Annual Report
2016

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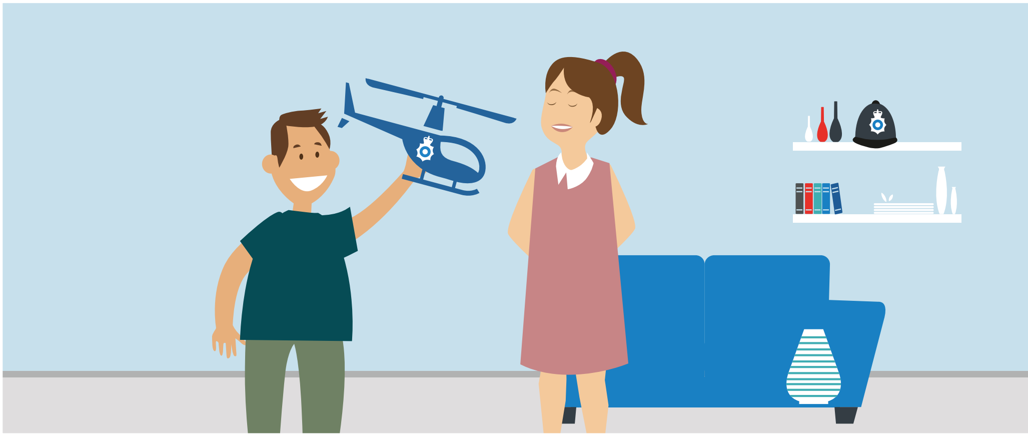

metfriendly
save, invest and protect

Metropolitan Police Friendly Society Limited

Annual Report & Accounts

For the year ended 31 December 2016

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: Central Court, Knoll Rise, Orpington, BR6 0JA

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Chair's Report

Metfriendly is here to give members of the police family the opportunity to provide for their future financial security through education, information and fair value products.

Our Strategic Report (starting on page 4) explains the Society's main objectives in the context of our "mission statement" above. In 2016, we made further progress in achieving those objectives both increasing the number of new members joining the Society by 30%, and accepting new lump sums for investment at double the level achieved in recent years. Over the year assets grew by £20 million.

Our continued success in attracting large investments reflects in part the effectiveness of our "Options" seminars, created to support those police officers and staff approaching retirement. To date over 5,000 members and non-members have attended these sessions, many of whom subsequently choose to entrust us with their retirement lump sums.

At the other end of the career spectrum we have also been investing resources in ensuring that those joining the police service in London are fully aware of the benefits of Society membership. We present to new recruits at Hendon, attracting increasing numbers to join Metfriendly.

A substantial group of middle service officers and staff who are not members are not caught by our activity aimed at new joiners or by Options seminars. Throughout 2016 we carried out a number of events to reach this group, and this continues into 2017.

Our website explains more about the Friendly Society and its products, and how to register for our events. The internet site www.metfriendly.org.uk is regularly updated and was upgraded during 2016 to make it easier to navigate.

Our 2016 AGM was held at Empress State Building. We had our usual good attendance with strong support from the Federation. Again, a large number of members exercised their right to cast their vote by proxy.

This year the AGM will be held in the Union Jack Club, Waterloo, on June 6. We urge all members who are unable to attend in person this year to send in their proxy form, or vote online, and we will enter them into our prize draw (details on website).

I wish to add some personal thanks.

First, two former colleagues have served Metfriendly through membership of the Board over a number of years. Paul Deller has decided that the increasing demands of his role with the Police Federation in London have made it impossible for him to devote sufficient time to remain an effective Board member. We regret but understand his decision and welcome his commitment to stay on the Member Relations Committee. Peter Clarke is stepping down from the Board in June after nine years as a Board member, latterly as the Senior Independent Director. Both Paul and Peter have been most effective Board members and will be missed. I will miss the wise counsel I received from both of them and thank them for their service on behalf of the membership.

Members will notice that Paul and Peter are not being replaced on the Board by police officers. This decision results from the increasing regulatory focus on professional representation on the Board so that the Board is able to effectively hold senior management to account for the way Metfriendly is managed. During 2016, we were pleased to welcome 2 new Non-Executive Directors from the financial services sector. Graeme McAusland, an actuary has taken over as Chair of the Audit & Compliance Committee, following Patrick Girling's decision to step down. Lee Schopp has also joined that Committee, where his experience as Finance Director at another Friendly Society will be most valuable.

The reduced police representation on the Board will be countered by an increased role for the newly constituted Member Relations Committee which we now see as our main conduit for relationships with stakeholders such as the Federation, the Superintendents' Association, police staff associations and the City of London Police.

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

The appeal of the Society reflects the service ethos of our staff at Orpington. The current strength of Metfriendly results, I believe, from the trust members have that we will treat them fairly. This high reputation with our members is a testament to the efforts of all our staff. My personal thanks go to each and every one of them.

The current financial strength of the Society results in large measure from the efforts of our Chief Executive, Stuart Bell and his deputy, Don Ratcliffe. They are now supported by Ben Grainger, our Sales and Marketing Director. I am grateful for their support and firmly believe that we can continue to work together, with other Directors, to safeguard the continuing future of the Society.

Don Ratcliffe will not be standing for re-election this year but will continue to serve the Board as Secretary. We are planning to recruit new executive directors, enabling Don to transfer some of his executive workload in an orderly manner. Don has given enormous service to the Society first as a Non-Executive Director and then as Deputy CEO from 2005. I am pleased that we will continue to benefit from Don's experience at the Board table.

Simon Allford was Finance Director from March 2016. He has recently left the Society following his appointment to a senior position with another mutual. I regret his decision to leave as he had a very positive effect during his short tenure. I wish him well in his new appointment.

I cannot end without thanking my fellow Non-Executive Directors who give generously of their time and energy to ensure that the Society is moving in the right direction. My job would be impossible without their continuing support.

My final thanks go to the members of the Society, old and new. I am very pleased that the continuing financial strength and solid investment performance of the Society justifies their trust in us. Long may we continue to benefit members of the police service in and around London.

Mike McAndrew QPM CFCIPD

Chief Executive's Report

During 2016, we were delighted to see a surge in lump sums invested with the Society. Along with the investment returns that we achieved, this increased our assets from £120 million at the start of the year to £140 million at the close.

Ben Grainger, our Sales & Marketing Director, led our business development team in delivering a very successful year, with new business increasing by over 50%. New members were boosted by our success in presenting to new recruits. Lump sums invested with the Society continue at record levels, with exceptional levels achieved in the second half of the year. I am delighted that the Board will be formally appointing Ben as an Executive Director this summer.

We generally met our business plan targets in 2016. More details are given in the Strategic Report.

Our Investments

During 2016, market conditions were volatile and reacted to political events. In the run up to the UK referendum on "Brexit", sterling weakened. After the vote to leave the EU, the currency fell markedly and interest rates were cut – with further support provided by the Bank of England. Whilst the value of our equity and bond investments rose substantially, commercial property fell in value due to concerns about future economic growth.

The US election threw up another surprise. US markets looked to the upside of the new president's intention to stimulate the US economy with equities rising in value and the pace of interest rate increases expected to be faster, causing bonds to fall in value in the final quarter. Global markets experienced similar movements to the US.

Although UK interest rates remain at record lows, the yields on bond funds now look set to rise. Whilst this would result in a fall in asset values, it will be helpful to the Society in managing the cost of the guarantees that it provides to its members.

The Society is pleased with the performance of its investments in 2016. In particular, our equity holdings benefitted from sterling's weakness and returned 19% over the year, contributing to an overall investment return of 11½% on the assets backing with-profits contracts.

Returns to Members

Our investment record is reflected in the amounts that we pay out on lump sums and savings products. For example, the returns on lump sum ISAs cashed in after 5 and 10 years are 4.5% p.a. and 5.1% p.a. respectively tax free.

We have maintained our annual bonus rates in 2016. However, given the actual and expected impact of the UK referendum result on UK interest rates, including the effect on the cost of the guarantees we provide, we anticipate reviewing bonus rates in 2017. Accordingly, the interim bonus rate we pay on claims in 2017 has been reduced.

Nonetheless, pay-outs under our fixed term savings contracts in 2017 are slightly up on 2016. We distributed £1 million from our reserves to increase the final bonuses that we pay to members, particularly on longer duration contracts. A separate report to with-profit members follows the main Board report.

Capital Management

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 330% cover in our regulatory return. We consider this level of cover to be fully consistent with our risk appetite. The Society now publishes a Solvency and Financial Condition Report giving more details.

In 2016, we have been subject to new regulation for reporting solvency – "Solvency II". For the current year our accounts remain based on the old solvency regime in order that a fair comparison can be made with 2015. Next year, we plan to align the provisions in our accounts to those computed under Solvency II.

Stuart Bell MA FIA

Strategic Report

Business Model and Principal Activities

Metfriendly's principal activities are the provision of medium-term and longer-term savings, investment and life insurance products to meet the needs of current and former members of the police service and their families in the London area. We aim to provide good value returns at an acceptable level of risk. We achieve this through a diversified approach to investment allocation, by careful monitoring of our expenses, and by maintaining appropriate capital margins. This ensures we have sufficient reserves to withstand adverse economic and investment conditions, and to invest in the continuing success of the Society. In particular, we recognise that we need economies of scale to spread the expenses of our business. Consequently, we aim to generate good levels of new business; and we recognise the strategic importance of recruiting new members if this is to continue in the longer term.

As a mutual we exist solely for the benefit of our members and we do not have to make dividend payments to shareholders.

Business Strategy

Our principal aim is to be the trusted financial services provider for the medium-term and longer-term savings and investment needs of the police service in the London area. This will be achieved by continuing to foster close links with the police services, and by providing relevant information, products and services which meet their members' needs. We will provide 'fair value' products by controlling our expenses and costs per policy whilst growing our membership and providing good customer service.

Modest membership growth was achieved in 2016 for the first time in many years. This reflected our decision to invest greater resources into our Sales and Marketing function which has enabled us to increase our field activities. Consequently, we were able to hold more of our popular pre-retirement options seminars, and these in turn created more leads for one to one meetings to provide information about our products and services. Meanwhile we have continued to support new recruits by making presentations during their induction days at Hendon, as well as attending passing out parades and other key events in the Metropolitan Police calendar.

Our distribution model is to provide information, not advice, about our products, and we do not sell through intermediaries or pay commission to our field team. During 2016 we have improved our digital presence by developing our website to make it easier to use, including our online application forms. We conducted a major piece of market research during the year with the help of external expertise and this will help further develop our proposition for members and how we interact with them in 2017 and beyond.

Our product range continues to comprise stocks and shares ISA products, invested in our with-profits fund, which can be used for regular savings or lump sum investment purposes; our popular guaranteed five-year savings plans; and protection policies tailored to complement benefits provided to police officers through their employment.

In order to develop our business model further we will:

- Introduce new products of relevance to our members - including a Lifetime ISA which will help younger officers save for a deposit on a first home; or in some cases to supplement their retirement funds.
- Promote Income Protection business more actively.
- Invest in our people and develop them so they continue to be able to support our business objectives.
- Invest in technology to make it easier for members to do business with us and improve our efficiency.
- Continue to invest in our Sales and Marketing capability and our support staff to build economies of scale to safeguard our future, at the expense of moderate expense overruns in the shorter-term.

Business Environment

We monitor changes in the police service and their potential impact on our members. In particular we note the continuing pressure on police budgets and the effect on the numbers of officers and staff and their remuneration, pension and other benefits. These changes have had a limited impact on the Society so far. However, we remain alert to the need to adapt our marketing and products strategies.

The UK economy has shown some resilience, at least in the short-term, following major changes in 2016 to the national and international political landscapes after the UK referendum decision in favour of leaving the EU; and the election of Donald Trump as President in the US. The outlook, however, at the start of 2017 remained highly uncertain with the timing and terms of the UK's exit from Europe still to be determined; and the extent to which Mr Trump will seek to implement his election pledges also to play out. Depreciation of sterling was the clearest economic change in the aftermath of the referendum vote, and whilst this may benefit UK exporters, there are already indications of increasing inflationary pressures as the cost of imports increase and price rises are passed on to consumers – which could further impact their ability to save.

The fast pace of regulatory change has not abated and we have continued to implement the reporting requirements of the Solvency II regime, which went live with effect from 1 January 2016 and has significantly increased the 31 December 2016 regulatory reporting requirements for all insurers. We have also implemented the requirements of the Senior Insurance Managers' Regime including the development of a Governance Map, and will continue our work in this area to meet the further requirements of the Senior Managers and Certification Regime which is extending the statutory duty of accountability to managers across the financial services industry. We kept a watching brief on the development of the implementation timetable for proposals to change information to be disclosed in Key Information Documents for Packaged Retail Investment Products during 2016, and will ensure we are ready to meet these requirements from the end of 2017, to the extent that they impact our products.

Technological change continues unabated. We do not expect to be at the forefront of implementation, but will continue to listen to our members' views and introduce services in a way that meets their needs and is cost-effective from a business perspective.

Business Performance and Key Performance Indicators

In 2016, the Society benefited from an investment return on with-profits assets of 11½%, helped by our equity funds returning 19% buoyed by sterling's weakness. Returns on cash and liquidity funds continued to be very low as the low interest rate environment continued, with a further reduction announced by the Bank of England following the EU referendum result.

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

Year	Assets* at Year End
2012	£97.6 million
2013	£105.3 million
2014	£113.5 million
2015	£117.1 million
2016	£137.3 million

*excluding reinsurance purchased

In line with our budgeted plans for growth, management expenses rose significantly in 2016 (up 15%) as we continued our strategy of investing in our sales and marketing capability in order to maintain membership numbers and increase new business volumes. Staff costs also increased as expected, reflecting planned strengthening of our senior management team to help build resilience and reduce key man risk. Expenses charged to with-profits contracts have remained stable with this development activity met from the Society's reserves. The Society has a business plan and revenue projection covering the next 3 years, and the Board considers that it can operate successfully over that period, and beyond.

The table shows how our business has developed. Single Premiums comprise lump sums and recurrent premiums (such as our Monthly Savings ISA); and our growth in recent years has come largely from this business.

£000s						
Year	Regular Premiums	Single Premiums	Maturity Claims	Surrender Claims	Death and Health Claims[1]	Management Expenses
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
2015	7,249	8,970	8,024	5,511	1,502	2,094
2016	6,991	17,403	7,034	4,848	1,319	2,416

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

Although the Society's total Balance Sheet assets (including reinsurance purchased) increased by £20m to £139.7m in 2016, its Fund for Future Appropriations (effectively excess assets) reduced by £2.5m. A significant component of this reduction is the onerous treatment of the cost of policy guarantees on the Solvency I basis, which increased by £2.5m in light of our success in generating new business. From 2017 the calculation basis will change to the Solvency II basis which is less onerous in this respect.

Principal Risks and Uncertainties

The Society's Risk and Investment Committee regularly reviews the risks inherent in our business and the full Board robustly assesses the principal risks and uncertainties. These are summarised below:

- critical mass, in particular in the longer term – we have expanded our resources aimed at attracting new and younger members and will continue to do so
- 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 of uncompetitive performance,
- expense levels, where we generally meet our budgets – but we have expanded our budget to provide increased executive and field resource, and
- data security – where we operate controls designed to minimise the risk of any loss of sensitive member data.

We are working successfully to improve member numbers, which will ensure a stable long-term base over which to spread our costs. We comfortably beat our target for 2016, exceeding our medium term goal of at least 1000 new members each year, and are increasing this target to 1200 to reflect this success. Our total membership increased modestly in 2016, and we will seek to build on this further by exploring further retention activities. We continue to address new recruits at Hendon during their induction, and have enjoyed significant success from deploying additional resources there; but we remain conscious that recruitment in the police service can fluctuate.

The solvency position continues to be strong under the Solvency II regime, providing a firm basis to plan our future development activities.

Board of Management 2016

Details of members of our Board of Management during 2016 are set out below, including their Board committee membership.

Non-Executive Directors

Mike McAndrew QPM CFCIPD
Board Chair; Chair of Nomination & Governance Committee; Member Relations Committee; Remuneration Committee; Risk & Investment Committee

Tim Birse MA FIA
Chair of Risk & Investment Committee; Audit & Compliance Committee (Chair from 12 May to 1 November); With-Profits Non-Executive Director

Janet Cassettari
Chair of Member Relations Committee; Nomination & Governance Committee

Peter Clarke BSc
Senior Independent Director; Chair of Remuneration Committee; Member Relations Committee – since 20 July 2016

Paul Deller
Member Relations Committee; resigned as Non-Executive Director - 6 December 2016

Fiona Gregory BA
Audit & Compliance Committee; Nomination & Governance Committee; Member Relations Committee; Remuneration Committee

Patrick Girling BA MIRM
Chair of Audit Risk & Compliance Committee (to 12 May); Remuneration Committee (to 12 May); resigned as Non-Executive Director 12 May 2016

Graeme McAusland BSc FFA
Appointed as Non-Executive Director 1 August 2016; Chair of Audit & Compliance Committee – since 1 November 2016; Risk & Investment Committee

Lee Schöpp ACA C.Dir.
Appointed as Non-Executive Director 1 August 2016; Audit & Compliance Committee

Joanna Young MSt (Cantab) MBA CertEd
Audit Risk & Compliance Committee – until 20 July 2016; Risk & Investment Committee; Nomination & Governance Committee – since 20 July 2016; Remuneration Committee – since 20 July 2016

Executive Directors

Stuart Bell MA FIA
Chief Executive Officer

Don Ratcliffe
Secretary & Deputy CEO

The following attend Board meetings in an advisory capacity

Simon Allford MA ACA
Finance Director (appointed 1 March 2016, resigned 31 March 2017)

Ben Grainger BA MCIM
Sales & Marketing Director

Malcolm Cooper
Served as a member of the Finance & Investment Committee until 20 July 2016 – (but did not attend Board meetings)

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Directors' Biographies

Mike McAndrew Chair

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. Before this he served as a police officer for 38 years retiring in 2007 when he was the full-time Secretary in London for the Superintendents' Association, a member of the Association's National Executive Committee and their 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.

Tim Birse Non-Executive Director

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, retiring in November 2015. Both before and after retirement Tim has devoted a large part of his time to the education of future generations of actuaries. Tim is currently playing a high-profile role in a review of the actuarial profession's education strategy. He is an examiner for actuarial science courses at various universities and moderates courses for the Indian and South African actuarial associations. Tim is also a non-executive director of The Rechabite Friendly Society (trading as Healthy Investment). In his spare time Tim is active as an Explorer Scout Leader and treasurer of his parish church.

Janet Cassettari Non-Executive Director

Appointed to the Board in May 2010, Janet has worked in the financial services sector for many years in a career encompassing a variety of roles and responsibilities both within the UK and internationally. She managed the UK operation of a European reinsurance company, has led a team in the global development of an insurance product and jointly owned and managed an organisation providing services within the annuity/longevity market. Outside of financial services Janet enjoys writing short stories and thrives on challenges like running marathons. Janet has served on the Member Relations Committee, and its precursors, the Business Development and Marketing Committees, since 2007 and has been its Chair since July 2012.

Peter Clarke Senior Independent Director

Appointed to the Board in May 2007, Peter recently retired from the City of London Police after 37 years' service and has had policies with Metfriendly throughout that period. During his time in the force he had control of several internal budgets. 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 was also a qualified auditor of business continuity systems. He retired as an Inspector and the lead Police Search Advisor for the force. He currently runs a family history and guided walks company. Peter plans to step down from the Board at the AGM in 2017.

Fiona Gregory Non-Executive Director

Appointed to the Board in April 2014 Fiona is the daughter and the wife of former Police Officers, who both served 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, other senior managers, 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.

Graeme McAusland Non-Executive Director

Appointed to the Board in August 2016, Graeme is a qualified actuary and is currently the Chief Executive at the Funeral Planning Authority. He has spent most of his working life in the life assurance industry and has held various senior roles including Chief Executive of a mutual insurer and UK Group Finance Director of another insurer. He holds another non-executive role with an AIM listed stockbroker where he chairs the Audit Committee. He has also been appointed as the independent Chair of the Audit Committee of an Academy in Croydon. In his spare time Graeme plays the cornet in a brass band.

Lee Schöpp Non-Executive Director

Appointed to the Board in August 2016, Lee is a Chartered Accountant and also the Finance Director of mutual insurer British Friendly Society. Lee brings with him considerable strategic planning and execution experience gained over the past 20 years and was very proud to receive the New Chartered Director of the Year 2015 award from the Institute of Directors. He is a member of the Association of Financial Mutuals Development and Conference Committee and a fellow of the Institute of Directors. In addition to these roles Lee has also founded and is chairman of a successful micro-brewery operating in Bedfordshire.

Joanna Young Non-Executive Director

Joanna joined the Metropolitan Police in 1984 and is proud to have served London's vibrant and multicultural communities in a variety of roles as well as working nationally and as a BCU Commander in Kent Police. In the last four years of her policing career she was the elected representative for the Superintendents' Association in London supporting her colleagues in challenging times. She retired in 2015 to start a new career supporting the leaders of the future through leadership and personal development. This includes delivering training to senior leaders, lecturing on a Police Management and Leadership programme to undergraduate students, reviewing leadership and organisational culture and coaching individuals to reach their full potential. She maintains close links with policing and has been a member of the Metfriendly Board since May 2013.

Stuart Bell Executive Director

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 actuarial 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 Board of the Association of Financial Mutuals.

Don Ratcliffe Executive Director

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. Don plans to step down from the Board at the AGM in 2017.

Report of the Board of Management

The Board of Management is pleased to present its report and accounts for the year ended 31 December 2016 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 Chief Actuary, 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. Where appropriate responsibilities are 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 employs 19 members of staff who all work at Orpington.

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 2016 stood at 12,619 (2015: 12,547).

Board of Management

Details of the Board of Management and Committee members are shown on page 7. There were four changes to Board membership during 2016. Patrick Girling stood down as Director at the Annual General Meeting in May and Paul Deller stepped down in December, having served as directors for 6 years and 4 years respectively. Graeme McAusland and Lee Schopp were appointed as Non-Executive Directors on 1 August 2016.

Risk Management

The Risk & Investment ("R&I") Committee is generally responsible for overseeing risk management, with particular reference to systems and controls and other aspects of operational risk.

Throughout the year RSM - Risk Assurance LLP ("RSM") acted as our internal auditors under the oversight of John Midlane, our Compliance and Data Protection Officer. They conducted audits on Product Lifecycle and Savings; the Senior Managers' Insurance Regime ("SIMR"), Conduct Risk and Financial Crime; IT Governance and Business Continuity Planning; and Strategy, the results of which were reported to the Audit & Compliance ("A&C") Committee and to the Board.

Along with the A&C Committee the R&I Committee also monitors business risks including investment, underwriting and expense management, which are core areas driving the returns to our members. These committees 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.
The Board maintained its risk policy which it reviewed during 2016. 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 Manager, Fire Wardens and First Aiders at Work to comply with statutory requirements and current good practice. We also hold appropriate insurance including Directors' and Officers' cover.

Donations

During 2016 the Society made a donation of £5,000 to the National Police Memorial Day and throughout the year we continued to assist them through raising donations at Long Service Awards ceremonies and Passing-out-Parades at Hendon and elsewhere. In total we collected £2,213 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 2016.

Appointment of Auditors

Mazars LLP acted as Auditors to the Society throughout 2016. 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 during 2016 did not affect their independence to act as external auditors.

Mazars LLP, who were first appointed in 2011, have expressed their willingness to continue in office as external auditors and the Board will propose their reappointment at the Annual General Meeting in 2017.

D P Ratcliffe
Secretary

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 a "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 Risk & Investment Committee which also has a responsibility to consider issues relating to with-profits business. Throughout 2016, Tim Birse served as WPNED – his terms of reference were reviewed in July with no changes.

The Board reviewed the principles in the PPFM in February with effect from 1 July 2016, giving 3 months' notice to affected members (those having with-profits policies); in particular the investment strategy was updated to facilitate a greater emphasis on direct investments in future. The Board reviewed the practices in the PPFM in October with effect from 1 January 2017; the main change was to note a further distribution of the Society's reserves to members, as described further below.

The Board's discretion relates principally to setting investment strategy, determining asset shares, setting annual and final bonuses, setting fair surrender values, and regularly assessing whether it should make a special distribution of the Society's reserves. 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, special distributions, taxation and life cover).

In managing the with-profits business during 2016, the Board has kept the duration of its bond holdings shorter than the target duration; this will be beneficial if interest rates were to rise. The Board considers that the volumes and terms of business written in 2016, and those planned for 2017, are well within the Society's capital resources and administrative capabilities.

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 2015 was continued for 2016.

It is the Directors' opinion that the business has been managed throughout 2016 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. Changes to the "consumer friendly" version were made to remove detailed references to surrender values which vary by product – as these are set out elsewhere on the Society's website. The Society's website provides details at http://www.mpfs.org.uk/about-metfriendly/with-profits/ppfm.

- The principles were amended to indicate that the Society might hold more direct (rather than pooled) investments in future and these could include derivatives (in order to manage risk).
- The "Monthly Savings ISA" only attracts annual bonuses; on exit, it does not attract a final bonus. The principles were altered so that the annual bonus was more aligned to the total return on the asset shares. The practices were expanded to set out more detail as to when mature contracts from different years could be merged.

- The principles were altered to reflect the fact that all equities and property holdings are now allocated entirely to with-profits business.
- From 1 January 2017 approximately £1 million was transferred from the Society's free reserves and used to increase asset shares. This has effectively distributed some of the Society's capital to members. It will increase the with-profits policy payouts, particularly for longer duration contracts.

Bonuses

The Board decided to maintain the rates of annual bonus added to conventional with-profits contracts. Annual bonus rates for 2016 are shown below. (The interim annual bonus rate paid on claims in 2017 was set at a lower rate as shown in brackets.)

- New series endowments including the 5 Year Plan – 1.0% (interim 0.8%)
- Tax-exempt endowments – 1.2% (interim 1.0%)
- With-Profit Bonds, Flexible Savings Plans and fully paid Option Plans – 1.2% (interim 0.8%)
- ISAs and fully paid tax-exempt Option Plans – 1.5% (interim 1.0%)

Final bonus rates, where applicable, 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 2017 will be slightly higher than in 2016, the increase ranging from about 0.5% for 5 year plans to over 4% for 25 year plans. These improvements reflect movements in the underlying asset shares, including increases arising from the Society's distribution of reserves.

Surrender Values

The Society has maintained its practices for surrender values throughout 2016.
On contracts without a fixed duration, including the Monthly Savings ISA, 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 2016.

D P Ratcliffe
Secretary

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 2016 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 2016 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2016 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 PRA and FCA and applicable standards issued by the Financial Reporting Council and the Institute and Faculty of Actuaries.

Lindsay Unwin BSc FIA

metfriendly
save, invest and protect

Corporate Governance Report

Metfriendly is governed by a Board of Management. The Rules of the Society set a maximum of 11 directors for the Board and provide for the annual election of directors (with re-election permitted). At 31 December 2016 there were eight 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 refer any complaints that have not been addressed to their satisfaction by the Society's management (there is also an Arbitration Panel appointed by 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 seven occasions during 2016 which it considers were sufficient meetings in order to discharge its duties effectively. 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.

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. The details of committee membership and the Chair of each committee is shown on page 7. Directors' biographies are shown on pages 8 to 10.

Additionally during the year Tim Birse as WPNED and Stuart Bell met with our With-Profits Actuary.

The directors' attendance at Board and relevant Committee meetings in 2016 was as follows:

Director	Board	Audit & Compliance (formerly Audit, Risk & Compliance)	Risk & Investment (formerly Finance & Investment)	Member Relations (formerly Business Development)	Nomination and Governance (formerly Nomination)	Remuneration
T. Birse	7/7	4/4	4/4	-	-	-
J. Cassettari	6/7	-	-	4/4	3/4	-
P. Clarke	7/7	2/2 & (0/2)	(0/4)	(0/4)	2/2 & (2/2)	1/1
P. Deller[1]	4/6	1/1	-	4/4	-	-
P. Girling[2]	2/3	-	-	-	-	-
F. Gregory	7/7	2/2	-	4/4	3/4	1/1
M. McAndrew	7/7	(3/4)	4/4	3/4	4/4	1/1
G McAusland[3]	3/3	2/2	1/1	-	-	-
L Schöpp[3]	2/3	2/2	-	-	-	-
J. Young	7/7	-	3/4	-	2/2	1/1
S. Bell	7/7	(4/4)	4/4	4/4	(4/4)	(1/1)
D. Ratcliffe	7/7	(4/4)	3/4	3/3	(4/4)	-

[1] Resigned 6 December 2016 [2] Retired at 2016 AGM [3] Co-opted onto Board 1 August 2016

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

Committees

Terms of Reference for all Committees are on our website or are available on request.

Following a review by the Nomination Committee in June 2016, the Board agreed changes to the committee structure to align the Society's governance arrangements more closely with the new Senior Insurance Managers

Regime ("SIMR") implemented by the two regulators and which would improve the governance of the Society generally. As a result, the Audit, Risk and Compliance Committee was reconstituted as the Audit & Compliance ("A&C") Committee; risk oversight was transferred to the reconstituted Risk & Investment ("R&I") Committee (formerly the Finance & Investment Committee); the Nomination Committee assumed responsibility for Governance matters and was renamed the Nomination & Governance ("N&G") Committee; and the Business Development Committee was reconstituted as a Member Relations ("MR") Committee to reflect its fundamental purpose. The Remuneration ("Rem") Committee remained unchanged in name and purpose throughout the year.

Audit & Compliance Committee
The A&C Committee has three main roles:

- to provide an independent oversight of the Society's statutory reporting and systems of internal control, and ensure the Society's compliance with the Financial Services and Markets Act 2000 and subsequent related legislation;
- to oversee the supervision and monitoring of the independence, quality and effectiveness of the Society's external auditor and internal audit function; and
- to enable the Society's compliance procedures to be reviewed in greater details than at regular Board meetings.

The Society's external auditor Mazars was appointed in 2011. They provide non-audit services in relation to preparing the "tagged" Annual Report for submission to Her Majesty's Revenue and Customs the cost of which is not material. The A&C Committee was satisfied 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 were adopted. The external auditor was also given the opportunity to raise relevant issues at that stage. The external auditor identifies areas for improvement in controls as part of their audit and during the year the Committee monitored that the implementation of agreed actions to respond to these points had taken place.

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

The Society outsources its internal audit work to RSM Risk Assurance LLP ("RSM"). The Committee reviews reports from RSM and the key actions that are raised. The Committee monitors any agreed action points to ensure these are carried out to a satisfactory conclusion. The internal audit program is a rolling plan that the Committee agrees on an annual basis. The Committee continues to believe the arrangement with RSM provides a robust internal audit function appropriate to the Society's business model.

The A&C Committee is also responsible for overseeing any reports of wrongdoing and staff may confidentially report any concerns about their colleagues' propriety to the Chair of that Committee who has been appointed the "Whistleblowers' Champion". In his absence they can contact any member of that committee. Any person can approach the Financial Conduct Authority or the Prudential Regulation Authority directly to report wrongdoing.

Risk & Investment Committee
The R&I Committee has two main roles:

- to provide an independent oversight of the Society's systems of risk management including the risk policies, risk appetite and the systems and controls in place to reduce the risk or mitigate the consequences should the risk events occur; and
- to enable the Society's risk management, financial management, including investment strategy and with-profits business, to be reviewed in greater detail than at regular Board meetings.

The key risks to which the Society is exposed are described in the Strategic Report. The R&I Committee also reviews risk and solvency reporting, development of the Society's investment strategy and its implementation, expense control, and risks relating to our computer systems and how we control sensitive data.

During 2016 the Committee reviewed the Society's product range, endorsing new terms for the 5 year savings plan and overseeing the preparations to launch a Lifetime ISA in 2017. The Committee also oversaw further development of the Society's Own Risk and Solvency Assessment which is a key tool in the strategic management of the Society.

Member Relations Committee
The newly constituted MR Committee had its first meeting in October 2016. Prior to the establishment of this committee, member engagement had been part of the remit of the Business Development Committee which also focused on development of the Society's business through providing direction and recommendations on strategic matters (these matters are now delivered by the Executive team and overseen by the Board).

The MR Committee has two main roles:

- to ensure there are appropriate arrangements in place to facilitate dialogue between members of the Society and the Board; and
- to ensure the fair and appropriate treatment of members with a view to supporting the Society's strategy to –
  - aim to be the chosen provider to the police service in London;
  - attract new members, maintain existing ones and promote the Society generally; and
  - increase the take-up of the Society's products.

During 2016 the MR Committee focused on member engagement, in particular overseeing events aimed at members including the AGM, and ensuring attendance at those events by NEDs including the Senior Independent Director. The annual 'Members Day' held in November 2016 also falls within its remit and provides a further opportunity for member engagement with the Board. The committee also supports initiatives to retain members to ensure that serving and retired officers' and staff's families are aware of their eligibility to join the Society.

In July 2016 the Committee oversaw an important piece of research into our member base to understand how they may be best served. Additional projects falling under the Committee's remit included the redevelopment of the Society's website and reviewing the ways in which we communicate with members to provide greater accessibility and information.

Membership of the Committee is not restricted to the Society's directors and the Society actively seeks representation from the police service. The Committee is the main conduit for our relationships with stakeholders such as the Federation, the Superintendent's Association, police staff associations and the City of London Police.

Nomination & Governance Committee
The N&G Committee has two main roles:

- to oversee the Society's senior management arrangements and to lead on the appointment of Executive and Non-Executive Directors and other senior managers; and
- to oversee the Society's governance arrangements ensuring compliance with regulatory requirements and good practice.

During 2016 the Committee reviewed governance in the context of the joint Ernst & Young and Institute of Chartered Secretaries and Administrators report "The nomination committee – coming out of the shadows" and reviewed proposals to enhance our arrangements in response to the review.

It supported the Board in ensuring that the Society has plans for an orderly succession at senior management levels which reflect recommended practice on maximum tenure in the case of NEDs.

The N&G Committee had also led the process leading to the appointment of a new Finance Director in March 2016 and took the lead in the appointment of two new NEDs in August. For these processes the Society used the services of a leading executive search firm with whom the Society has no connection, other than these arrangements.

The Committee also developed documents dealing with the development of executive talent; job descriptions and person specifications for director role; and induction processes for new directors and other members of committees.

Whilst the Board does not have a formal policy on diversity or targets for recruitment, these issues were addressed in our Board Succession Plan under the heading of 'Board Composition' and in particular, with regards to the need to achieve a 'balanced board' to avoid group think. The executive search firm were instructed to ensure, as far as possible, a diverse field of candidates for the appointments described above. The Board has three female NEDs.

Remuneration Committee
The main role of this Committee is to review and make recommendations to the Board on matters relating to the remuneration of executive and non-executive directors, and other senior managers.

During 2016 it reviewed the Remuneration Policy and made recommendations to the Board to increase the retainer and meeting fees paid to non-executive directors for 2017, whereby the meeting attendance fees for NEDs will be equalised at the same rate for those with industry and police background. They also made recommendations to the Board on the pay of the two executive directors and were consulted on the remuneration of senior management immediately below director level and other staff members.

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

Following their annual review the Board confirmed and documented 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

During 2016 the Board included a wide range of NEDs some of whom were either serving or recently retired police officers or police staff who gave their time generously 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 the resignation of Patrick Girling, the Board recognised the need to have additional specific skills on the Board and the A & C Committee. Graeme McAusland and Lee Schopp were appointed to the Board on 1 August following a recruitment process which involved the use of an executive search firm. Graeme, an actuary, is currently the Chief Executive of the Funeral Planning Authority and was previously the Chief Executive of a friendly society. Lee, an accountant, is currently the Finance Director of British Friendly whose core business is the provision of income protection insurance.

On guidance from the N & G Committee, the Board believes that all NEDs currently meet the criteria for independence of character and judgement. The N&G 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.

The Board gives particular consideration to the independence of other NEDs when their service exceeds six years.

Election of Directors

In 2016 all directors standing for election were put forward for election for a 12 month period in accordance with the Rules of the Society.

The Board considers that the six directors standing for re-election in 2017 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.

Additionally, the Board considers that Graeme McAusland and Lee Schopp are suitable candidates to serve as non-executive directors of the Society. It further believes that Ben Grainger, Sales & Marketing Director is a suitable candidate to serve as an executive director of the Society.

Board & Director Performance Evaluation

An independent review of Board effectiveness (previously carried out in 2011) was undertaken by our internal auditors, RSM in November/December 2016 and their recommendations will be carried forward to drive Board strategy and governance in 2017. The Board also undertook an evaluation of its performance and effectiveness through its own appraisal process with the results discussed by the Board in February 2017.

Individual appraisals of directors were undertaken by the Chair taking account of the information gained in a peer appraisal process undertaken at the end of the year. The Chair's appraisal was carried out by Peter Clarke, the SID.

During the year there was one formal training session for directors on Solvency II, which was delivered in August. Directors also 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 ("the Code") as amplified by Corporate Governance for Mutual Insurers[1] – Guidance published by AFM in response to the requests contained in the Myners Review of the Governance of Life Mutuals[2]

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.

[1]Annotated Code for Mutual Insurers – April 2015
[2]Myners Review of the Governance of Life Mutuals – December 2004

Remuneration

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 their operational role and the business risks identified in the Strategic Report, but also on finance and investment generally as well as managing regulatory risks and requirements.

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 focused 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. Those salaries are reviewed annually and increases are at the discretion of the Non-Executive Directors in line with the performance of the Executive.

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 (Chair of a Committee, WPNED), and an attendance fee - which during 2016 was set to reflect typical consultancy rates for industry professionals but this will change in 2017 when the same rate will apply to all NEDs.

Remuneration Report

The following remuneration was paid to Directors during 2016

	Fee/Salary	Benefits	2016 Total	2015 Total
Mike McAndrew (Board Chair)	18,600	-	18,600	16,900
Tim Birse	18,800	-	18,800	17,750
Janet Cassettari	15,560	-	15,560	14,100
Paul Deller (resigned 6 December 2016)[1]	-	-	-	-
Patrick Girling (resigned 12 May 2016)	4,706	-	4,706	11,600
David Gottler (resigned 14 May 2015)	-	-	-	4,187
Fiona Gregory	15,440	-	15,440	11,950
Joanna Young (only claimed remuneration from April 2015 after her retirement from the police service)	10,240	-	10,240	7,087
Mick Messinger (resigned 14 May 2015)	-	-	-	3,937
Graeme McAusland (joined Board 1 August 2016)	6,236	-	6,236	-
Lee Schopp (joined Board 1 August 2016)	4,830	-	4,830	-
Peter Clarke (from 1 September 2016 after he retired from the police service)[1]	3,973	-	3,973	-
Stuart Bell (Chief Executive Officer)	197,500	-	197,500	193,000
Don Ratcliffe (DCEO/Secretary)	62,212	4,339*	66,551	64,575
Total	358,097	4,339	362,436	345,086

[1] NEDs who were serving members of the police service waived their entitlement to remuneration from the Society.
*Employer's contribution to a group personal 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 2016 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 give a true and fair view of the state of the Society's affairs as at 31 December 2016 and of the Society's transfer from the fund for future appropriations for the year then ended;
- the Society's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been 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 2016, 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) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 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 and evaluated the actuarial calculations and the appropriateness of assumptions used to measure the long term business provisions using the modified Solvency I basis and the associated disclosures.

In particular, we challenged managements' assumptions through critically examining the analysis of historical performance against assumptions to ensure there were no indicators of material misstatement or management bias.

We challenged the movement in surplus in 2016 from that reported in prior year to ensure that this was consistent with our understanding of the business and consistent application of the Solvency I methods and approaches.

As required by regulation, we used our own actuarial specialists to assist us in our procedures. This included those relating to reinsurance as our actuarial specialists performed their work and reported on the valuations net of reinsurers' share.

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 requirements for the capital which the Society must maintain. From 1 January 2016 these were required to be established under the Solvency II regulations. These 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 challenged the Society's compliance with regulations in this area for evidence of sound and prudent management and that the Society remained solvent under Solvency II.

In all entities, management at various levels within an organization 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 an 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 tested were found to be 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. It was found that controls tested surrounding revenue recognition were operating effectively and a reconciliation between the accounting ledger and policy management system was satisfactorily performed.

The Audit and Compliance Committee's consideration of these risks is set out on page 16.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.

Going concern

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 6 of the Annual Report, that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- the directors' statement on page 30 of the Annual Report about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation on page 5 of the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Society will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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:	£500,000.
Benchmark applied:	This has been calculated with reference to the Society's fund for future appropriations (of which it represents 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 financial statements relevant to members in assessing financial position and financial performance.

We agreed with the Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £15,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Compliance 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 directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual 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
- 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 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 Society 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 and Compliance 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:

- 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.

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 10 provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals.

Respective responsibilities of directors and auditor

As explained more fully in the Board of Management's Responsibilities Statement set out on page 21, 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 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

16 May 2017

Income and Expenditure Account
For The Year Ended 31 December 2016

	Notes	2016 (£000)	2016 (£000)	2015 (£000)	2015 (£000)
TECHNICAL ACCOUNT - LONG TERM BUSINESS					
EARNED PREMIUMS - CONTINUING OPERATIONS	2				
Gross Premiums Written			**24,394**		16,219
Less: Reinsurance Premiums			**(432)**		(456)
Earned Premiums, net of Reinsurance			**23,962**		15,763
Investment Income and Gains	3		**3,885**		3,911
Unrealised Investment Gains	3		**8,082**		22
TOTAL TECHNICAL INCOME			**35,929**		19,696
CLAIMS INCURRED					
Claims Paid					
- Gross Amount		**13,202**		15,037	
- Less: Reinsurers' Share		**(344)**		(764)	
Claims incurred, net of Reinsurance			**12,858**		14,273
CHANGE IN OTHER TECHNICAL PROVISIONS					
Long Term Business Provision					
- Gross Amount		**22,627**		3,824	
- Reinsurers' Share		**(65)**		(121)	
Net of Reinsurance			**22,562**		3,703
OTHER CHARGES					
Net Operating Expenses	4	**2,416**		2,094	
Tax Attributable to Long Term Business	8	**573**		(149)	
			2,989		1,945
TRANSFER (FROM)/TO THE FUND FOR FUTURE APPROPRIATIONS	12		**(2,480)**		(225)
TOTAL TECHNICAL CHARGES			**35,929**		19,696
BALANCE ON THE TECHNICAL ACCOUNT - LONG TERM BUSINESS			**-**		-

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Balance Sheet
At 31 December 2016

	Notes	2016 (£000)	2015 (£000)
ASSETS			
INVESTMENTS	9	**132,138**	110,065
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long Term Business Provision	13	**2,404**	2,339
On Claims outstanding		**28**	277
		2,432	2,616
DEBTORS			
Debtors Arising out of Direct Insurance Operations - Policy Holders		**419**	434
Other Debtors		**397**	3,643
		816	4,077
OTHER ASSETS			
Tangible Assets	10	**226**	241
Intangible Assets	11	**31**	-
Cash at Bank and in Hand		**4,004**	2,660
		4,261	2,901
PREPAYMENTS AND ACCRUED INCOME		**61**	91
TOTAL ASSETS		**139,708**	119,750

Balance Sheet
At 31 December 2016

	Notes	2016 (£000)	2015 (£000)
LIABILITIES			
FUND FOR FUTURE APPROPRIATIONS	12	**19,617**	22,097
TECHNICAL PROVISIONS	13		
Long Term Business Provision - Gross Amount		**117,308**	94,770
Provision for Bonuses - Gross Amount		**1,093**	1,004
Claims Outstanding - Gross Amount		**368**	793
PROVISION FOR OTHER RISKS AND CHARGES	14	**579**	381
CREDITORS			
Other Creditors including taxation and social security	16	**430**	20
ACCRUALS AND DEFERRED INCOME		**313**	685
TOTAL LIABILITIES		**139,708**	119,750

Approved at a meeting of the Board of Management on 4 May 2017 and signed on its behalf by:

M McAndrew QPM CFCIPD
Director

S H Bell MA FIA
Chief Executive

D P Ratcliffe
Secretary

16 May 2017

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Notes To The Accounts
At 31 December 2016

1 ACCOUNTING POLICIES

Basis of Presentation
Metropolitan Police Friendly Society Limited is a Friendly Society registered in the United Kingdom. The registered office is Central Court, 1B Knoll Rise, Orpington, Kent BR6 0JA.

The accounts are prepared on the basis of the accounting policies set out below. The accounts have been prepared in compliance with United Kingdom Accounting standards, including Financial Reporting Standard 102, "The Financial Reporiting Standard applicable in the United Kingdom" ("FRS 102") and 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.

After making enquiries, and taking into account the Society's financial resources and business plans, the Directors have a reasonable expectation that the organisation has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements

Contract Classification
The Society issues contracts that transfer insurance risk and financial risk.

Insurance contracts are those contracts that transfer significant insurance risk and may also transfer financial risk. As a general guideline, the Society defines significant insurance risk as the possibility of having to pay benefits on the occurrence of the insured event that are at least 10% more than the benefits payable if the insured event did not occur.

The Society's participating contracts are classified as insurance contracts, but also transfer financial risk and, absent the insured event, provide an investment return for the policyholder.

A contract that is classified as an insurance contract continues to be treated as such until all rights and obligations under the contract expire.

Insurance Contracts
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 on an ex-dividend basis. Fixed interest income and bank deposit interest are included as investment income on an accruals basis. Rental income is 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
The Society classifies its financial instruments, being all its shares, other variable yield securities, units in unit trusts, debt securities and other fixed interest securities as fair value through profit and loss in accordance with FRS 102. The classification of investments is determined at initial recognition.

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.

Cost is the cash cost of the individual investment fund holdings less that part of the first dividend notified to be a return of capital. Individual investment fund holdings, which have been subject to part disposal, are shown at a carried forward cost calculated on a pro rata basis.

Deferred Taxation

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

The deferred tax recognised excludes the effect of the timing of tax relief where assumed expenses exceed attributable income recognised within the long-term business provision.

Fixed Assets

Depreciation is provided on tangible fixed assets 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

Intangible Assets

Intangible assets expected to generate future economic benefit are stated at cost less accumulated amortisation. They are amortised on a straight line basis over their estimated useful life. The carrying value is reviewed for impairment if events or changes in circumstance indicate the carrying value may not be recoverable.

Website development costs - three years

Foreign Currencies

The Society's functional currency is GBP sterling. 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 defined benefit 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 defined contribution group personal pension scheme which is administered by Aegon 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 Chief Actuary, making certain modifications to the mathematical reserves following her annual investigation of the long term business. The principal assumptions are set out in Note 13. Most of the Society's business is with-profits. For such business additional provisions are made to ensure that the total provisions are no less than the asset shares held for such business. Additionally for accumulating with profits business there is an explicit market consistent provision for the cost of future guarantees.

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.

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Fund for Future Appropriations

The fund for future appropriations represents all funds, the allocation of which to policyholders 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.

Critical Judgements

The Society considers that critical judgements are confined to the determination of technical provisions and in particular the quantification of future guarantee costs. The estimation of implied volatitility used to determine such costs is given in Note 13, and is not subject to any material uncertainty.

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 policyholders.

(a) Premiums Written

	2016 (£000)			2015 (£000)		
Life Assurance Business	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Non Participating Contracts						
- periodic premiums	**3,672**	**432**	**3,240**	2,723	456	2,267
Participating Contracts						
- periodic premiums	**3,319**	**-**	**3,319**	4,526	-	4,526
- single premiums	**17,403**	**-**	**17,403**	8,970	-	8,970
Total Premiums Written	**24,394**	**432**	**23,962**	16,219	456	15,763

	2016 (£000)	2016 (£000)	2015 (£000)	2015 (£000)
	Regular Premium	**Single Premium**	Regular Premium	Single Premium
Total gross new premium resulting from contracts concluded by the Society	**1,285**	**17,403**	1,298	8,970

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 decrease the transfer to the Fund for Future Appropriations by £23,000 for the year ended 31 December 2016 (2015: an increase of £429,000)

3 INVESTMENT INCOME AND GAINS

	2016 (£000)	2016 (£000)	2015 (£000)	2015 (£000)
Investment Income:				
Income from land and buildings		**15**		208
Income from other investments		**3,343**		3,112
		3,358		3,320
Profits on the realisation of:				
Land and buildings	**-**		107	
Other investments	**527**		484	
		527		591
		3,885		3,911

Income from other investments includes £3,310,000 (2015 - £3,086,000) from listed investments.

	2016 (£000)	2015 (£000)
Unrealised Investment Gains:		
Unrealised gains from land and buildings	**-**	634
Unrealised gains from other investments	**8,082**	(612)
	8,082	**22**

The income and gains on financial assets held at fair value through profit and loss comprises those arising on other investments above. The income arising from assets held at amortised cost is insignificant.

4 NET OPERATING EXPENSES

	2016 (£000)	2015 (£000)
Acquisition costs	**810**	714
Administrative expenses	**1,606**	1,380
	2,416	2,094

Remuneration in respect of audit services from Mazars amounted to £128,640 (2015: £98,880) for audit services and £780 (2015: £10,980) 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 Limited which amounted to £253,868 for 2016 (2015: £208,253).

No acquisition costs were deferred in 2016. Deferred acquisition costs carried forward were £Nil (2015: £Nil).

5 STAFF COSTS

	2016 (£000)	2015 (£000)
Wages and salaries	**919**	789
National Insurance costs	**104**	86
Other pension costs	**47**	27
	1,070	902

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

	2016	2015
Management	**4**	3
Marketing and Administration	**15**	14
	19	17

6 NON-EXECUTIVE BOARD MEMBERS' EMOLUMENTS

During 2016, the Chairman received emoluments of £18,600 (2015: £16,900). Eight other non-executive Board members received emoluments totalling £79,785 during 2016 (2015: £70,612). No other non-executive Board member received any emoluments during either 2016 or 2015.

Board members are considered to the the Society's key management personnel and details of their respective emoluments are disclosed in the Remuneration Report on page 21.

7 INVESTMENT EXPENSES AND CHARGES

Investment management fees are not charged directly to the Society, but are deducted by the respective fund mangers from the pooled funds that it invests in. These fees are not included in net operating expenses, but are reflected in the market value of the Society's investments. For 2016 they were estimated to be £510,000 (2015: £470,000).

8 TAXATION

	2016 (£000)	2015 (£000)
Current Corporation Tax at applicable rates	**384**	9
Over-provisions in prior years	**(14)**	(12)
Change in deferred taxation	**203**	(146)
	573	(149)

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

a) Investments

	Fair Value 2016 (£000)	Fair Value 2015 (£000)	Historical Cost 2016 (£000)	Historical Cost 2015 (£000)
Variable yield securities and units in Unit Trusts and non-UCITS funds:				
- UK	**131,124**	109,065	**103,687**	89,710
Deposits with credit institutions	**1,014**	1,000	**1,000**	1,000
TOTAL INVESTMENTS	**132,138**	110,065	**104,687**	90,710

Included in the current value are the following:

	Listed on The London Stock Exchange (£000)	Listed Other Recognised Investment Exchanges (£000)	Total (£000)
Variable yield securities and units in Unit Trusts and non-UCITS funds	**111,497**	**19,627**	**131,124**

For analysis of the fair value measurement of other financial investments, see below. Deposits with credit insitutions, cash at bank and in hand and debtors are held at amortised cost.

The Society's direct holdings in Investment properties were sold in 2015. Proceeds were received in 2016 and were included in Other Debtors as at 31 December 2015.

b) Fair Value Estimation

The table below provides an analysis of the other investments disclosed at fair value in Note 9a. These have been grouped by value level according to the following inputs:

Level 1:
Listed quoted prices which are publicly, readily and regularly available on an active market, on an arm's length basis.

Level 2:
Inputs other than quoted prices included within Level 1. The price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse.

Level 3:
Inputs for the asset or liability that are not based on active and recent transactions of an identical asset on their own and are not a good estimate of fair value, resulting in an estimate made of fair value using a valuation technique.

Fair value hierarchy at 31 December 2016:	**Level 1** (£000)	**Level 2** (£000)	**Level 3** (£000)	**Total** (£000)
Variable yield securities and units in Unit Trusts and non-UCITS funds	**131,124**	-	-	**131,124**

Fair value hierarchy at 31 December 2015:	**Level 1** (£000)	**Level 2** (£000)	**Level 3** (£000)	**Total** (£000)
Variable yield securities and units in Unit Trusts and non-UCITS funds	109,065	-	-	109,065

Other financial investments have been designated as measured at fair value level 1 as they are listed in active markets with quoted prices which are publicly, readily and regularly available on an active market, on an arm's length basis.

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c) Financial Risk Management

Objectives and policies

The Society aims to diversify the investment classes which it holds to meet the expectations of its members who mainly hold with-profits contracts. Matching of assets to liabilities is regularly monitored, with the guaranteed element of the liabilities largely backed by the fixed income assets plus half the holdings in real property funds. 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.

i) Market risk:

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. The sensitivity of the Society's Fund for Future Appropriations (FFA) to changes in market conditions is indicated by the following estimates as at 31 December 2016:

	Change in FFA
20% fall in equity markets	-4%
3% absolute increase in implied volatility of investments	-14%
1% increase in bond yields	+8%

Interest rate risk
Fluctuations in interest rates can cause the fair value of fixed income assets to alter, and they can affect the discount rate used to value the technical provisions including the provisions for guarantees under with-profits contracts. Our matching process includes consideration of the duration of both assets and liabilities.

Currency risk
The Society considers currency risk to be minimal as all its liabilities and assets are all denominated in sterling. Some equity funds comprise overseas stocks, but the Society does not hedge the underlying currency as it considers the risk to be integral to the nature of real assets and are a factor contributing to equity price risk. As such a separate sensitivity on currency risk has not been presented.

Other price risk
Equity price fluctuations are the main component of the market risks to be managed by the Society, with real property posing a similar type of risk, but lower in magnitude. Such risks are entirely borne by the asset shares backing with-profits contracts, but their secondary effect is to alter the cost of the guarantees provided to these contracts. Our capital fluctuates with market risk generally and equity risk in particular. The Society accepts such fluctuations as integral to its business subject to monitoring its capital coverage.

ii) 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 sufficient funds in short term deposits, and pooled funds (including bond funds, equity, and property funds). Only a limited proportion of its assets are in investments that are not actively traded in a stock exchange. The Society's listed securities are considered readily realisable.

The Society does invest about 13% of its assets in property funds and unlisted equity instruments (non-UCITS funds) that require notice of redemption or reserve the right to suspend redemptions. As a result, the Society may not be able to liquidate these investments quickly at an amount close to fair value.

As part of the calculation of technical provisions, the model produces cash payments expected over the period of 25 years to the conclusion of policies in-force at the balance sheet date. No funding deficit is anticipated at any point over that future period as about 86% of balance sheet assets are invested in highly liquid UCITs funds. There is no intention to change this liquidity profile.

iii) Credit risk:

The Society invests a large part of its assets in fixed income assets, mainly liquidity and bond funds totalling £18.1 million and £54.1 million respectively. The associated credit risk is well diversified, with no material exposure to any one counterparty. Credit exposure also arises from the Society's reinsurance assets (total £2.4 million) and cash balances including deposits (total £5.0 million) all of which are investment grade.

The bond funds include small elements which are rated below investment grade as defined by the investment managers in accordance with standard market practice. The Society limits the proportion of aggregate bond fund holdings below investment grade to 10%. At the end of 2016, the proportion was 9% (2015: 7%). Additionally some unrated assets are held within bond funds, where the manager has assessed such assets internally to be investment grade. None of the fixed income assets were past their due date or considered to be impaired. The bond funds had an aggregate value of £54.1 million (2015: £39.8 million) with the following rating profile as reported by the managers.

Rating	**2016**	**2015**
AAA	**6%**	6%
AA	**12%**	13%
A	**25%**	25%
BBB	**42%**	42%
Below Investment Grade	**9%**	7%
Unrated	**6%**	7%

iv) Solvency Capital Cover and Sensitivities:

Solvency for regulatory purposes is calclated under the requirements of Solvency II. A separate report published on our website, the Solvency and Financial Condition Report, gives details of our Solvency and Risk Management. Under Solvency II, we have capital available of £27.2 million to meet a Solvency Capital Requirement of £8.3 million, a coverage ratio of 327%.

The Society considers the sensitivity of its capital resource to extreme market conditions. In particular, it considered the impact of a 50% fall in equity values at the balance sheet date. The estimated effect was to reduce the capital available to £23 million, and the coverage ratio to 200%. Other factors tested on previous occasions including variations in new business levels have had a much smaller impact on capital coverage.

10 TANGIBLE ASSETS

	Short Leasehold Premises (£000)	**Computer Equipment (£000)**	**Office Fixtures Fittings Equipment (£000)**	**Total (£000)**
Cost				
At 1 January 2016	186	84	55	**325**
Additions	5	16	2	**23**
Disposals	-	-	-	**-**
At 31 December 2016	**191**	**100**	**57**	**348**
Depreciation:				
At 1 January 2016	14	37	33	**84**
Charge for Year	19	14	5	**38**
Disposals	-	-	-	**-**
At 31 December 2016	**33**	**51**	**38**	**122**
Net Book Value:				
At 31 December 2016	**158**	**49**	**19**	**226**
At 31 December 2015	172	47	22	241

The depreciation charge for the year ended 31 December 2016 was £37,360 (2015: £31,451).

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11 INTANGIBLE ASSETS

	Website (£000)	Total (£000)
Cost:		
At 1 January 2016	-	**-**
Additions	33	**33**
Disposals	-	**-**
At 31 December 2016	**33**	**33**
Amortisation:		
At 1 January 2016	-	**-**
Charge for Year	2	**2**
Disposals	-	**-**
At 31 December 2016	**2**	**2**
Net Book Value:		
At 31 December 2016	**31**	**31**
At 31 December 2015	-	-

The amortisation charge for the year ended 31 December 2016 was £1,807 (2015: Nil).

12 FUND FOR FUTURE APPROPRIATIONS

	2016 (£000)	2015 (£000)
Balance at 1 January	**22,097**	22,322
Transfer from Income and Expenditure Account	**(2,480)**	(225)
Balance at 31 December	**19,617**	22,097

The Society's Fund for Future Appropriations is stated after making provision for a Terminal Bonus Reserve of £15.3m (2015: £9.5m). There is no regulatory requirement for this provision to be made and it reflects our prudent approach to capital management and our reasonable expectations of future returns to members. Of the increase in this reserve in 2016, £1.0m is attributable to capital being transferred to increase members' benefits.

13 TECHNICAL PROVISIONS

Gross amounts	Long term Business (£000)	Bonus (£000)	Claims (£000)	Total (£000)
At 1 January 2016	94,770	1,004	793	**96,567**
Transfer from technical account	22,538	89	(425)	**22,202**
At 31 December 2016	**117,308**	**1,093**	**368**	**118,769**
Reinsurers' share				
At 1 January 2016	2,339	-	277	**2,616**
Transfer from technical account	65	-	(249)	**(184)**
At 31 December 2016	**2,404**	**-**	**28**	**2,432**

	Non participating (£000)	Participating (£000)	2016 Total (£000)	2015 Total
Analysis of members' liabilities				
Participating (With-profits)	-	105,525	**105,525**	86,484
Non participating	10,472	-	**10,472**	6,951
	10,472	105,525	**115,997**	93,435
Claims outstanding	14	326	**340**	516
Total technical liabilities	10,486	105,851	**116,337**	93,951

All business isued by the Society is in the form of insurance contracts, with none being investment contracts.

Technical Provisions are calculated consistently with those reporting requirements as at 31 December 2015, being on the Solvency regime then applicable modified to exclude items not applicable to a going concern.

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.

Asset mix at the valuation date

	2016	2015
Cash	**17%**	20%
Fixed interest	**40%**	34%
Equities	**32%**	33%
Property	**11%**	13%
	100%	100%

Principal assumptions

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

Class of business	**Mortality**
With-profits endowment	100% AM/FC00 Ult
With-profits 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 1.00% for non-profit business (2015 - 1.20%) and 0.50% for with-profits business (2015 - 0.90%)

The implied market volatlity used to determine the market consistent provision for the cost of guarantees under accumulating business was 11% (2015 - 11%). This is the weighted average of the implied volatilty for the asset classes backing with profits business.

Movement in Fund for Future Appropriations

	2016 (£000)	2015 (£000)
Total at 1 January	**22,097**	22,322
Bonus provision	**(1,800)**	(1,800)
Distribution of excess surplus	**(1,000)**	
Change in the cost of guarantees, closure and expense and other miscellaneous provision	**(3,500)**	(250)
Investment surplus	**4,600**	3,500
Other surplus including that arising from premiums and claims	**(780)**	(1,675)
Total available capital at 31 December	**19,617**	22,097

In prior years the movement in available capital has been reported. Available capital was determined as the Fund for Future Appropriations less a Technical Provision (the Closure Reserve) no longer required under Solvency II. The 2015 figures shown above have been adjusted to remove the allowance for the Closure Reserve.

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, nor on death, impose any "Market Value Reduction" in adverse market conditions. A reserve of £5.21m (2015: £2.66m) has been made for the fair value cost of the guarantee. The increase in this reserve is attributable to changes in the yield curve for risk free rates (£1.5 million) and new business written during 2016 (£1.9 million) offset by the beneficial effect of investment performance and lesser factors (£0.8 million).

Insurance Risk

The Society considers that it has low exposure to insurance risk including concentration risk, given its product range. The Society is exposed to insurance risk arising from claims under its protection contracts. These risks are usually the subject of reinsurance contracts with separate treaties covering term assurances and income protection. Reinsurance contracts are placed with reinsurers with high credt ratings.Fluctuations in claims would be unlikely to have a material impact on the capital available to support the business. Moreover, an adverse trend in income protection claims would be mitigated by an increase in the premiums charged, as the Society is able to review these for existing contracts.

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14 PROVISIONS FOR OTHER RISKS AND CHARGES

	2016 (£000)	2015 (£000)
Provision for deferred taxation (temporary differences)	**546**	343
Provision for future pension commitments (Note 18)	**33**	38
	579	381

15 DEFERRED INCOME TAX

	2016 (£000)	2015 (£000)
Balance as at 1 January	**(343)**	(489)
Income and expenditure account credit/(charge)	**(203)**	146
Balance as at 31 December	**(546)**	(343)

The movement in deferred income tax is as follows.

Deferred Tax Assets

	Deferred acquisition expenses (£000)	Other (£000)	Total (£000)
Balance as at 1 January 2016	241	-	**241**
Income and expenditure account credit/(charge)	19	-	**19**
Balance as at 31 December 2016	**260**	**-**	**260**

Deferred Tax Liabilities

	Deemed disposals of AIFs* (£000)	Other (£000)	Total (£000)
Balance as at 1 January 2016	552	32	**584**
Income and expenditure account credit/(charge)	219	3	**222**
Balance as at 31 December 2016	**771**	**35**	**806**

*Authorised investment funds.

During 2017 the Society expects £117,000 of the deferred tax liability to become payable comprising
£189,000 deemed disposals
(£72,000) deferred acquisition expenses

16 CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2016 (£000)	2015 (£000)
Other taxes and social security costs	**430**	20
	430	**20**

All creditors are payable within one year.

17 OPERATING LEASES

	2016 (£000)	2015 (£000)
Future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:		
Within one year	23	64
In two to five years	313	207
In over five years	317	-
	653	271
Lease payments recognised in net operating expenses in the Income and Expenditure Account	67	57
	67	57

18 PENSION COMMITMENTS

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

	2016 (£000)	2015 (£000)
Defined contribution scheme	**47**	27
Defined benefit scheme	**-**	-

At 31 December 2016 the membership of the defined benefit scheme was 1 pensioner (2015: 1)

The Board of Management consider that the balance of the defined benefit scheme fund as at 31 December 2016, as disclosed in Note 14, 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.

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