive since 23 July 2013); Nomination Committee (since 13 November 2013); and Chair of the Remuneration Committee (since 10 December 2013)
Constable P Deller	Marketing Committee
Mr P Girling BA MIRM	Chair of the Audit, Risk and Compliance Committee
Mr D Gottler	Nomination & Remuneration Committee (until 13 November 2013); Nomination Committee (since 13 November 2013); and Remuneration Committee (since 10 December 2013)
Ms E Heaney FCCA	Senior Independent Director (until 21 May 2013), Finance & Investment Committee (until 21 May 2013); retired as Non-Executive Director 21 May 2013
Mr M McAndrew QPM FCIPD	Vice Chair (until 23 July 2013); Chair from 23 July 2013; Chair of the Nomination & Remuneration Committee (until 13 November 2013); Chair of the Nomination Committee (since 13 November 2013); Finance & Investment Committee; and Remuneration Committee (since 10 December 2013)
Sergeant P McKeever BA FRSA	Died 17 January 2013; Chair of the Finance & Investment Committee (until 17 January 2013)
Chief Superintendent J Young MBA CertEd FCMI	Audit, Risk and Compliance Committee; elected as Non-Executive Director 21 May 2013

Executive Directors

Mr S Bell MA FIA	Chief Executive Officer
Mr D Ratcliffe	Secretary & Deputy CEO
The following are members of Committees as indicated but are not members of the Board	
Mr R Finlay	Marketing Committee
Sergeant M Cooper	Finance & Investment Committee
Mr G Stokes	Marketing Committee

Introducing your **Board of Management**

Non-Executives



Tim Birse

Appointed to the Board in May 2010, Tim is a qualified actuary. He is a strong supporter of the mutual life insurance and friendly society sector, having spent his entire working life at two mutual companies - firstly National Provident Institution and more recently over 21 years at Reliance Mutual Insurance Society. In October 2009 Tim stepped back from his management responsibilities as chief actuary at Reliance Mutual in order to devote more time to other activities and now works part time for Reliance. Much of the time generated by moving to part time work Tim has devoted to education of future generations of actuaries and he is currently Chairman of the actuarial profession's Education Committee. Tim is active in the Association of Financial Mutuals and its predecessor bodies. He has served on and chaired various working parties and discussion groups. In his spare time Tim is active as an Explorer Scout Leader and Treasurer of his Parish Church.



Janet Cassettari

Appointed to the Board in May 2010, Janet has worked in the financial services sector for over 30 years in a career encompassing many roles and responsibilities both within the UK and internationally. She managed the UK operation of a European reinsurance company and other roles have included global responsibility for development of an insurance product. She is a Director of an organisation which provides services within the annuity/longevity market and additionally continues to offer marketing consultancy services for the financial services sector. Janet has served on the Marketing Committee since 2007 and has been its Chair since July 2012.



Peter Clarke

Appointed to the Board in May 2007, Peter joined the City of London Police in 1979 and has had policies with metfriendly from that time. Over the years he has had control of a number of internal budgets. He is an Inspector currently leading on Emergency Planning and Business Continuity. Between 2001 and 2008 he was project manager for a multi-million pound project and accountable both internally and nationally for the money spent. In his spare time he is Treasurer for his local church.



Paul Deller

Appointed to the Board in May 2012 following service on the Marketing Committee, Paul joined the Met police in 1986 and has held plans with **metfriendly** since the late 1980s, including savings and insurance. Paul, who has been a Police Federation representative since 1992, was elected as Chairman of the Met Constables' Branch Board in 2008 and in December 2012 was elected as their General Secretary. He has been keen to promote the ties between the Met Police Federation and **metfriendly**. His interests outside the police service include being a football referee and president of a local Sunday football league.



Patrick Girling

Appointed to the Board in May 2010, Patrick Girling is an experienced Financial Service professional with over 25 years' experience in the industry. Patrick has specialised in the governance arena. He was Group Risk Director at Royal London Mutual Insurance before becoming a risk and governance consultant. Since then Patrick has provided interim management and consultancy support to the industry, holding senior positions in risk, compliance and internal audit. Known for his pragmatic approach to regulation, Patrick believes that he can continue to provide **metfriendly** with solid support through the next generation of legislation - namely Solvency 2, the new regulation that will impact on the Life and Pensions Industry. A firm believer in the ethos of mutuality, Patrick continues to work closely on Financial Conduct Authority (FCA) related projects on behalf of a number of his clients to ensure a proportionate approach to the business. He has provided support to both large and smaller insurance firms through his consultancy company Corporate Governance Assurance Services Ltd (CGAS). Patrick is a recognised speaker on risk & governance in the City and a member of the Institute of Risk Management.



David Gottler

Appointed to the Board in July 2005, David qualified as a solicitor at the age of 22 and has worked in the City of London for all his working life. In a career spanning over 30 years, David undertook a considerable variety of legal work, including taking a leading case to the House of Lords, as well as acting as an advocate, particularly in relation to family and licensing work. As his career developed, David concentrated more on property and commercial work, although he continued to enjoy his specialist matrimonial practice, where there was a constant opportunity to help people in times of emotional difficulty. David personally had been advising **metfriendly** since 2000 until his retirement from practice in the summer of 2011.



Mike McAndrew

Appointed to the Board in October 2001, Mike was Assistant Director, Promoting Difference in the MPS HR Directorate until retiring at the end of March 2011. He had retired as a police officer in 2007 after 38 years' service. Immediately before retirement he was the full-time Secretary in London for the Superintendents' Association and a member of the Association's National Executive Committee and the Association's National Lead for HR. His last operational post was Traffic OCU Commander. Mike is a Chartered Fellow of the Chartered Institute of Personnel and Development and a member of the Institute of Directors.



Mick Messinger

Appointed to the Board in January 1997, Mick spent 40 years in the Metropolitan Police, retiring in July 2006. In his final post, he was Commander of Operations with responsibilities including event policing, major incident response, emergency planning and public order training. During his career, Mick joined both the Chartered Institute of Personnel and Development and the Chartered Management Institute. In addition to his long service on the Society's Board, he has chaired the Metropolitan and City Police Orphans Fund and served in other welfare posts. Mick has also been deputy chairman of the MPAA and chaired their General Purpose Committee. He currently holds the post of chief volunteer for St John Ambulance and is a trustee on the St John Ambulance Board.



Joanna Young

Appointed to the Board in May 2013, Joanna joined the Met police in 1984, and can't remember when she didn't have plans with **metfriendly**. She served for four years with Kent police before returning to the MPS as head of Criminal Justice for London. She is now the elected full-time Secretary in London for the Superintendents' Association, a member of the Association's National Executive Committee and leads for the Association on HR and Health Safety and Wellbeing. She is married with three children, is a keen badminton player, keep fit fanatic and enjoys skiing but not the cold.

Executive Directors



Stuart Bell

Stuart has spent his career in insurance. He qualified as an actuary in 1978 and has served in a voluntary capacity on his profession's committees. He holds a practising certificate covering with-profits business and his professional interests include investment and risk management. He left Milliman, a firm of consultants, in 2006 to join **metfriendly** as Chief Executive. During his 30 years with Milliman (and its forerunners) in London, Stuart gave advice to many UK and overseas clients and was appointed as the statutory actuary to many small firms. He was also engaged in expert witness work - particularly where insurance funds were being merged. In his early career, Stuart worked for both pensions and non-life insurance clients. In his later consulting career, his clients included a number of friendly societies - and his work for **metfriendly** dates back to 1985. He sits on the Regulation and Governance Committee of the Association of Financial Mutuals.



Don Ratcliffe

Don joined the Metropolitan Police as a cadet in 1970, becoming a constable at Bow Street in 1972. He also served at Peckham and was the General Secretary of the Metropolitan Police Federation Joint Executive Committee from 2001 until his retirement in 2005, when he joined **metfriendly**. Don is Deputy Chief Executive and Secretary, and has responsibility for operations and HR within the society - as well as helping with our pastoral work. He is a past Trustee of the Metropolitan Police Combined Benevolent Fund and the National Police Fund. He is currently a member of the Institute of Directors.

Report of the Board of Management

The Board of Management is pleased to present their report and accounts for the year ended 31 December 2013 that have been prepared in accordance with the requirements of the Friendly Societies Act 1992 and the regulations made under the Act. The Board is responsible for preparing the accounts and considers that the annual report and accounts, taken as a whole is fair, balanced and understandable and provides the information necessary for the Society's members to assess the Society's performance, business model and strategy. In determining the technical provisions, the Board has been advised by the Actuarial Function Holder, who also serves as the With-Profits Actuary.

The Board is responsible for overseeing the strategic direction of the Society, ensuring that appropriate resources, including key staff, are in place to deliver its business objectives. It is also responsible for ensuring that business and operational risks are identified and addressed in an appropriate manner. Responsibilities are largely delegated to its Committees, who report and make recommendations to the Board.

Day-to-day management of the Society is delegated to the Chief Executive Officer who is responsible for delivering the business objectives of the Society and for ensuring the Board is adequately briefed on all matters brought before it. The Board is consulted on all major appointments, extraordinary items of expenditure, major product development, bonus decisions and investment strategy.

The Society is an incorporated friendly society and exists to serve the members of the police service in London during and after their service, as well as their families. The Society also has members in other forces outside of London.

We are a long-term insurance firm and confine our business to investment, savings and protection products. Most of our assets are held to meet our liabilities to our with-profits members who effectively own the Society. Membership of the Society as at 31 December 2013 stood at 13,016 (2012: 13,524).

Board of Management

Details of members of the Board of Management and Committee membership are shown on page 5. There were three changes to Board membership during 2013. As we reported in last year's Annual Report, Paul McKeever died suddenly in January. Eileen Heaney stood down at the AGM after 10 years' service as a director, including some time in the roles of Senior Independent Director and With-Profits NED. Joanna Young was elected as a director at the AGM following service on the Audit, Risk & Compliance Committee.

Risk Management

The Audit, Risk & Compliance (ARC) Committee is generally responsible for overseeing risk management, with particular reference to systems and controls and other aspects of operational risk.

Throughout the year Braven Consulting again acted as our internal auditors under the oversight of John Midlane. They conducted audits on Risk Management; Investments; Fraud Phase 2; and Compliance, the results of which were reported to the ARC Committee and the Board.

Along with the Finance and Investment Committee the ARC Committee also monitors business risks including investment, underwriting and expense management, which are core areas driving the return to our members. They also have responsibility for our Risk Register which underwent another revision during the year and now provides clear information about the main risks facing the Society and the controls we have put in place to reduce their likely frequency or impact on the Society.

The Board has also maintained its risk policy which it reviewed during 2013. The policy now elaborates on the basis of risk measurement, and risk appetite is addressed in a more quantitative manner. The principal risks are reviewed and reported quarterly, with a more detailed annual re-assessment.

The Board continues to monitor proposed new legislation (including that emanating from the EU) and assesses its potential impact on the business model. In particular the design and launch of the new Guaranteed 5 Year Savings Plan product was prompted by, and in response to legislation expected in the coming years from the EU. Also changes to application forms and systems have been implemented during 2013 prior to US and UK legislation coming into force.

The Society has also appointed a Health and Safety Officer, a Fire Officer and a First Aider at Work to comply with statutory requirements. We also hold appropriate insurance including Directors' and Officers' cover.

Donations

The Society made a charitable donation of £1,000 in memory of Paul McKeever, a director who died suddenly in January and £1,000 each to The Police Rehabilitation Centre at Goring and the Metropolitan Police Staff Welfare Fund. The latter two were our chosen charities for 2013. Throughout the year the Society has continued to assist to raise funds for the National Police Memorial Day at Long Service Awards ceremonies and Passing Out Parades at Hendon and elsewhere.

Statement of Solvency

The Society is required to maintain the prescribed margin of solvency in respect of its long-term business. The Society met this requirement throughout the year 2013.

Appointment of Auditors

Mazars LLP acted as auditors to the Society throughout 2013. The Board considered the independence of Mazars and believes that the limited work they undertook in relation to preparing the "tagged" Annual Report for submission to Her Majesty's Revenue and Customs did not affect their independence as external auditors.

Mazars LLP have expressed their willingness to continue in office as external Auditors and a resolution proposing their reappointment will be submitted at the Annual General Meeting 2014.



Report to **Members with With-Profits Contracts**

Directors' Report

The Society manages its with-profits business in accordance with the Principles and Practices of Financial Management (“PPFM”) which are published on the Society’s website along with the “consumer friendly” version – “How we manage the with-profits fund”. These documents are available to members on request, free of charge.

The Board exercises its discretion in managing the business taking into account the terms under which business is issued and the constraints of the PPFM. In doing so, the Board is advised by the With-Profits Non-Executive Director (“WPNE”) and the With-Profits Actuary (“WPA”). The WPNE currently chairs the Society’s Finance & Investment Committee which also has a responsibility to consider issues relating to with-profits business. Throughout 2013, Tim Birse served as WPNE – his terms of reference were reviewed in July with no material changes.

The Board reviewed the PPFM with effect from July 2013 and again from January 2014. The main change was a revised section on the principles relating to Investment Strategy, for which the required notice was given to members.

The Board’s discretion relates principally to setting investment strategy, determining asset shares, setting annual and final bonuses, and setting fair surrender values. In setting final bonuses, the objective is to ensure that payouts are close to the asset shares which have built up from members’ premiums (after allowing for our investment return, expenses, the costs of providing guarantees and, where applicable, taxation and life cover). In recent years, members have benefitted from distributions of capital. This has been achieved by supplementing the investment return credited to asset shares up to 2011; and by basing payouts on more than 100% of asset share from 2010 to 2012.

In managing the with-profits business during 2013, the Board has been particularly mindful of the low interest rates which currently prevail, and their effect on the cost of providing the guarantees inherent in with-profit contracts. Whilst short-term interest rates have remained exceptionally low, longer-term rates have begun to recover to more normal levels. The Board considers that the volumes and terms of business written in 2013, and those planned for 2014, are appropriate.

It is the Directors’ opinion that the business has been managed throughout 2013 in accordance with the PPFM; and that they have exercised their discretion appropriately, taking into account the reasonable expectations of members, and maintaining fairness between differing types of business.

New Product

The Society decided to replace the 5 Year Plan with effect from January 2014. Business written throughout 2013 was on unchanged terms, with bonuses being added annually and at maturity. Business written from January 2014 has guaranteed benefits, whether at maturity or on early surrender. No bonuses will be added to this product. The new product is intended to meet its fair share of the Society’s costs and provide a contribution towards profit and the cost of risk but, as the terms are guaranteed, its actual contribution will depend on the Society’s experience.

Changes to the PPFM

The PPFM and, where appropriate, the “consumer friendly” version were altered to reflect the following measures, and to make some minor editorial improvements. The Society’s website provides details at <http://www.mpfs.org.uk/about-metfriendly/with-profits/ppfm>.

No material changes were made to the Principles, but the section on Investment Strategy was re-written following the Society’s decision to sell all its direct holdings of sterling-denominated government stock. The practices in this area were also reviewed, and more detail given on asset-liability matching and on liquidity and counterparty limits.

The with-profits business benefits from any other business which the Society writes. Historically, this has only been the protection business but, during 2013, the Society planned the launch of its Guaranteed 5 Year Savings Plan (see above). Accordingly the practices were amended to confirm that the risks and rewards from this business would also be for the benefit of with-profits business.

The Society may levy a charge on asset shares towards meeting the cost of providing guarantees, and a charge was re-introduced in 2012. That charge of 0.5% was subject to annual review, and was reduced to 0.25% for 2013. The Board also recognised the additional guarantee costs on 5 Year Plans, and will recover this by an additional annual charge of 0.5% for these plans from 2013 until they run off in 2018.

Surrender values were reviewed for 2014. The costs of writing new business were reflected in higher charges on early surrender. It is now the Society’s normal practice on fixed term savings contracts (“endowments”) to pay at least a return of premiums provided the contract has run for at least 4 years (previously 3 years) when surrendered.

Bonuses

The Board decided to maintain the rates of annual bonus added to contracts to reflect continuing low interest rates – and noted that conditions in 2013 supported these rates to a much greater extent than in 2012. Annual bonus rates for 2013 are shown below.

- New series endowments including the 5 Year Plan – 1.0%
- Tax-exempt endowments – 1.2%
- With-Profit Bonds, Flexible Savings Plans and fully paid Option Plans – 1.0%
- ISAs and fully paid tax-exempt Option Plans – 1.2%

Final bonus rates are determined according to the duration that a contract has been in force, and are normally reviewed annually for endowment savings contracts and quarterly for contracts without a fixed duration – with examples given on the Society’s website. Payouts on endowments in 2014 will be slightly lower than in 2013, the reduction ranging from about 0.5% for 5 year plans to about 5% for 25 year plans.

Surrender Values

The Society has maintained its practices for surrender values throughout 2013 but, as noted above, will recover more of its costs on early surrender from the beginning of 2014.

On contracts without a fixed duration, the Society may impose a Market Value Reduction (“MVR”) to reduce the sum assured and existing annual bonuses to reflect the asset share more closely. No MVRs were applied during 2013.

Report of the With-Profits Actuary

As the With-Profits Actuary to the Society, it is my responsibility to advise the Board on the management of the Society's with-profits business, and to report annually to with-profits policyholders on the Society's exercise of discretion in relation to that business. I have considered the attached annual report from the Directors of the Society to with-profits policyholders.

In my opinion:

- The report is a fair reflection of how the with-profits business has been managed during the year;
- The discretion exercised by the Society's Board in respect of 2013 may be regarded as having taken the interests of all with-profits policyholders into account in a reasonable and proportionate manner; and
- The new business written during 2013 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2013 were appropriate.
- In reaching this opinion I have taken into account the information and explanations provided to me by the Society, relevant rules and guidance issued by the FCA and applicable standards issued by the Financial Reporting Council.

Lindsay Unwin BSc FIA

Corporate Governance Report

metfriendly is governed by a Board of Management. The Rules of the Society set a maximum of 14 directors for the Board and establish a 3-year maximum term for directors (with re-election permitted). In practice the Board has now moved to annual election of directors since the last AGM.

At 31 December 2013 there were nine non-executive directors (NEDs) and two executive directors. Mike McAndrew is Chair of the Board of Management. Mick Messinger is the Vice Chair, Peter Clarke performs the role of Senior Independent Director (SID), Tim Birse performs the role of With-Profits NED, Stuart Bell is the Chief Executive Officer and Don Ratcliffe is the Secretary.

The Board met on six occasions during 2013 which it considers were sufficient meetings in order to discharge its duties effectively. Details of the attendance of directors are shown below. During each meeting, the Board met for a period without the executive directors present. At their July meeting, in accordance with recommended good practice, directors met in the absence of the Chair to discuss his performance.

The Directors' attendance at Board and relevant Committee meetings in 2013 was as follows:

Director	Board (6)	Audit, Risk & Compliance (4)	Finance & Investment (4)	Marketing (4)	Nomination & Remuneration (3)	Nomination (2)	Remuneration (1)
T. Birse	6	3	4	-	-	-	-
J. Cassettari	6	-	-	4	-	-	-
P. Clarke	4	3	(0 out of 2)	(0 out of 2)	3	2	1
P. Deller	6	-	-	4	-	-	-
P. Girling	6	3	-	-	-	-	-
D. Gottler	5	-	-	-	3	2	1
E. Heaney	3 out of 3	1 out of 1	2 out of 2	(0 out of 2)	(0 out of 1)	-	-
M. McAndrew	6	(0 out of 2)	4	(2 out of 2)	3	2	1
M. Messinger	6	(2 out of 2)	3	0	2	2	-
J. Young	3 out of 3	2	-	-	-	-	-
S. Bell	6	(4)	4	4	(3)	(2)	(1)
D. Ratcliffe	6	(4)	4	4	(3)	(2)	(1)

Figures in brackets relate to directors' attendance (by right or invitation) at meetings where they are not a voting member of the Committee.

Committees

Throughout the year the Board was supported by four and latterly by five committees whose duties are intended to enable the business of the Society to be examined in the appropriate depth. Additionally during the year Tim Birse and Stuart Bell met with our With-Profits Actuary and her colleagues. The Audit, Risk and Compliance (ARC), Nomination and Remuneration Committees enable the Society to meet best practice in corporate governance. There are also Marketing and Finance & Investment (F&I) Committees.

The purpose of the ARC Committee is to ensure an independent oversight of the Society's systems of internal control, risk management and compliance with the Financial Services and Markets Act 2000 and subsequent related legislation through the supervision and monitoring of the independence, quality and effectiveness of the Society's external auditor & internal audit function, and to enable the Society's risk management and compliance to be reviewed in greater detail than at regular Board meetings.

The ARC committee was content with the work of the external auditors having considered the Audit Strategy proposal and the Report of the Audit following its completion. It considered the external auditor's report with particular attention to the material items. It believes that the work undertaken in deriving the value of investments, the amount of the long-term business provision and the capital strength of the Society has been performed appropriately and to a high standard. Moreover the committee were satisfied that, in determining the long-term business provision, the Board received appropriate actuarial advice as to the methods and basis to be employed - which they accepted, and that the external auditors were given the opportunity to raise relevant issues at that stage.

The committee accepted all recommendations made by the auditors during the preparation of the accounts, with no material disagreements.

The ARC committee was satisfied that the external Auditors should be reappointed. Mazars had been appointed at the end of 2011 following a tender process.

The purpose of the F&I Committee is to provide an independent oversight of the Society's systems of financial reporting and investment control, and to enable the Society's financial management, including investment strategy and with-profits business, to be reviewed in greater detail than at regular Board meetings.

The purpose of the Marketing Committee is to enable the Society's marketing to be reviewed in greater detail than at Board meetings. In particular the Board has charged the Committee with providing direction and recommending strategy to attract new members, maintain existing ones and generally promote the Society; increase the take up of the Society's products; and undertake the member relations function.

During the year the Nomination & Remuneration (N&R) Committee met twice. However in November the Committee separated into its two component parts and now meets as separate committees. The Nomination Committee oversees the Society's management arrangements and makes recommendations to the Board relating to the appointment of executive and non-executive directors. The Committee takes into consideration issues including skills, diversity and the benefits of maintaining strong links with the affinity group served, such recommendation being made on merit, against objective criteria and with due regard for the benefits of diversity on the Board, including gender. The Remuneration Committee oversees and makes recommendations relating to the remuneration of directors.

Terms of Reference for all Committees are on our website or are available on request. See page 5 for Committee Membership and the Chair of each committee.

Appointments, Board Balance and Independence

The Board includes a wide range of NEDs some of whom are either serving or recently retired police officers or police staff who give their time freely on a voluntary basis whilst employed by the police service. Others have considerable experience in financial services or corporate governance and add to the experience and skills of the Board. Paul McKeever died suddenly in January 2013 but was not replaced. Eileen Heaney retired as a director at the AGM and Joanna Young, who was serving as a member of the ARC Committee was elected as a director.

Following guidance from the N&R Committee and later the Nomination Committee, the Board believes that all NEDs currently meet the criteria for independence of character and judgement. The N&R Committee further consider where there are any factors which could prejudice the independence of NEDs. It is deemed that the Chair, although independent on appointment, ceases to be regarded as independent thereafter. As such the former Chair is not considered to be independent.

The Board also applied particular consideration to the independence of other NEDs whose service exceeded 9 years. There were no NEDs required to be considered in 2013.

Chair and Chief Executive

The Board has agreed a clear division of responsibility between the Chair, who is responsible for running the Board and the Chief Executive Officer who is responsible for running the business of the Society on a day-to-day basis with the support of the Society's staff at Orpington.

Matters reserved for Board decision were confirmed during the year as:

- Directors and Executives - appointments and terminations
- Appointments to (and removal from) Committees (as further detailed in their Terms of Reference)
- Variations to staff strength at managerial level
- Directors' remuneration (executive and non-executive)
- Approval of Accounts and Regulatory Returns and underlying principles
- Appointment of Auditors, Actuary and other professional (including investment) advisers
- Approval of risk appetite, at least annually
- Approval of Investment Strategy, at least annually
- Approval of Business Plan at least annually
- Major investment decisions
- PPFM and annual bonus decisions
- Approval of new products

Board & Director Performance Evaluation

The Board undertook an evaluation of its own performance and effectiveness during 2013. Each Director completed a questionnaire with the results considered by the Nomination Committee and later the Board. Last carried out in 2011, it is envisaged that an independent review of Board effectiveness will be undertaken by the new internal auditors once every three years, commencing in 2015.

Individual appraisals of Directors were undertaken by the Chair following a peer appraisal process. The Chair's appraisal was carried out by Peter Clarke, the SID.

During the year there was one formal training session for Directors. Some Directors attended training organised by other bodies such as the Association of Financial Mutuals (AFM) and the Investment & Life Assurance Group (ILAG), with whom the Society had membership throughout the year.

Re-Election of Directors

Under the Rules of the Society all Directors are submitted for re-election every three years unless they have been a member of the Board for more than 9 years in which case they have to stand for annual re-election.

In 2013 all directors were put forward for election for a 12 month period. During 2014 the Board will discuss the issue of the annual election of directors and any rule changes that might be required in order to comply with the Annotated version of the UK Corporate Governance Code.

The Board considers that the eleven Directors standing for re-election in 2014 continue to provide a satisfactory performance, the NEDs remain independent in their judgement and all Directors possess the skills, knowledge and experience appropriate to Board membership. Further, they consider that Fiona Gregory would be a diligent and effective director of the Society. She has close family connections with the police service and has also been an effective chair and non-executive director of another financial mutual. She has previously worked with the Society on Board effectiveness and has knowledge of the Society. The Board considers she will be effective immediately given her experience in the sector and of the Society. The Board believe that this experience will enhance and complement the skills of the Board.

Other Board Roles

Peter Clarke serves as the Senior Independent Director (SID) to whom members may address any complaints that have not been addressed to their satisfaction by the Society's management. There is also an arbitration panel of members elected at the AGM. The SID also co-ordinates any requests from NEDs for independent advice and would normally liaise with the Secretary where it was agreed that such advice be sought.

Tim Birse serves as the With-Profits NED.

The ARC Committee is currently responsible for overseeing "Whistleblowing" and staff may confidentially report any concerns about their colleagues' propriety to any member of that Committee, in particular its Chair.

The Board encourages directors to attend meetings and events where members are present, particularly the AGM, Options (pre-retirement) seminars and others, to remain in contact with the views of members.

Annotated UK Corporate Governance Code for Mutual Insurers

The Board is committed to a high standard of corporate governance. The Board considers that, throughout the period under review, it has applied the relevant principles and complied with the provisions of the Annotated UK Corporate Governance Code for Mutual Insurers ("the Code") issued by the AFM in November 2012 with only the following two exceptions.

The Code states that a significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance. However, the Society does not operate a bonus system. The Society is conscious of the tendency for such remuneration structures to distort behaviour. The Society reviews this annually. There are no plans to introduce performance bonuses, but we remain aware that this is an area where we are out of step with recommended practice, albeit many firms of our size are in the same position.

The post of Chair was not subject to open advertising or the use of external search consultancy. The Chair of the Society is a pivotal role in the relationship between the Society and our affinity group. The Board considers that experience at a senior level in the police service is essential at this time and felt that with Mike McAndrew's experience on the Board and his contacts at a senior level within our affinity group, he was the most appropriate choice to become Chair. No-one else in a senior position within the police service in London had his knowledge of financial services.

Remuneration Report

Some Non-Executive Directors are serving police officers or police staff and give their time freely to the Society.

The role of Chair is more time consuming and is remunerated.

For the year 2013 the Board of Management confirmed their remuneration policy for Non-Executive Directors acting in a professional capacity whereby they could be paid an annual retainer of £6,150 plus a meeting fee (based on a half-day attendance) of £410. Other NEDs who are not serving police officers or police staff may receive remuneration at the discretion of the Board.

All payments are made personally to those Non-Executive Directors listed below.

There is no incentive scheme currently in place for Executive Directors. No Executive Director has a notice period exceeding twelve months. Executive pay is agreed by all NEDs on the Board of Management.

The following remuneration was paid to Directors during 2013:

Non-Executive Directors	
Mick Messinger	£9,895
Eileen Heaney	£3,125
Tim Birse	£12,400
Janet Cassettari	£10,350
Patrick Girling	£9,940
David Gottler	£9,940
Mike McAndrew	£8,845
Executive Directors	
Stuart Bell	£182,819
Don Ratcliffe	£60,144

Payments to Mr Bell and Mr Ratcliffe include the cost of the provision of private health care arranged through the Police Healthcare Scheme and in the case of Mr Ratcliffe only, it includes employer's contributions to a stakeholder group pension scheme.

Mr Bell has been permitted to retain a directorship of HR (Nigeria) Ltd. He undertakes such work in his own time. His remuneration in 2013 was £3,000.



Statement of the **Directors' Responsibilities**

The Friendly Societies Act 1992 and the regulations made under the Act requires the Board of Management to prepare accounts for each financial year which give a true and fair view of the state of the affairs of the Society and of the results of the Society for that period. In preparing those accounts the Directors are 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 accounts; and
- Prepare the accounts on a going concern basis unless it is inappropriate to presume that the Society will continue in business.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the accounts comply with the Friendly Societies Act 1992 and the regulations made under the Act. They are also responsible for safeguarding the assets of the Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Board of Management confirms that, in its view, it has complied with the above requirements in preparing the accounts.

Independent Auditor's Report to the Members

Opinion on the financial statements

We have audited the financial statements of Metropolitan Police Friendly Society Limited for the year ended 31 December 2013 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements of Metropolitan Police Friendly Society Limited for the year ended 31 December 2013:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Society's affairs as at 31 December 2013 and of the Society's result for the year then ended; and
- have been properly prepared in accordance with the requirements of the Friendly Societies Act 1992.

Assessment of the risks of material misstatement

In arriving at our audit opinion, the risks of material misstatement that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team were as follows:

Measurement of the long term business provisions and the reinsurer's share of them, and the appropriateness of methods and assumptions used in the measurement;

- *The risk:* The Society is liable for future payments due under the terms of its long term insurance contracts in payments on maturity at the end of the contract, early encashments on surrender and occurrences of death or illness. Significant judgements are made by the Society and its Actuarial Function Holder to assess the size of this liability using statistical methods. The highly subjective nature of management judgements and assumptions required means there is an inherent risk that this liability will prove to be materially misstated as the contracts are satisfied over the course of time.
- *Our response:* We challenged management's assumptions used in the measurement of long term business technical provisions, and examined a sensitivity analysis on their assumptions to ensure there were no indicators of material misstatement or management bias. We made use of appropriately qualified actuarial experts employed by our firm to assist in evaluating actuarial calculations and the appropriateness of assumptions used to determine the provisions and associated disclosures, including those relating to reinsurance.

Valuation of investments and the appropriateness of the methods and assumptions made in valuation and the risk arising from the type of investments held within certain funds;

- *The risk:* The Society invests in financial assets in order to fund its long term business liability and capital requirements. Accordingly the portfolio of investments is a significant item within the financial statements. The existence and valuation of the investment portfolio is a risk that requires particular audit attention.

- *Our response:* We obtained third party confirmation of investments held as at 31 December 2013 directly from the independent custodian. A selection of additions and disposals according to the Society's records were agreed to supporting documentation. Quoted investments were agreed to an independent source of market prices. Valuations of properties held by the Society were agreed to valuations by independent experts engaged by the Society. We challenged managements' judgements about the recoverability of the amounts invested in bond and hedge funds having regard to whether they are traded regularly on recognised investment exchanges.

Capital management;

- *The risk:* The Society is required to have sufficient surplus assets, or capital, to enable it to meet its obligations having regard to uncertain future incomes as to the payments required to satisfy insurance contracts and the performance of investment markets designed to underpin the liability.
- *Our response:* The Society operates within a highly regulated industry that sets strict minimum capital requirements. The regulations require the Society to produce evidence that it has properly considered the specific risks it faces as a product provider and that it has set aside funds of appropriate security and liquidity accordingly. We examined the Society's compliance with regulations in this area for evidence of sound and prudent management.

The audit procedures relating to the above mentioned matters were designed in the context of our audit of the financial statements as a whole. Our opinion on the financial statements is not modified with respect to any of these risks and we do not express an opinion on these individual risks.

Our assessment and application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on the financial statements and our audit. Materiality is used so we can plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free from material misstatement.

The level of materiality we set is based on our assessment of the magnitude of misstatements that individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. The overall materiality level we set for the Society's financial statements was £450,000. This has been calculated with reference to the Society's fund for future appropriations (of which it represents approximately 2.5%). The fund for future appropriations is a measure of accumulated surplus and we have determined, in our professional judgement, it to be one of the principal benchmarks within the financial statements relevant to members in assessing financial position and financial performance.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £14,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Scope of the audit of the financial statements

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

Opinion on other matters prescribed by the Friendly Societies Act 1992

In our opinion the Report of the Board of Management and the Strategic Report have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it, and in the case of the Strategic Report, in accordance with the Companies Act 2006, and the information given therein is consistent with the financial statements for the financial year.

Matters on which we are required to report by exception

We have no exceptions to report arising from the following responsibilities:

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

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

In accordance with our instructions from the Society we review whether the Corporate Governance Report reflects the Society's compliance with the 9 provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals.

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

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

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

Respective responsibilities of directors and auditor

As explained more fully in the Board of Management's Responsibilities Statement set out on page 19, the Board of Management are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards of Auditors.

This report is made solely to the Society's members as a body in accordance with Section 73 of 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.

Raymond Tidbury (Senior Statutory Auditor)

for and on behalf of Mazars LLP, Chartered Accountants and Statutory Auditor
Tower Bridge House, St Katharine's Way, London E1W 1DD

25 March 2014

Income and Expenditure Account

For the year ended 31 December 2013

	Notes	2013 (£000)	2012 (£000)
TECHNICAL ACCOUNT			
- LONG TERM BUSINESS			
EARNED PREMIUMS			
- CONTINUING OPERATIONS			
	2		
Gross Premiums Written		17,472	16,389
Less: Reinsurance Premiums		(480)	(477)
Earned Premiums, net of Reinsurance		16,992	15,912
Investment Income and Gains	3	5,247	4,614
Unrealised Investment Gains		2,204	3,295
TOTAL TECHNICAL INCOME		24,443	23,821
CLAIMS INCURRED			
Claims Paid			
- Gross Amount		14,993	15,459
- Less: Reinsurers' Share		(609)	(207)
Claims incurred, net of Reinsurance		14,384	15,252
CHANGE IN OTHER TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		3,412	2,871
- Less: Reinsurers' Share		936	(334)
- net of Reinsurance		4,348	2,537
OTHER CHARGES			
Net Operating Expenses	4	1,723	1,719
Tax Attributable to Long Term Business	8	402	309
		2,125	2,028
TRANSFER TO THE FUND FOR FUTURE APPROPRIATIONS	11	3,586	4,004
TOTAL TECHNICAL CHARGES		24,443	23,821
BALANCE ON THE TECHNICAL ACCOUNT - LONG TERM BUSINESS		-	-

Balance Sheet

At 31 December 2013

	Notes	2013 (£000)	2012 (£000)
ASSETS			
INVESTMENTS			
	9		
Land and Buildings		3,185	3,185
Other Financial Investments		95,760	90,741
		98,945	93,926
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
	12		
Long Term Business Provision		2,272	3,208
On Claims Outstanding		257	127
		2,529	3,335
DEBTORS			
Debtors Arising out of Direct Insurance Operations - Policy Holders		505	569
Other Debtors		556	393
		1,061	962
OTHER ASSETS			
	10		
Tangible Assets		40	52
Cash at Bank and in Hand		5,142	2,408
		5,182	2,460
PREPAYMENTS AND ACCRUED INCOME			
Accrued Interest and Rent		-	169
Other Prepayments and Accrued Income		65	57
		65	226
TOTAL ASSETS		107,782	100,909



Balance Sheet

At 31 December 2013

	Notes	2013 (£000)	2012 (£000)
LIABILITIES			
FUND FOR FUTURE APPROPRIATIONS	11	21,683	18,097
TECHNICAL PROVISIONS			
Long Term Business Provision	12		
- Gross Amount		84,164	80,648
Provision for Bonuses			
- Gross Amount		894	998
Claims Outstanding			
- Gross Amount		313	770
PROVISION FOR OTHER RISKS AND CHARGES	13	393	50
CREDITORS			
Other Creditors including taxation and social security	15		
	16	52	8
ACCRUALS AND DEFERRED INCOME		283	338
TOTAL LIABILITIES		107,782	100,909

The financial statements on pages 23 to 38 were approved by the Board of Management on 18 March 2014 and signed on its behalf by:

M J McAndrew QPM CFCIPD
Director

S H Bell MA FIA
Chief Executive

D P Ratcliffe
Secretary

25 March 2014

Notes to the Accounts

At 31 December 2013

1 ACCOUNTING POLICIES

Basis of Presentation

The accounts are prepared on the basis of the accounting policies set out below. The accounts have been prepared in compliance with the special provisions relating to friendly societies as set out in The Friendly Societies (Accounts and Related Provisions) Regulations 1994 as amended. In implementing these requirements, the Society has adopted a modified Statutory Solvency basis for determining technical provisions.

The accounts comply with applicable accounting standards in the United Kingdom including the provisions of the Statement of Recommended Practice ("SORP") on Accounting for Insurance Business.

Premiums

Premiums are credited when they become due. Reinsurance premiums are charged when they become payable.

Claims

Death claims and surrenders are recorded on the basis of notifications received. Maturities are recorded when due.

Reinsurance recoveries are credited to match the relevant gross amounts.

Investment Income and Expenses

Investment income includes dividends, fixed income, foreign exchange gains and losses, rents, gains and losses on the realisation of investments and related expenses. Dividends are included as investment income by reference to payment date. Fixed interest income and bank deposit interest are included as investment income on an accruals basis. Rental income and foreign exchange gains and losses are included as investment income on an accruals basis in the year the income relates to. Realised gains and losses on investments are included as investment income by reference to the date of disposal. Unrealised gains and losses, arising from an excess or deficit of market valuation over costs, on investments still held at the Balance Sheet date are taken through the Income and Expenditure account at the year-end date.

Investments

Investments held at the Balance Sheet date, where listed, have been valued at bid market prices and if listed outside Great Britain have been converted into sterling at rates of exchange ruling on that date. Units in unit trusts are included at published bid prices or single price for single priced funds.

In accordance with Statement of Standard Accounting Practice Number 19, no depreciation is provided on property held for investment purposes. Such property is stated in the accounts at its open market value, as determined by the Board of Management.

Cost in the case of quoted securities, is the cash cost of the individual investments less in the case of fixed interest securities, accrued income at the date of purchase. Ordinary shares

acquired through enhanced stock dividends, i.e. dividends paid in the form of additional shares rather than as cash, are valued on the basis of the cash dividend foregone in accordance with current Capital Gains Tax legislation.

Individual investment holdings, which have been subject to part disposal are shown at a carried forward cost calculated using identification rules prescribed by Capital Gains Tax legislation.

Deferred Taxation

Deferred taxation is provided, on the liability method, in respect of timing differences where there is a reasonable probability that such taxation will become payable.

Fixed Assets

Depreciation is provided on tangible fixed assets, other than land and buildings accounted for as investment properties, at the following rates and methods in order to write off the cost of such assets over their estimated useful lives.

Leasehold premises	over the period of the lease on a straight line basis
Computer equipment	20% on a straight line basis
Office fixtures, fittings, equipment	20% on a straight line basis

Foreign Currencies

Transactions in foreign currencies during the year were recorded at the rates of exchange applicable on the dates of such transactions. Investments denominated in foreign currencies at the year-end have been expressed in sterling at the rates of exchange ruling on that date. Gains and losses arising from transactions in foreign currencies are taken to the Income and Expenditure Account in the year in which they are realised.

Pensions

The Society operates two pension schemes. Firstly, the Society operates a non-contributory pension scheme for former members of the Society's staff who were appointed prior to 1 April 1978. The fund is administered within the Society and the balance of the fund at the year-end is shown in the Balance Sheet within the provision for other risks and charges. The future annual obligations on this fund are index linked. Secondly, there is a group personal pension scheme which is administered by HSBC Life and is open to all employees of the Society.

Long Term Business Provision

The long term business provision is determined by the Board of Management, with the assistance of the Actuary, making certain modifications to the mathematical reserves following her annual investigation of the long term business.

Deferred Acquisition Costs

Acquisition costs comprise direct costs of obtaining and processing new business. Acquisition costs are deferred where material. Deferred acquisition costs represent the element of acquisition costs carried forward on the basis of their recovery from margins contained in future premiums. The recovery periods used in the calculation are shorter than the anticipated lives of the relevant policies.

Fund for Future Appropriations

The fund for future appropriations represents all funds, the allocation of which to policy holders had not yet been determined by the end of the financial year. Any surplus or deficit on the technical account is transferred to or from the fund on an annual basis.

2 PREMIUM INCOME AND REINSURANCE

All business is written in the UK in respect of continuing operations and is direct business relating exclusively to individual policy holders.

(a) Premiums Written

	2013 (£000)			2012 (£000)		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Life Assurance Business						
Non Participating Contracts - periodic premiums	1,038	480	558	1,014	477	537
Participating Contracts - periodic premiums	7,033	-	7,033	7,528	-	7,528
- single premiums	9,401	-	9,401	7,847	-	7,847
Total Premiums Written	17,472	480	16,992	16,389	477	15,912

	2013 (£000)		2012 (£000)	
	Regular Premiums	Single Premiums	Regular Premiums	Single Premiums
Total gross new premiums resulting from contracts concluded by the Society	1,111	9,401	1,360	7,847

In classifying new business premiums the following bases of recognition have been adopted:

Incremental increases are included in new business premiums.

Single premiums constitute all those contracts for which there is no expectation of continuing premiums being paid including any additional single premiums paid in respect of individual contracts. All other contracts are included in regular premiums.

When regular premiums are received other than annually the regular new business premiums are on an annualised basis.

(b) Reinsurance balance

The effect of reinsurance was to reduce the transfer to the Fund for Future Appropriations by £807,000 for the year ended 31 December 2013 (2012: an increase of £64,000).

3 INVESTMENT INCOME AND GAINS

	2013 (£000)	2012 (£000)
Investment Income:		
Income from land and buildings	245	252
Income from other investments	2,758	2,922
	3,003	3,174
Profits on the realisation of investments	2,244	1,440
	5,247	4,614

Income from other investments includes £2,690,000 (2012 - £2,900,000) from listed investments.

4 NET OPERATING EXPENSES

	2013 (£000)	2012 (£000)
Acquisition costs	543	541
Change in deferred acquisition costs	-	-
Administrative expenses	1,180	1,178
	1,723	1,719

Auditors' remuneration in respect of audit services from Mazars amounted to £85,200 (2012: £80,400) for audit services and £16,980 (2012: £14,146) for other services.

The Society's Actuary was Ms L G Unwin BSc FIA of Milliman LLP. The Society has confirmed that neither Ms Unwin nor any member of her family were members of the Society, nor did they have any financial or pecuniary interests in the Society with the exception of fees paid to Milliman LLP which amounted to £228,929 for 2013 (2012: £190,500).

No acquisition costs were deferred in 2013. Deferred acquisition costs carried forward were £Nil (2012: £Nil).

5 STAFF COSTS

	2013 (£000)	2012 (£000)
Wages and salaries	605	578
Social security costs	120	115
Other pension costs	23	21
	748	714

The average weekly number of employees, including executives, during the year comprised as follows:

	2013	2012
Management	3	3
Marketing and Administration	12	12
	15	15

6 NON-EXECUTIVE BOARD MEMBERS' EMOLUMENTS

During 2013, the Chair received emoluments of £8,845 (2012 - £12,300). Six other non-executive Board members received emoluments totalling £55,051 during 2013 (2012 - £58,695). No other non-executive Board member received any emoluments during either 2013 or 2012.

7 INVESTMENT EXPENSES AND CHARGES

There were no investment expenses and charges incurred during 2013 and 2012.

8 TAXATION

	2013 (£000)	2012 (£000)
Corporation Tax at applicable rates	40	310
Over-provisions in prior years	14	(1)
Change in deferred taxation	348	-
	402	309

Provision has been made for the liability in respect of UK Corporation Tax on income (less allowable expenses) including "loan relationships" accrued income and on realised gains (less losses) on business other than that relating to tax exempt policies. The taxation rate for the current and previous year was 20%.

9 INVESTMENTS

	Current Value		Historical Cost	
	2013 (£000)	2012 (£000)	2013 (£000)	2012 (£000)
Land and Buildings:				
Freehold investment properties	3,185	3,185	4,008	4,008
Other financial investments:				
Variable yield securities and units in Unit Trusts and non-UCITS funds:				
- UK	93,760	71,605	77,158	57,402
Debt securities and other fixed interest securities:				
- UK	-	17,136	-	16,940
Deposits with credit institutions	2,000	2,000	2,000	2,000
TOTAL INVESTMENTS	98,945	93,926	83,166	80,350

Included in the current value are the following:

	Listed on The London Stock Exchange (£000)	Listed on Other Recognised Investment Exchanges (£000)
Variable yield securities and units in Unit Trusts and non-UCITS funds	78,285	15,475
Debt securities and other fixed interest	-	-

Investment properties were valued on an open market value basis at 31 December 2013 by the Board of Management supported by triennial valuations carried out by chartered surveyors.

Liquidity risk:

Liquidity risk is the risk that the society may not be able to generate sufficient cash resources to settle its obligations in full as they fall due. Its policy is therefore to invest a proportion in short term deposits, pooled funds (including bond funds, equity, and property funds) and real property. Only a limited proportion of its assets in investments are not actively traded in a stock exchange. The Society's listed securities are considered readily realisable.

The Society does invest in hedge funds and unlisted equity instruments (non-UCITS funds) that are not traded in an active market and, as a result, the society may not be able to liquidate these investments quickly at an amount close to fair value. Any new class of investment is properly researched as to its security and risk and is only purchased by the Society after prior approval has been given by the Board of Management.

10 TANGIBLE ASSETS

	Short Leasehold Premises (£000)	Computer Equipment (£000)	Office Fixtures, Fittings, Equipment (£000)	Total (£000)
Cost:				
At 1 January 2013	66	59	33	158
Additions	3	3	1	7
Disposals	(4)	-	-	(4)
At 31 December 2013	65	62	34	161
Depreciation:				
At 1 January 2013	36	40	30	106
Charge for Year	8	9	1	18
Disposals	(3)	-	-	(3)
At 31 December 2013	41	49	31	121
Net Book Value:				
At 31 December 2013	24	13	3	40
At 31 December 2012	30	19	3	52

The depreciation charge for the year ended 31 December 2013 was £18,426 (2012: £23,522).

11 FUND FOR FUTURE APPROPRIATIONS

	2013 (£000)	2012 (£000)
Balance at 1 January	18,097	14,093
Transfer from Income and Expenditure Account	3,586	4,004
Balance at 31 December	21,683	18,097

12 TECHNICAL PROVISIONS

	Long term Business (£000)	Bonus (£000)	Claims (£000)	Total (£000)
Gross amounts				
At 1 January 2013	80,648	998	770	82,416
Transfer from technical account	3,516	(104)	(457)	2,955
At 31 December 2013	84,164	894	313	85,371
Reinsurers' share				
At 1 January 2013	3,208	-	127	3,335
Transfer from technical account	(936)	-	130	(806)
At 31 December 2013	2,272	-	257	2,529

Capital Statement

The Capital Statement illustrates the financial strength of the Society's life business at 31 December 2013 and is set out on the next page. This statement shows an analysis of the available capital resources calculated on a regulatory basis for the Society's with profit funds as a whole. It shows the margins over and above the regulatory requirements and the overall surplus capital within the fund under these bases. Further, the technical liabilities of the Society (i.e. those directly attributable to members' policies) are split between participating (with profit plans) and non-participating plans.

Basis for calculating available capital resources in life business

The available capital of the with profit funds has been determined in accordance with PRA regulations and includes the Fund for Future Appropriations (FFA). The FFA represents the estimated surplus in the funds that has not been allocated and is available to meet regulatory and other solvency requirements of the funds.

Capital Statement Table

	Non participating (£000)	Participating (£000)	2013 Total (£000)	2012 Total (£000)
Fund for Future Appropriations (FFA)	-	21,683	21,683	18,097
Regulatory adjustments:				
Assets	-	-	-	-
Liabilities: -				
Closure reserve	-	(1,800)	(1,800)	(1,550)
Other reserves	-	-	-	-
Total available capital resources	-	19,883	19,883	16,547
Capital requirement			4,870	4,966
Overall surplus capital			15,013	11,581

	Non participating (£000)	Participating (£000)	2013 Total (£000)	2012 Total (£000)
Analysis of members' liabilities				
Participating (With profits)	-	79,318	79,318	75,160
Non participating	3,468	-	3,468	3,278
	3,468	79,318	82,786	78,438
Claims outstanding	(194)	250	56	643
Total technical liabilities	3,274	79,568	82,842	79,081



Basis of calculating capital requirements for life business

Each life assurance company has to hold sufficient capital to meet the PRA's regulatory requirements.

For the Society's with profits funds, the Resilience Capital Requirement (RCR) amounts to £0.95m (2012: £1.2m). The RCR is calculated on set criteria of adverse scenarios laid down by the PRA. The market risk scenarios tested are what would happen if property prices fell by 20%, equity prices fell by 10% and fixed interest yields rise or fall by 20% of the long term gilt yield. The RCR is based on the asset mix at the year end.

The total regulatory capital requirement for the Society amounts to £4.9m (2012: £5m) which is made up of the RCR of £0.95m (2012: £1.2m) and Long Term Insurance Capital Requirement of £3.9m (2012: £3.7m).

Asset mix at the valuation date

	2013	2012
Cash	7%	4%
Fixed interest	46%	55%
Equities	35%	31%
Property	12%	10%
	100%	100%

Capital and risk management for life business

For conventional with profits business, the key sensitivity is to future investment returns. The mix of assets is kept under review taking into account the level of capital required and the anticipated returns for members. The underlying strategy and considerations are detailed in the Society's Principles and Practices of Financial Management.

Principal assumptions

The long term business provision fund has been calculated on the basis of the following principal assumptions:

Class of business	Mortality
With profit endowment	100% AM/FC00 Ult
With profit whole life	100% AM/FC00 Ult
Term assurance	100% TM/FN/S00 Ult
Mortgage protection assurance	100% TM/FN/S00 Ult

The interest rates used are 0.8% for non-profit and short-term with-profits business and 0.8% for long term with-profits business (2012 - 0.75% for non-profit and short-term with-profit and 0.75% for long term with-profit business).

Movement in available capital

	2013 (£000)	2012 (£000)
Total available capital at 1 January	16,547	11,793
Changes in valuation assumptions	(1,600)	(1,800)
Change in the cost of guarantees, closure and expense and other miscellaneous provision	1,000	1,300
Investment surplus	5,000	6,400
Other surplus including that arising from premiums and claims	(1,064)	(1,146)
Total available capital at 31 December	19,883	16,547

Options and guarantees

The only material option or guarantee within the Society's contracts relates to Single Premium participating business, where there is a guaranteed surrender value on the tenth and subsequent anniversaries. Under this business, the surrender value cannot then be lower than the sum assured as increased by annual bonuses. The Society cannot at these points in time impose any "Market Value Reduction" in adverse market conditions. A reserve of £0.93m (2012: £2.13m) has been made for the fair value cost of the guarantee.

Capital resource sensitivities

The Society is exposed to market risk and, in falling markets, the capital available to support the business would reduce. In these circumstances, it is likely that the long term business provision would reduce due to the application of a higher rate of interest being used to value the liabilities. An increase of 1% in the yield on bonds would lead to a fall in bond values and would reduce the capital available by up to 3%. A fall in equity markets of 20% would reduce the capital available by approximately 9%. An absolute increase of 3% in the implied volatility of investments would reduce the capital available by approximately 5%.



13 PROVISIONS FOR OTHER RISKS AND CHARGES

	2013 (£000)	2012 (£000)
Provision for deferred taxation (timing differences) Note 14	348	-
Provision for future pension commitments Note 18	45	50
	<u>393</u>	<u>50</u>

14 DEFERRED INCOME TAX

	2013 (£000)	2012 (£000)
Balance as at 1 January	-	-
Income and expenditure account credit/(charge)	(348)	-
	<u>(348)</u>	<u>-</u>

The movement in deferred income tax is as follows

Deferred Tax Assets

	Deferred acquisition costs (£000)	Other (£000)	Total (£000)
Balance as at 1 January	-	-	-
Income and expenditure account credit/(charge)	232	2	234
Balance as at 31 December	<u>232</u>	<u>2</u>	<u>234</u>

Deferred Tax Liabilities

	Deemed disposals of AIFs* (£000)	Other (£000)	Total (£000)
Balance as at 1 January	-	-	-
Income and expenditure account credit/(charge)	576	6	582
Balance as at 31 December	<u>576</u>	<u>6</u>	<u>582</u>

*Authorised investment funds

15 CREDITORS

All creditors are payable within one year.

16 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2013 (£000)	2012 (£000)
Other taxes and social security costs	52	8
	52	8

17 OPERATING LEASES

At the year end the Society was committed to making the following payments during the next year in respect of operating leases with expiry dates as follows:

	2013 (£000)	2012 (£000)
Land and Buildings		
within one year	-	-
more than one year and less than five years	84	84
more than five years	-	-
	84	84

18 PENSION COMMITMENTS

As described in Note 1 the Society operates two pension schemes. The charge to the Income & Expenditure Account was as follows:

	2013 (£000)	2012 (£000)
Defined contribution scheme	23	21
Defined benefit scheme	1	1
	24	22

At 31 December 2013 the membership of the defined benefit scheme was 1 pensioner (2012: 2). The Board of Management consider that the balance of the defined benefit scheme fund as at 31 December 2013, as disclosed in note 13, is appropriate to cover its future liabilities.

19 POST BALANCE SHEET EVENTS

Management has not identified any post balance sheet events that need to be reported on.

Investments As at 31 December 2013

	Holding	Cost (£000)	Market Value (£000)
UNIT TRUSTS (Income Units)			
Bond Funds			
Fidelity Institutional UK Corp Bond	423,916	4,510	4,481
Ignis ABS Global Government Bond Fund	2,037,282	2,000	2,157
Ignis Corporate Bond Fund	4,105,626	4,459	4,434
Ignis Sterling Short Duration Fund	295,955	3,000	3,007
Legal & General Fixed Interest Trust	14,308,670	6,964	9,132
M&G Strategic Corporate Bond	5,535,575	3,560	3,878
Payden Sterling Reserve Fund	346,213	3,500	3,485
Royal London Cash Plus Fund B	5,964,011	5,986	6,001
Royal London Sterling Credit Fund Z	7,459,284	8,957	9,162
UBAM European 10 - 40 Convertible Sterling Class	23,257	2,000	2,425
Equity Funds			
CF Adam Worldwide	2,639,307	5,723	11,821
JP Morgan European Dynamic Fund	3,175,107	2,000	2,283
Legal & General European Index	801,555	1,286	1,781
Legal & General UK Index	6,880,573	6,047	10,018
Legal & General US Index	1,901,510	2,904	4,286
M&G Asian Fund Sterling	209,398	2,000	2,164
Property Funds			
AEW UK Core Property	1,483,107	1,476	1,457
Henderson UK Property	1,655,083	1,482	1,544
Ignis UK Property	2,408,633	1,999	2,141
Legal & General UK Property	3,585,943	1,500	1,597
M&G Investments Property Portfolio	194,976	2,038	2,106
		73,391	89,360
NON-UCITS FUNDS (Sterling Class)			
Culross Arbitrage SPC Class 1	441.79	767	870
Culross Global SPC Class 1	296.51	750	949
Securis 1 Fund Class A	6,495	750	1,018
Securis Non-Life, Class A	8,000	800	863
Securis Opportunities Fund	7,000	700	700
		3,767	4,400
INVESTMENT PROPERTIES			
66/68 High Road, Wood Green, London		1,195	1,200
185 - 187 High Street, Southend, Essex		1,589	1,085
22 Beveridge Lane, Bardon Hill, Coalville, Leicestershire		1,224	900
		4,008	3,185



Metropolitan Police Friendly Society Limited

Despatch: MPFS Orpington
Phone: 01689 891454
Fax: 01689 891455
Email: enquiries@mpfs.org.uk
Web: www.metfriendly.org.uk

