Metfriendly
Annual Report 2014

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Metropolitan Police Friendly Society Limited

Annual Report & Accounts

For the year ended 31 December 2014

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

Last year we introduced 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". We have made good progress in achieving those objectives and have scheduled substantial additional work for 2015. I would again commend the Strategic Report to you.

The table on page 4 shows substantial levels of lump sum investment. We cannot, however, neglect regular savings. We need to attract younger members in greater numbers to safeguard the future of the Society. We need a broad base of members to drive the lump sum investments as, in the main, these come from existing members.

The continued success in attracting large investments reflects in part the effectiveness of our "Options" seminars, created to support Officers and Staff approaching retirement. To date over 2,500 members and non-members have attended these sessions, many of whom subsequently choose to entrust us with their commutation payments.

At the other end of the career spectrum we have also been investing resources in ensuring that those Officers and Staff joining the London police are fully aware of the benefits of Society membership. As a consequence we've started to see an increase in the number of younger Officers and Staff choosing Metfriendly.

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

Our 2014 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.

This year the AGM will be held at Peelers, New Scotland Yard, on May 14. We urge all members who are unable to attend in person this year to send in their proxy form, and we will enter them into our prize draw (details on website).

I want to finish with some personal thanks.

Mick Messinger and David Gottler are retiring from the Board following the AGM after, respectively, 18 and 10 years' service as a director.

Mick was my immediate predecessor as Chairman of the Society and David was Solicitor to the Society until he retired. We are losing a wealth of experience. I will miss both of them for their wise counsel and ability to offer constructive challenge without giving offence.

These retirements are in accordance with good practice guidelines that suggest a director should not normally serve for more than 9 years. We have seen their retirement as an opportunity to reduce the size of the Board; so there are no new nominations to replace them on the Board.

The appeal of the Society reflects the service ethos of our staff at Orpington. The high reputation of the Society with our members is a testament to the efforts of our team.

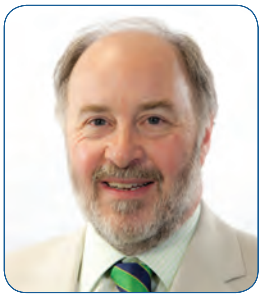
The current strength of the Society results in large measure from the efforts of our Chief Executive, Stuart Bell. I am grateful for his support and firmly believe that we can continue to work together, with other Directors, to safeguard the continuing future of the Society.

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 2014, recovery from the global financial crisis has been patchy with Europe continuing to disappoint – with events in Ukraine a further complication. By contrast the US and UK economies are amongst the best performing in the developed world. However, market conditions remain abnormal, with very low returns available on cash, and longer term interest rates reversing to hit record lows.

The Society's investments did well in 2014, with bonds increasing substantially in value reflecting the lower long term interest rates. These lower rates are also responsible for increases to our liabilities.

Equity performance reflected location, with the US rising strongly and some recovery in Asia. European equities did less well, as did UK equities which reflects both our trade with Europe and political uncertainty.

We continued to add to our holdings in property funds – where we are pleased to note that valuations continue to rise.

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 300% 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 risk appetite.

We largely met our business plan targets in 2014 and expenses were well within budget. More details are given in the Strategic Report.

We welcomed Ben Grainger to lead our business development team. The Business Plan for 2015 includes an expanded budget for business development, recognising we can do more with enhanced resources, especially in attracting younger members. We have also engaged experts to assist us with our branding and use of media. These are key investments in the future of the Society.

We are delighted that our members continue to trust us with their money, and our premium income held up well in 2014, despite the unhelpful timing of the "New ISA" changes. Along with our good investment performance, this underlies substantial growth in the Society's assets – up by 8% in 2014, and up by 34% over the last 5 years.

We have maintained our annual bonus for 2014 at the same level as the previous year. Pay-outs for 2015 are only slightly down on 2014. 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 3.8% p.a. and 4.8% p.a. respectively – and, for ISAs cashed in after 5 and 10 years, the returns are 4.1% p.a. and 5.2% p.a. respectively tax free.

Stuart Bell MA FIA

Strategic Report

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

In delivering our mission statement, we focus on achieving good investment returns at an acceptable level of risk, and controlling our costs. In particular, we recognise that we need economies of scale to spread the expenses of our business. In the short term we aim to generate 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 – we are expanding 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, and
  - investment performance is also monitored quarterly – we seek a well diversified portfolio to manage the risk of 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 2014 were 660 (2013: 590). We continue to address new recruits at Hendon during their induction, and have seen some early success from deploying additional resources there.

The appointment of a Business Development Manager has led to the development of a number of new initiatives, including the branding and design refresh unveiled with the 2015/16 tax year. Increased attention towards attracting new Officers and Staff to join the Society is also a direct consequence; this builds on the work of the incumbent team with, for example, the highly successful Options seminars. Other new initiatives will be unveiled during 2015 and 2016.

In 2014, the Society benefited from an investment return of over 8%, helped by our bond funds returning 11% and our property funds 14%. Equity returns averaged 6%. Returns on cash and liquidity funds were naturally very low.

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

Year	Assets* at Year End
2010	£91.5 million
2011	£90.6 million
2012	£97.6 million
2013	£105.3 million
2014	£113.5 million

*excluding reinsurance purchased

At the end of 2014, we allocated a mixture of bonds and liquidity funds to cover all liabilities in excess of asset shares including the capital that we need to run the Society. The asset shares standing behind the pay-outs on our with-profits business will accordingly benefit from a higher exposure to equities and property. Our with-profits investments were distributed approximately 47% in equities (including specialist funds), 20% in property, 29% in bonds (mainly corporate) and 4% in liquidity funds (or cash).

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 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 risen slightly in 2014 as we began to expand our activity. However, expense ratios in 2014 remained competitive, and our costs came in below budget. We have increased our budget in 2015, in particular to expand the resources devoted to business development.

The table shows how our business has developed with the trend to flexible products evident –

	£000s					
Year	Regular Premiums	Single Premiums	Maturity Claims	Surrender Claims	Death and Health Claims[1]	Management Expenses
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
2014	7,654	9,045	8,720	5,396	898	1,813

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

Board of Management 2014

Non-Executive Directors

Mr M McAndrew QPM FCIPD
Board Chair

Mr T Birse MA FIA
Chair of the Finance & Investment Committee; Audit Risk and Compliance Committee; With-Profits NED

Ms J Cassettari
Chair of the Business Development Committee (previously named the Marketing Committee); Nomination Committee

Inspector P Clarke BSc
Senior Independent Director; Chair of the Remuneration Committee; Audit Risk & Compliance Committee; Nomination Committee

Constable P Deller
Business Development Committee (previously named the Marketing Committee)

Ms F Gregory BA (Hons)
Appointed as Non-Executive Director 1 April 2014; Business Development Committee (previously named the Marketing Committee) – since 1 April 2014; Remuneration Committee – since 17 July 2014

Mr P Girling BA MIRM
Chair of the Audit, Risk and Compliance Committee; Remuneration Committee – since 17 July 2014

Mr D Gottler
Nomination Committee; Remuneration Committee – until 17 July 2014

Mr M Messinger LVO QPM
Vice Chair – until 17 July 2014; Finance & Investment Committee; Nomination Committee – until 17 July 2014; Marketing Committee – until 17 July 2014

Chief Superintendent J Young MSt (Cantab) MBA CertEd
Audit, Risk and Compliance Committee

Executive Directors

Mr S Bell MA FIA
Chief Executive Officer

Mr D Ratcliffe
Secretary & Deputy CEO

Committee Members

The following are members of Committees as indicated but are not members of the Board

Mr M Cooper
Finance & Investment Committee

Mr R Finlay
Marketing Committee – until 17 July 2014

Mr G Stokes
Marketing Committee – until 17 July 2014

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Introducing your Board of Management

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 25 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 Board and an examiner for actuarial science courses at various universities. Tim has been active in the Association of Financial Mutuals and 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, has overseen global development of an insurance product and until recently jointly owned and managed an organisation providing services within the annuity/longevity market. She continues to offer consultancy services for the financial sector and outside of financial services has recently had several short stories published. Janet has served on the Marketing Committee since 2007 (now the Business Development Committee) 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 and is currently involved with the project to deliver a Joint Command and Control Room, while also being the lead Police Search Advisor for the force. Between 2001 and 2008 he was project manager for a multi-million pound project and accountable both internally and nationally for the money spent. He is also a Company Director for "Ancestreemakers", a family and social history research business.

Paul Deller

Appointed to the Board in May 2012, Paul joined the Met police in 1986 and has had plans with Metfriendly since the late 1980s including savings and insurance. Paul 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. In January 2015 he took over as the General Secretary of the Joint Executive Committee of the Metropolitan Police Federation. He joined the Metfriendly marketing committee in 2011 and was later appointed to the Board. He has been keen to promote the ties between the Met Police Federation and Metfriendly, to date this has included the co-sponsorship of a binder given to new recruits to the MPS, explaining the Federations role and services and also providing an introduction to Metfriendly. His interests outside the police service include being a football referee.

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 has worked closely with the FSA 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) and has recently taken up a new risk & compliance role with a building society. 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 has undertaken 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 has 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.

Fiona Gregory

Appointed to the Board in April 2014 Fiona is the daughter of and later the wife of Police Officers both serving in Bedfordshire, she qualified as a Solicitor and Notary Public, specialising in commercial property and residential conveyancing. She has now ceased practising and provides business management consultancy services to legal firms and other businesses. Fiona was a Non-Executive Director with British Friendly Society Ltd for over 12 years, having previously been their legal advisor for over 10 years. She served the last three years as Chairman when she led the business through a period of transformational change, recruiting a new Chief Executive and Finance Director, restructuring the Board, installing a new computer system and launching new products. Fiona was Vice Chairman of bpha (Bedfordshire Pilgrims Housing Association) for over 5 years and stepped down as acting Chair at the end of January 2015. Fiona lectures and advises on Corporate Governance and the responsibilities and liabilities of Non-Executive Directors for Friendly Societies and other mutual organisations.

Mike McAndrew

Appointed to the Board in October 2001, Mike McAndrew 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 as a police officer in the MPS was Traffic OCU Commander. Mike is a Chartered Fellow of the Chartered Institute of Personnel and Development.

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 is retiring in April 2015 to start a new career, feeling privileged and proud to have served London's vibrant and multicultural communities. Joanna has had plans with Metfriendly since her probation. Joanna served four years with Kent police, including as a BCU Commander, before returning to the MPS in 2007 as head of Criminal Justice for London. She spent the last 4 years as the elected full-time London Secretary for the Superintendents' Association, a member of the Association's National Executive Committee, lead for HR and Health Safety and Well-being and deputy for Police Negotiating Board, leadership and diversity. She has always had active involvement in leadership, development and diversity undertaking academic research in these areas and influencing strategy and practice locally and nationally. Joanna is married with three children, is a keen badminton player, keep fit fanatic and enjoys skiing, reading and coaching.

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 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 2014 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 the 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 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 we 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 2014 stood at 12,623 (2013: 13,016).

Board of Management

Details of the Board of Management and Committee members are shown on page 5. There was one change to the Board membership during 2014. Fiona Gregory was co-opted onto the Board and the Marketing Committee on 1 April 2014. At the AGM held on 15 May she was elected as a director.

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 Baker Tilly (formerly Mutual One) acted as our internal auditors under the oversight of John Midlane, our Compliance Officer. They conducted audits on Savings, Financial Risk Management and Governance & Assurance Framework, the results of which were reported to the ARC Committee and the Board.

Along with the Finance & 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 provides 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 maintained its risk policy which it reviewed during 2014. The policy elaborates on the basis of risk measurement and risk appetite is addressed in a 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 assess its potential impact on the business model.

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

Donations

The Society made donations of £1,500 to The Police Rehabilitation Centre at Goring and £1,000 to the Metropolitan Police Staff Welfare Fund. Throughout the year the Society 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, collecting £4,300 for the charity.

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 2014.

Appointment of Auditors

Mazars LLP acted as Auditors to the Society throughout 2014. 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 to act 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 2015.

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 ("WPNED") and the With-Profits Actuary ("WPA"). The WPNED currently chairs the Society's Finance & Investment Committee which also has a responsibility to consider issues relating to with-profits business. Throughout 2014, Tim Birse served as WPNED – his terms of reference were reviewed in July with no material changes.

The Board reviewed the PPFM in December with effect from January 2015. The main change was changing the investment strategy to reduce the risk to the Society's capital and allow a higher proportion of equities to back members' contracts.

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 managing the with-profits business during 2014, the Board has been mindful of the low interest rates which currently prevail, and their effect on the cost of providing the guarantees inherent in with-profit contracts. The Board considers that the volumes and terms of business written in 2014, and those planned for 2015, are appropriate.

It is the Directors' opinion that the business has been managed throughout 2014 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.

Changes to the PPFM

The PPFM were altered to reflect the following measures, and to make some minor editorial improvements. No material changes were made to the Principles, and no changes to the "consumer friendly" version were required. The Society's website provides details at http://www.mpfs.org.uk/about-metfriendly/with-profits/ppfm.

The with-profits business benefits from any other business which the Society writes. Historically, these benefits have been small, and we will normally now let such profits (or losses) be attributed to capital.

The Society may levy a charge on asset shares towards meeting the cost of providing guarantees. The annual charge of 0.25% (0.75% for with-profits 5 year plans) in 2013 was continued for 2014. The Board recognised that future charges will need to be higher when equity prices are low and set some internal guidance as to how this would be implemented.

Investment strategy continues to be a matter for the Board, but the Board has determined that plans to implement it are a matter for the Finance and Investment Committee. The Strategy for 2015 will be altered so that the Society's capital is invested in relatively safe assets. This will enable us to increase the proportion of equities backing members' contracts.

Bonuses

The Board decided to maintain the rates of annual bonus added to with-profits contracts to reflect continuing low interest rates. Annual bonus rates for 2014 are shown below.

- New series endowments – 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 2015 will be slightly lower than in 2014, the reduction ranging from about 0.5% for 5 year plans to about 2.5% for 25 year plans. These reductions reflect movements in the underlying asset shares.

Surrender Values

The Society has maintained its practices for surrender values throughout 2014 but, as noted last year, it now recovers more of its costs on early surrender than in prior years.

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 2014.

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 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 2014 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 2014 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2014 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 in force during 2014 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. A revised set of Rules, establishing annual elections and setting a maximum of 11 directors amongst other changes for clarity, was registered successfully with the Financial Conduct Authority on 20 January 2015, and will be put to the membership at the AGM in May 2015 for ratification.

At 31 December 2014 there were ten non-executive directors ("NEDs") and two executive directors. Mike McAndrew is Chair of the Board of Management. Peter Clarke performs the role of 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 appointed at the AGM.) 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 2014 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 December 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 2014 was as follows:

Director	Board (6)	Audit, Risk & Compliance (4)	Finance & Investment (4)	Marketing (3)	Business Development (1)	Nomin-ation (3)	Remuner-ation (1)
T. Birse	6	4	4	-	-	-	-
J. Cassettari	6	-	-	3	1	3	-
P. Clarke	6	3	(0)	(0)	(0)	3	1
P. Deller	6	-	-	2	1	-	-
P. Girling	6	4	-	-	-	-	1
D. Gottler	6	-	-	-	-	3	-
F. Gregory	4 out of 4	-	-	2 out of 2	1	-	1
M. McAndrew	6	(4)	4	2	1	3	1
M. Messinger	6	-	2	2 out of 2	-	2 out of 2	-
J. Young	5	2	-	-	-	-	-
S. Bell	6	(4)	4	3	1	(3)	(1)
D. Ratcliffe	6	(3)	4	3	1	(3)	(1)

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

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Committees

Throughout the year the Board was supported by five committees whose duties 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. The Audit, Risk and Compliance (ARC), Nomination and Remuneration Committees enable the Society to meet best practice in corporate governance. There are also Marketing (which was reconstituted as Business Development during the year) 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 SID is an ex-officio member of the ARC and also co-ordinates any requests from NEDs for independent advice.

The ARC Committee was content with the work of the external auditor 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 was 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 auditor was given the opportunity to raise relevant issues at that stage.

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

The ARC Committee was satisfied that the external auditor should be reappointed. Mazars were appointed at the end of 2011 following a tender process.

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 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 Business Development Committee is to enable the development of the Society's business, in particular by providing direction and recommending strategy to aim to be the chosen provider to the Police Service in London; 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.

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.

Matters Reserved for Board Decision

These were reviewed during the year and confirmed 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

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.

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.

Following an approach from Fiona Gregory, the Nomination Committee considered it appropriate to consider her for co-option to the Board in April 2014, and also to put her forward for election at the 2014 AGM. In so doing, we noted her experience as NED and Chair at another Friendly Society, from which role she stepped down in autumn 2013 after several years of service. The skills she offered were complementary to the existing skills of directors, taking due account of likely retirements from the Board in 2015. Fiona has a legal background and had given incidental advice on governance issues to the Society in 2007. Otherwise, she had no personal connections with any of our directors; accordingly, the Board felt able to consider her appointment objectively without recourse to external consultants or advertising for a wider field.

Following guidance from the Nomination Committee, the Board believes that all NEDs currently meet the criteria for independence of character and judgement. The Nomination 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 2014.

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 2014 all directors were put forward for election for a 12 month period. During 2014 the Board discussed the issue of the annual election of directors and agreed rule changes that are required in order to reflect this new practice and which have been incorporated in the amended Rules to be ratified at the AGM in 2015.

The Board considers that the ten directors standing for re-election in 2015 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.

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Board & Director Performance Evaluation

The Board undertook an evaluation of its own performance and effectiveness during 2014. 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.

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.

The Annotated UK Corporate Governance Code

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 relevant provisions of the Annotated Corporate Governance Code for Mutual Insurers (Dated: November 2012) ("the Code") as amplified by Corporate Governance for Mutual Insurers – Guidance published by AFM in response to the requests contained in the Myners Review of the Governance of Life Mutuals (Dated February 2008).

The following is the only exception to our compliance with the Code for the stated reason:

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 for executive directors. The Society does not wish to limit the flexibility of such directors in carrying out their various management functions which necessarily cover a wide range of areas due to the size of the Society, and is conscious of the tendency for such remuneration structures to distort behaviour. The Society has a Remuneration Policy which incorporates this position, and will review this annually. There are no plans to introduce performance bonuses for such posts, 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 Board does not regard the exception as a material departure.

Remuneration Report

Remuneration Policy for Executive Directors and Senior Management

Our business relies on a relatively small staff and management team. This results in a less granular management than would be expected in a larger organisation. Our long-term success requires senior management to focus not only on the business risks identified in the Strategic Report, but also on finance and investment generally as well as managing multiple regulatory risks - currently including the implementation of Solvency II.

Succession plans may split senior management roles. Currently, however, we take account of the diverse management responsibilities when setting executive remuneration. In particular, the Remuneration Committee considers that any practical variable element to remuneration, especially an incentive scheme, would need to be focussed narrowly – and could distract management from competing priorities. Accordingly, along with many smaller mutual societies, we prefer to remunerate with fixed salaries which recognise the skill sets of the management team.

Remuneration Policy for Non-Executive Directors

For Non-Executive Directors, the Remuneration Committee considers that remuneration should comprise both a fixed annual amount which recognises the responsibilities held, and an attendance fee – which is set to reflect typical consultancy rates in the case of industry professionals.

The following remuneration was paid to Directors during 2014

Non-Executive Directors	£
Mike McAndrew	16,850
Tim Birse	17,500
Janet Cassettari	13,400
Patrick Girling	12,900
David Gottler	9,800
Fiona Gregory	8,725
Mick Messinger	9,050

Executive Directors	£
Stuart Bell	188,000
Don Ratcliffe	63,000

Payment made to Mr Ratcliffe includes an employer's contributions to a group stakeholder 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 2014 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 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 of Metropolitan Police Friendly Society Limited

Opinion on the financial statements

In our opinion the financial statements of Metropolitan Police Friendly Society Limited for the year ended 31 December 2014:

- 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 2014 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.

We have audited the financial statements of Metropolitan Police Friendly Society Limited for the year ended 31 December 2014 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).

Our assessment of the risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

THE RISK

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 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 encashment 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 the management judgements and assumptions required means there is an inherent risk that the 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. As required by IPRU (INS), we used our own actuarial experts to assist us in challenging and evaluating the actuarial calculations and the appropriateness of assumptions used to determine the provisions and associated disclosures. This included those relating to reinsurance as our actuarial experts performed their work and reported on the valuations net of reinsurer's share.

THE RISK

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 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 2014 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 management's judgements as to the recoverability of the amounts invested in bond and hedge funds having regard to whether they are traded regularly on recognised investment exchanges.

THE RISK	OUR RESPONSE
Capital management; The Society is required to have sufficient surplus assets, or capital, to enable it to meet its obligations having regard to uncertain future outcomes as to the payments required to satisfy insurance contracts and the performance of investment markets designed to underpin the liability.	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.

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, the auditing standards require that we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits. Our work has not highlighted evidence of material misstatements. Controls testing identified that these were operating effectively.

There is a risk of fraud in the financial reporting relating to revenue recognition due to the potential to inappropriately record revenue in the wrong period. The auditing standards contain a rebuttable assumption that this is a significant risk on all audits. Our work did not identify evidence of material misstatement, noting that premium recognition is largely on a cash-basis. Controls testing identified that these were operating effectively and the reconciliation was satisfactorily performed.

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 the users of the financial statements may take based on the information included in the financial statements.

Based on our professional judgement the level of overall materiality we set for the financial statements is outlined below:

Overall materiality:	The overall materiality level we set for the Society's financial statements was £450k.
Benchmark applied:	This has been calculated with reference to the Society's fund for future appropriations (of which it represents approximately 2.5%).
Basis for chosen benchmark:	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. We also report to the Audit Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

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 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently 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 has 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 in the Report of the Board of Management and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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
- is 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.

We have no exceptions to report arising from these responsibilities.

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

- adequate accounting records have not been kept by the Society; or
- the Society's financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

We have no exceptions to report arising from these responsibilities.

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.

We have nothing to report having performed our review.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of responsibilities of the Board of Management set out on page 18, the directors 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 for 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 2015

Income and Expenditure Account
For The Year Ended 31 December 2014

	Notes	2014 (£000)		2013 (£000)	
TECHNICAL ACCOUNT - LONG TERM BUSINESS					
EARNED PREMIUMS - CONTINUING OPERATIONS	2				
Gross Premiums Written			**16,698**		17,472
Less: Reinsurance Premiums			**(475)**		(480)
Earned Premiums, net of Reinsurance			**16,223**		16,992
Investment Income and Gains	3		**4,916**		5,247
Unrealised Investment Gains			**3,553**		2,204
TOTAL TECHNICAL INCOME			**24,692**		24,443
CLAIMS INCURRED					
Claims Paid					
- Gross Amount		**15,014**		14,993	
- Less: Reinsurers' Share		**(215)**		(609)	
Claims incurred, net of Reinsurance			**14,799**		14,384
CHANGE IN OTHER TECHNICAL PROVISIONS					
Long Term Business Provision					
- Gross Amount		**6,892**		3,412	
- Reinsurers' Share		**54**		936	
Net of Reinsurance			**6,946**		4,348
OTHER CHARGES					
Net Operating Expenses	4	**1,813**		1,723	
Tax Attributable to Long Term Business	8	**495**		402	
			2,308		2,125
TRANSFER (FROM)/TO THE FUND FOR FUTURE APPROPRIATIONS	11		**639**		3,586
TOTAL TECHNICAL CHARGES			**24,692**		24,443
BALANCE ON THE TECHNICAL ACCOUNT - LONG TERM BUSINESS			**-**		-

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Balance Sheet
At 31 December 2014

	Notes	2014 (£000)	2013 (£000)
ASSETS			
INVESTMENTS	9		
Land and Buildings		**2,150**	3,185
Other Financial Investments		**107,105**	95,760
		109,255	98,945
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long Term Business Provision	12	**2,218**	2,272
On Claims outstanding		**90**	257
		2,308	2,529
DEBTORS			
Debtors Arising out of Direct Insurance Operations - Policy Holders		**462**	505
Other Debtors		**437**	556
		899	1,061
OTHER ASSETS			
Tangible Assets	10	**50**	40
Cash at Bank and in Hand		**3,171**	5,142
		3,221	5,182
PREPAYMENTS AND ACCRUED INCOME		**79**	65
TOTAL ASSETS		**115,762**	107,782

Balance Sheet
At 31 December 2014

	Notes	2014 (£000)	2013 (£000)
LIABILITIES			
FUND FOR FUTURE APPROPRIATIONS	11	**22,322**	21,683
TECHNICAL PROVISIONS	12		
Long Term Business Provision - Gross Amount		**91,081**	84,164
Provision for Bonuses - Gross Amount		**869**	894
Claims Outstanding - Gross Amount		**308**	313
PROVISION FOR OTHER RISKS AND CHARGES	13	**531**	393
CREDITORS	15		
Other Creditors including taxation and social security	16	**366**	52
ACCRUALS AND DEFERRED INCOME		**285**	283
TOTAL LIABILITIES		**115,762**	107,782

Approved at a meeting of the Board of Management on 20 March 2015 and signed on its behalf by:

M McAndrew QPM CFCIPD
Director

S H Bell MA FIA
Chief Executive

D P Ratcliffe
Secretary

25 March 2015

Notes To The Accounts
At 31 December 2014

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 ex dividend 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

	2014 (£000)			2013 (£000)		
Life Assurance Business	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Non Participating Contracts - periodic premiums	**1,694**	**475**	**1,219**	1,038	480	558
Participating Contracts						
- periodic premiums	**5,959**	**-**	**5,959**	7,033	-	7,033
- single premiums	**9,045**	**-**	**9,045**	9,401	-	9,401
Total Premiums Written	**16,698**	**475**	**16,223**	17,472	480	16,992

	2014		2013	
	(£000)	(£000)	(£000)	(£000)
	Regular Premium	**Single Premium**	Regular Premium	Single Premium
Total gross new premium resulting from contracts concluded by the Society	**1,278**	**9,045**	1,165	9,401

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

Incremental increases are included in new business premium.

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 £313,000 for the year ended 31 December 2014 (2013: £807,000)

3 INVESTMENT INCOME AND GAINS

	2014 (£000)	2013 (£000)
Investment Income:		
Income from land and buildings	**178**	245
Income from other investments	**2,996**	2,758
	3,174	3,003
Profits on the realisation of investments	**1,547**	2,244
Other Income	**195**	-
	4,916	5,247

Income from other investments includes £2,953,000 (2013 - £2,690,000) from listed investments.

4 NET OPERATING EXPENSES

	2014 (£000)	2013 (£000)
Acquisition costs	**563**	543
Change in deferred acquisition costs	-	-
Administrative expenses	**1,250**	1,180
	1,813	1,723

Remuneration in respect of audit services from Mazars amounted to £105,600 (2013: £85,200) for audit services and £780 (2013: £16,980) for other services.

The Society's Actuary was Ms L G Unwin BSc FIA of Milliman Limited. 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 Limited which amounted to £211,474 for 2014 (2013: £228,929).

No acquisition costs were deferred in 2014. Deferred acquisition costs carried forward were £Nil (2013: £Nil).

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5 STAFF COSTS

	2014 (£000)	2013 (£000)
Wages and salaries	**703**	605
National insurance costs	**77**	120
Other pension costs	**25**	23
	805	748

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

	2014	2013
Management	**3**	3
Marketing and Administration	**13**	12
	16	15

6 NON-EXECUTIVE BOARD MEMBERS' EMOLUMENTS

During 2014, the Chairman received emoluments of £16,850 (2013 - £8,845). Six other non-executive Board members received emoluments totalling £71,375 during 2014 (2013 - £55,051). No other non-executive Board member received any emoluments during either 2014 or 2013.

7 INVESTMENT EXPENSES AND CHARGES

There were no investment expenses and charges incurred during 2014 and 2013.

8 TAXATION

	2014 (£000)	2013 (£000)
Current Corporation Tax at applicable rates	**357**	40
Over-provisions in prior years	**(3)**	14
Change in deferred taxation	**141**	348
	495	402

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 2014 (£000)	Current Value 2013 (£000)	Historical Cost 2014 (£000)	Historical Cost 2013 (£000)
Land and Buildings:				
Freehold investment properties	**2,150**	3,185	**2,784**	4,008
Other financial investments:				
Variable yield securities and units in Unit Trusts and non-UCITS funds:				
- UK	**107,105**	93,760	**87,138**	77,158
Deposits with credit institutions	**-**	2,000	**-**	2,000
TOTAL INVESTMENTS	**109,255**	98,945	**89,922**	83,166

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	**89,452**	**17,653**

Investment properties were valued on an open market value basis at 31 December 2014 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 in short term deposits, pooled funds (including bond funds, equity, and property funds) and real property. Only a limited proportion of its assets are 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)
At 1 January 2014	65	62	34	**161**
Additions	-	31	3	**34**
Disposals	-	-	-	**-**
At 31 December 2014	**65**	**93**	**37**	**195**
Depreciation:				
At 1 January 2014	41	49	31	**121**
Charge for Year	9	12	3	**24**
Disposals	-	-	-	**-**
At 31 December 2014	**50**	**61**	**34**	**145**
Net Book Value:				
At 31 December 2014	**15**	**32**	**3**	**50**
At 31 December 2013	24	13	3	40

The depreciation charge for the year ended 31 December 2014 was £22,170 (2013: £18,426).

11 FUND FOR FUTURE APPROPRIATIONS

	2014 (£000)	2013 (£000)
Balance at 1 January	**21,683**	18,097
Transfer from Income and Expenditure Account	**639**	3,586
Balance at 31 December	**22,322**	21,683

12 TECHNICAL PROVISIONS

Gross amounts	Long term Business (£000)	Bonus (£000)	Claims (£000)	Total (£000)
At 1 January 2014	84,164	894	313	**85,371**
Transfer from technical account	6,917	(25)	(5)	**6,887**
At 31 December 2014	**91,081**	**869**	**308**	**92,258**
Reinsurers' share				
At 1 January 2014	2,272	-	257	**2,529**
Transfer from technical account	(54)	-	(167)	**(221)**
At 31 December 2014	**2,218**	**-**	**90**	**2,308**

Capital Statement

The Capital Statement illustrates the financial strength of the Society's life business at 31 December 2014 and is set out below. 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)	2014 Total (£000)	2013 Total (£000)
Fund for Future Appropriations (FFA)	-	22,322	**22,322**	21,683
Regulatory adjustments:				
Assets	-	-	-	-
Liabilities:-				
Closure reserve	-	(2,250)	**(2,250)**	(1,800)
Other reserves	-	-	-	-
Total available capital resources	-	20,072	**20,072**	19,883
Capital requirement			**6,762**	4,870
Overall surplus capital			**13,310**	15,013

	Non participating (£000)	Participating (£000)	2014 Total (£000)	2013 Total (£000)
Analysis of members' liabilities				
Participating (With profits)	-	84,425	**84,425**	79,318
Non participating	4,438	-	**4,438**	3,468
	4,438	84,425	**88,863**	82,786
Claims outstanding	31	277	**308**	56
Total technical liabilities	4,469	84,702	**89,171**	82,842

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 £2.6m (2013: £0.95m). 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%, property rental income fell by 10%, 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 and takes into account the actions management would take in the event of particular adverse market conditions.

The total regulatory capital requirement for the Society amounts to £6.8m (2013: £4.9m) which is made up of the RCR of £2.6m (2013: £0.95m) and Long Term Insurance Capital Requirement of £4.2m (2013: £3.95m).

Asset mix at the valuation date

	2014	2013
Cash and liquidity funds	**16%**	19%
Other fixed interest	**35%**	34%
Equities	**34%**	35%
Property	**15%**	12%
	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
Non-profit endowment	100% AM/FC00 Ult
Term assurance	100% TM/FN/S00 Ult
Mortgage protection assurance	100% TM/FN/S00 Ult

The interest rates used are 1.10% for non-profit business and 0.75% for with-profits business (2013 - 0.8% for all business).

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Movement in available capital

	2014 (£000)	2013 (£000)
Total available capital at 1 January 2014	**19,883**	16,547
Bonus provision	**(1,700)**	(1,600)
Change in the cost of guarantees, closure and expense and other miscellaneous provision	**(2,500)**	1,000
Investment surplus	**5,200**	5,000
Other surplus including that arising from premiums and claims	**(811)**	(1,064)
Total available capital at 31 December 2014	**20,072**	19,883

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 £2.72m (2013: £0.93m) 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 some circumstances, 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 8%.

13 PROVISIONS FOR OTHER RISKS AND CHARGES

	2014 (£000)	2013 (£000)
Provision for deferred taxation (temporary differences)	**489**	348
Provision for future pension commitments (Note 18)	**42**	45
	531	393

14 DEFERRED INCOME TAX

	2014 (£000)	2013 (£000)
Balance as at 1 January	**(348)**	-
Income and expenditure account credit/(charge)	**(141)**	(348)
Balance as at 31 December	**(489)**	(348)

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	232	2	234
Income and expenditure account credit/(charge)	1	-	1
Balance as at 31 December	**233**	**2**	**235**

Deferred Tax Liabilities

	Deemed disposals of AIFs* (£000)	Other (£000)	Total (£000)
Balance as at 1 January	576	6	582
Income and expenditure account credit/(charge)	134	8	142
Balance as at 31 December	**710**	**14**	**724**

*Authorised investment funds.

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15 CREDITORS

All creditors are payable within one year.

16 OTHER CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2014 (£000)	2013 (£000)
Other taxes and social security costs	**366**	52
	366	52

17 OPERATING LEASES

	2014 (£000)	2013 (£000)
Land and Buildings		
Annual Commitments under non-cancellable operating leases released:		
more than one year and less than five years	**35**	84
over five years	-	-
	35	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:

	2014 (£000)	2013 (£000)
Defined contribution scheme	**25**	23
Defined benefit scheme	-	1

At 31 December 2014 the membership of the defined benefit scheme was 1 pensioner (2013: 1)

The Board of Management consider that the balance of the defined benefit scheme fund as at 31 December 2014, as disclosed in Note 13, is appropriate to cover its future liabilities.

19 POST BALANCE SHEET EVENTS

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

Investments as at 31 December 2014

	Holding No of Units	Cost (£000)	Market Value (£000)
UNIT TRUSTS (generally Income Units & Sterling Class)			
Liquidity Funds			
Ignis Sterling Short Duration 2 (Accumulating)	491,713	5,000	5,034
Payden Sterling Reserve	494,741	5,000	5,004
Royal London Cash Plus Z	4,972,730	4,996	5,017
Bond Funds			
Fidelity Institutional UK Corp Bond Gross	423,916	4,510	4,833
Ignis Corporate Bond I	4,105,626	4,459	4,722
Legal & General Fixed Interest Trust I	14,308,670	6,964	9,856
Legal & General High Interest Trust I	2,262,476	1,204	1,108
M&G Strategic Corporate Bond A	5,535,575	3,560	4,114
Royal London Sterling Credit Z	7,459,284	8,957	9,913
Royal London Short Credit Z	4,464,359	4,481	4,540
Equity Funds			
CF Adam Worldwide	2,416,834	5,240	11,443
JP Morgan European Dynamic C	3,175,107	1,963	2,272
JP Morgan Systematic Alpha B (Accumulating)	18,799	1,500	1,530
Legal & General UK Index I	6,880,573	6,047	9,770
Legal & General US Index I	1,901,510	2,904	5,113
M&G Asian A	209,398	2,000	2,295
UBAM Euro Equity I	25,090	2,509	2,534
Property Funds			
Aberdeen Property B (ex-SWIP)	2,078,138	1,994	2,089
AEW UK Core Property	1,483,107	1,476	1,739
Henderson UK Property A	2,187,168	1,978	2,195
Ignis UK Property I	2,290,694	1,999	2,316
Legal & General UK Property I	3,585,943	1,500	1,751
M&G Investments Property Portfolio D	194,976	2,038	2,314
Royal London Property	747,943	2,000	2,051
		84,279	**103,553**
Non-UCITS FUNDS (Sterling Class)			
Culross Global SPC I	296.51	750	950
Securis 1 A	5,274	609	913
Securis Non-Life A	8,000	800	905
Securis Opportunities A1	6,615	700	784
		2,859	**3,552**
INVESTMENT PROPERTIES			
66/68 High Road, Wood Green, London		1,195	1,200
185-187 High Street, Southend, Essex		1,589	950
		2,784	**2,150**

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