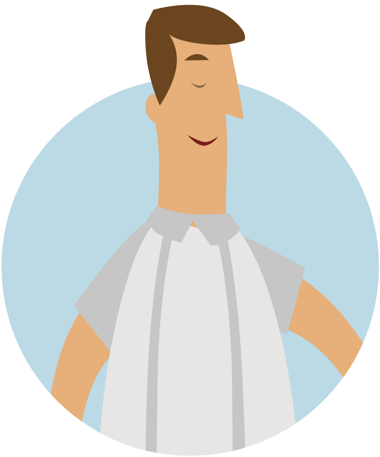

125 YEARS

metfriendly

save, invest and protect

Annual Report 2017

metfriendly
save, invest and protect

Metropolitan Police Friendly Society Limited

Annual Report & Accounts

For the year ended 31 December 2017

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 2017, we made further progress in achieving those objectives by both increasing the number of new members joining the Society, up by 29%, and accepting record amounts of single premiums, up by 56%. Over the year assets grew by £27 million.

The launch of the Lifetime ISA had a significant impact on new member numbers, boosting our already successful influx of members. The product is designed to both support first-time buyers and boost retirement income: the former issue is a key concern to new police recruits in the London area and this was evident in the number of applications we received. Stuart and his team should be commended in their success here as, not only are we the only police-specific provider to offer this product, we were also the first firm nationwide to provide it to customers.

Record levels of lump sum business were delivered, not just through recent activity, but from seeds planted over many years by our business development team and the good reputation that we have nurtured and continue to protect. The team's expansion in 2017 will further support this, providing more financial education events than ever before and this is often echoed by useful new content on our website.

Alongside expanding our marketing activities, we are committed to ensuring that the customer experience a member receives continues to be strong and also to improve. To this end our customer services team has also welcomed new faces. Specialist team members have also been recruited to develop our abilities in this regard to ensure we keep pace with our competitors and high street providers.

In 2018 Metfriendly celebrates 125 years since it was founded as the Metropolitan Police Provident Association. We are very proud of our history in supporting the men and women of London's police and will be celebrating this with a drinks reception taking place after the 2018 AGM on 14 June which all members are welcome to attend. Once again the event will take place at the Union Jack Club. We urge all members who are unable to attend the AGM 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).

This is my last report as Society Chair as I am not seeking re-election at the forthcoming AGM. I have been a director of the Society since 2001. Good governance practice is clear that non-executive directors should no longer serve for such an extended period. It has been a privilege to lead the Society for the last five years.

The investment and savings world is very different from 2001. The relevance of the Society to the men and women of the police service remains strong. The area of financial services is subject to ever more regulation. I believe that there remains a clear case for representative directors from the service to assist financially-qualified directors in understanding the particular needs of members.

Stuart Bell, the Society's Chief Executive, will also retire from the Board upon the conclusion of the Society's AGM on 14 June 2018 and will step down as Chief Executive on 31 May 2018.

The Society has made great strides during Stuart's tenure with a significant increase in funds under management, changes to the range of products available to members, expansion of the Society's marketing capability and, latterly, a start in recovering lost ground in securing a younger membership.

When Stuart became Chief Executive, the Society had less than £90 million under management. By the end of 2017 that figure had risen to over £160 million.

Stuart made changes to the Society's product range with a greater emphasis on long-term returns for our members through the expansion of the Society's ISA business.

On behalf of the Board I wish Stuart a long and happy retirement.

I wish to add some personal thanks to others who have supported me during my period as Chair.

The Metropolitan Police Federation remain 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 the Society's senior leadership team in driving forward activity to increase both the number of new members and funds invested with us. I am extremely grateful for their support.

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 London.

Mike McAndrew QPM CFCIPD

Chief Executive's Report

During 2017, we were delighted to see further growth in the lump sums invested with the Society. Along with the investment returns that we achieved, this increased our assets from £137 million at the start of the year to £164 million at the close.

We met all our targets for 2017 within budget, including a 4% growth in member numbers. More details are given in the Strategic Report.

The launch of our Lifetime ISA in April generated both new membership and much good publicity for the Society; we launched at the earliest opportunity and we remain one of a small number of providers of this product. The growth in our business has been accompanied by a larger customer service team and a considerably larger sales and marketing team, including the new appointment of a field team manager.

Ben Grainger, our Sales & Marketing Director, led our business development team in delivering a very successful year. New members were boosted by our success in presenting to new recruits, where we were supported by the expanded field team. Lump sums invested with the Society continue at record levels, with successful results from both our major marketing campaigns.

Our Investments

During 2017, market conditions were less volatile than in the previous year and largely immune to political turbulence. The value of our equity, bond and commercial property investments all rose substantially.

The Society is pleased with the performance of its investments in 2017. In particular, our equity holdings returned 13% over the year, contributing to an overall investment return of 8.7% on the assets backing with-profits contracts.

We reviewed our investment management arrangements in 2017, and are effecting the transition in early 2018. Bond fund investments will be held with a single manager, Royal London Asset Management, with whom we have previously enjoyed superior performance in this asset class. Return-seeking assets will be placed in a single "multi-asset" fund managed by Columbia Threadneedle Investments; this has a wide investment mandate and targets a return 4% p.a. ahead of inflation, whilst taking on significantly less risk than a pure equity fund.

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 4.8% p.a. and 5.3% p.a. respectively tax free.

We have maintained our annual bonus rates in 2017. The interim bonus rate we pay on claims in 2018 has been set at the same level. Our payouts under our fixed term savings contracts in 2018 are slightly up on 2017. 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.

Since 2016, we have been subject to new regulation for reporting solvency – "Solvency II". Starting this year, we are aligning the technical provisions in our accounts to those determined under Solvency II. This presents a more realistic picture of the Society's financial position. We are pleased that our reserves grew significantly during 2017. This provides resilience which is helpful in managing market volatility on behalf of our members, particularly in the current economic climate.

Stuart Bell

Stuart Bell MA FIA

Strategic Report

Business Model and Principal Activities

Metfriendly is a Friendly Society registered under the Friendly Societies Act 1992.

Our 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 vision is to be the trusted provider of choice for financial products relevant to the needs of the police family in the London area. We are established to serve a defined affinity market – police officers and staff in London including family and encompassing retired members. Trust is key to serving an affinity market where word of mouth recommendation plays an important role, and we have a close working relationship with the police service in London where we provide help, support and sponsorship.

Our long-term strategy is to grow the core business, which will both deliver value to members and ensure our costs are covered. There is a focus both on attracting new members and on writing sufficient levels of new business. In particular, we recognise the importance of attracting new entrants to the police force as members of the Society. New generations of members bring long term benefits to the member and to the Society but have a lesser impact on short term performance.

Our core products are savings and investment products for the medium to long term based on the with-profits business model. These include stocks and shares ISAs, which can be used for regular savings or lump sum investments. Our guaranteed five-year savings plan continues to be popular and provides a fixed return at the end of the term. Protection products, which include life and health insurance, complement our savings products. Health products, comprising Income Protection and Critical Illness, are tailored to the benefits provided to police officers through their employment. 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 officers. We provide this information by running seminars to educate and support members' financial needs.

Review of 2017

During 2017, new business has continued to grow, driven by focused marketing activity and the launch of our new Lifetime ISA (LISA). Overall membership grew by 4% to 13,192 members at the end of the year and single premiums increased by 56% to £27.1 million. This excellent result was supported by our decision to continue to invest in our Sales and Marketing function, which has enabled us to increase our field activities and membership engagement. 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. 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. During 2018, we will continue to grow our core business by attracting new members and improving member retention.

In April 2017 we launched a Lifetime ISA, which is available to members aged between 18 and 39, a key group in our customer base. The LISA is designed to help save for a deposit on a first home or to supplement pension savings. It is subject to both the ISA and specific LISA rules. Contributions are supplemented by a 25% government bonus. It is proving popular with customers and is reflected in the strong growth in ISA premiums in 2017. During

2018 we will review our product range to ensure that we continue to offer products that are tailored to the needs of our members.

During 2017 we reviewed our Investment Management arrangements which followed a formal process with professional assistance. As a result of this review, we appointed new investment managers and are transferring our investments to these managers in the early months of 2018.

Business Environment

The combined effect of low interest rates and market volatility arising from uncertain political and economic outcomes are the most important issues affecting Metfriendly. Low interest rates have been a benefit in attracting new business as we can offer better returns than cash whilst managing investment risk for members. In the longer term, technology is likely to drive change which can be an opportunity, in creating a better member experience, but also a threat from cyber risks.

Regulatory change showed little sign of slowing down during the year. Detailed rules for Key Information Documents (KIDs) for Packaged Retail and Insurance Based Investment Products (PRIIPs) were published and our new KID documents were available on the Society's website for the 1st January 2018 start date. We continued to work on projects to implement the General Data Protection Regulation (GDPR) and Insurance Distribution Directive (IDD), which will both go live in 2018. In addition, the extension of the Senior Managers and Certification Regime to insurers has been announced to take effect from December 2018. This aims to ensure there is an effective governance system within firms and individual accountability of senior managers and directors.

Business Performance and Key Performance Indicators

In 2017, the Society benefited from an investment return on with-profits assets of 8.7%, helped by our equity funds returning 13%. The Society's assets have grown due to a combination of strong investment returns and new business inflows and this helps us to spread our costs.

The table below shows the assets held at the end of each of the last five years.

Year	Assets* at Year End
2013	£105.3 million
2014	£113.5 million
2015	£117.1 million
2016	£137.3 million
2017	£164.3 million

*excluding reinsurance purchased

In line with our budgeted plans for growth, management expenses continued to rise in 2017 (up 29%) as we continued our strategy of investing in our sales and marketing capability in order to grow membership numbers and increase new business volumes. Staff costs also increased as expected, reflecting continued strengthening of our senior management team to help build resilience and reduce key person 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 below shows how our business has developed over each of the last five years. 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 single premium business.

£000s						
Year	Regular Premiums	Single Premiums	Maturity Claims	Surrender Claims	Death and Health Claims[1]	Management Expenses
2013	8,071	9,401	8,270	5,072	1,651	1,723
2014	7,654	9,045	8,720	5,396	908	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
2017	6,745	27,107	6,514	5,832	1,784	3,127

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

This year is the first year that the Balance Sheet is calculated on a Solvency II basis. The Society's total Balance Sheet assets increased by £27m to £164m in 2017 and its Fund for Future Appropriations (effectively excess assets) increased by £2.6 million.

Principal Risks and Uncertainties

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

- Maintaining critical mass, in particular in the longer term – we have expanded our resources aimed at attracting new and younger members and 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
  - the move to new investment managers should reduce both volatility of returns and investment risk
  - investment performance is monitored quarterly
- Expense levels, where we generally meet our budgets – but we have expanded our budget to provide increased executive and field resource and, from 2018, potential investment in new systems
- Cyber security – where we operate controls designed to minimise the risk of any loss of sensitive member data.

Our solvency position continues to be strong, with capital at the year end of 342% of the solvency capital required under the Solvency II regime, providing a firm basis to plan our future development activities.

Board of Directors 2017

Details of members of our Board of Directors during 2017 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; With-Profits Non-Executive Director

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

Peter Clarke BSc
Resigned as Non-Executive Director 6 June 2017 when he stepped down from the following roles - Senior Independent Director; Chair of Remuneration Committee; Member Relations Committee

Fiona Gregory BA
Senior Independent Director – approved on 24 October 2017; Remuneration Committee – approved as Chair 24 October 2017; Audit & Compliance Committee – until 21 July 2017: Nomination & Governance Committee; Member Relations Committee

Graeme McAusland BSc FFA
Chair of Audit & Compliance Committee; Risk & Investment Committee; Remuneration Committee – since 21 July 2017

Lee Schopp ACA C.Dir.
Audit & Compliance Committee; Nomination & Governance Committee – since 21 July 2017

Joanna Young MSt (Cantab) MBA CertEd
Risk & Investment Committee; Nomination & Governance Committee; Remuneration Committee; Member Relations Committee - since 21 July 2017

Executive Directors

Stuart Bell MA FIA
Chief Executive Officer

Don Ratcliffe
Secretary & Deputy CEO – stepped down from the Board 6 June 2017

Ben Grainger MCIM
Sales & Marketing Director – approved as Executive Director on 13 October 2017

Ben Terrett FCA
Finance Director (appointed 1 July 2017) – approved as Executive Director on 24 October 2017 – resigned 28 February 2018

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 – firstly National Provident Institution and more recently at Reliance Mutual Insurance Society from where he retired in November 2015 after 27 years' employment, including a period as chief actuary. Both before and after retirement Tim has devoted a large part of his time to 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 UK and overseas universities and moderates courses for the Indian and South African actuarial associations. 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.

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 Schopp 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 Limited. 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 a successful micro-brewery operating in Bedfordshire.

Joanna Young Non-Executive Director

Appointed to the Board in May 2013, Joanna joined the Metropolitan Police in 1984 and feels privileged to have served London's vibrant and multicultural communities in a variety of roles. She spent four years in Kent Police as a BCU Commander before returning 'home' to the Met in 2007 as a Chief Superintendent. 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 and difficult times. She retired from policing in 2015 to start a new career in leadership training and development and coaching. She maintains close links with policing through her leadership work and Metfriendly.

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.

Ben Grainger Executive Director

Ben is a Member of the Institute of Directors and the Chartered Institute of Marketing, with a background in marketing for private and public sector organisations. He has led Metfriendly's sales and marketing team since 2014 and is responsible for all aspects of the Society's marketing communications, including the website, and member engagement activities such as the Annual General Meeting. Ben is a member of Metfriendly's Member Relations Committee and Risk & Investment Committee. Outside of work he is a keen runner and avid rugby fan.

Report of the Board of Directors

The Board of Directors are pleased to present their report and accounts for the year ended 31 December 2017 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 29 members of staff and Central Court Orpington remains the main office of the Society.

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 2017 stood at 13,192 (2016: 12,619).

Board of Directors

Details of the Board of Directors and Committee members are shown on page 7. There were four changes to Board membership during 2017. Peter Clarke and Don Ratcliffe stood down as Directors at the Annual General Meeting in June, both having served for 10 years. Ben Grainger, Sales and Marketing Director, was approved as an Executive Director by the Financial Conduct Authority on 13 October 2017 and Ben Terrett, Finance Director, was approved as an Executive Director by the Prudential Regulation Authority on 24 October 2017. Ben Terrett subsequently resigned with effect from 28 February 2018.

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 acted as our internal auditors under the oversight of John Midlane, our Compliance and Data Protection Officer. They conducted audits on Governance Framework and Conduct Risk Management, Key Financial Controls, Regulatory Returns, Assurance Framework and Solvency II, 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 2017. 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 assesses 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 2017 the Society made a donation of £5,000 to the Metropolitan and City Police Orphans Fund in recognition of their 80th Anniversary, a donation of £250 to St Christopher's Hospice, and a donation of £650 to the National Police Memorial Day in connection with the number of members who returned a proxy vote for the Annual General Meeting. Additionally the field team continued to assist the National Police Memorial Day through raising donations at Long Service Awards ceremonies and Passing-out-Parades at Hendon and elsewhere. In total we collected £1,613 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 2017.

Appointment of Auditors

Mazars LLP acted as Auditors to the Society throughout 2017. 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 2017 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 2018.

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 member guide – "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, the constraints of the PPFM and regulatory requirements. 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 2017, Tim Birse served as WPNED – his terms of reference were reviewed in July with no changes.

The Board reviewed the practices in the PPFM in October with effect from 1 January 2018; the main changes are set out 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 any special distribution from the Society's capital. In setting final bonuses, the objective is to ensure that payouts are fair and, in particular, 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 2017, the Board has taken due account of the strength of the fund, which has continued to allow the Society to keep a high proportion of its with-profits assets in equities and other return-seeking assets. The Society has reviewed its investment management arrangements during 2017, and it will be concentrating most of its return-seeking assets in one "multi-asset" fund with a wide investment mandate.

The Board considers that the volumes and terms of business written in 2017, and those planned for 2018, are well within the Society's risk appetite, particularly with respect to capital resources and administrative capabilities.

The Society will normally 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 2016 was continued for 2017.

It is the Directors' opinion that the business has been managed throughout 2017 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

There were no changes of substance to the Principles in the PPFM, but the Practices were altered to reflect the following measures, and to make some minor editorial improvements.

- Evolving detail as to the management of the Monthly Savings ISA including the circumstances in which successive contracts will be merged. The WPA will be required to endorse the fairness of any such merger. Practices for the new Lifetime ISA were also added.
- The removal of the restriction on the proportion of assets allowed in any one pooled fund. This will enable the Society to substantially reduce the number of managers it utilises.

There were no material changes to the member guide. The Society's website provides details about our with profits business at http://www.mpfs.org.uk/about-metfriendly/with-profits.

Bonuses

The Board set the rates of annual bonus added to with-profits contracts for 2017 at the same rates as were added for 2016. The interim rates for claims paid in 2017 were set at a lower rate, reflecting market conditions at the start of the year and ongoing economic uncertainties.

Annual bonus rates for 2017 are shown below. The interim annual bonus rate paid on claims in 2018 will also be set at the rates shown below.

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

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 2018 will generally be slightly higher than in 2017, by up to 1.5%. However, payouts for 25 year plans will fall by about 1%. These changes reflect movements in the underlying asset shares.

Surrender Values

The Society has maintained its practices for surrender values throughout 2017.

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 2017.

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 2017 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 2017 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2017 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

Corporate Governance Report

Metfriendly (the Society) is committed to the maintenance of high standards of Corporate Governance. The Association of Financial Mutuals, being the trade body for organisations like Metfriendly, produces an Annotated Version for Mutual Insurers of the UK Corporate Governance Code, the latest edition of which was published in September 2016 ("the Code"). The provisions of that document apply to the Society in relation to its 2017 Annual Report and Accounts. The Code provides for a "Comply or Explain" approach to be adopted by those organisations to which it applies. Commentary on the Society's compliance or otherwise with the provisions of the Code appears at the end of this Corporate Governance Report.

The Board

In accordance with the provisions of its Rules, Metfriendly is governed by a Board of Directors ("the Board"). The Society's Rules provide for the Board to be comprised of no more than eleven directors and also specifies the arrangements regarding their eligibility, appointment, election, re-election and retirement. As at 31 December 2017 the Board was formed of ten directors, seven of which were Non-executive directors with the remaining three being Executive Directors. All Non-executive Directors are independent from the day-to-day running of the Society.

Mike McAndrew served as Chair of the Board of Directors throughout 2017. Peter Clarke undertook the role of Senior Independent Director, to whom members may refer any issues that have not been addressed to their satisfaction through the Society's established arrangements, until he retired from the Board on 6 June 2017. Following the necessary approval by the Society's Regulators, Fiona Gregory was appointed as Senior Independent Director with effect from 24 October 2017. Tim Birse performed the role of With-Profits Non-executive Director during 2017, Stuart Bell was the Chief Executive Officer throughout the year and Don Ratcliffe served as the Society's Secretary for the entirety of 2017.

The primary purposes of the Board are to determine the Society's strategy, establish suitable governance arrangements and oversee the Society's operations. The Board is supported by five Committees being:-

- Audit & Compliance
- Risk & Investment
- Member Relations
- Nomination & Governance
- Remuneration

The main purposes, duties & responsibilities of these Committees, together with brief details of their key activities during 2017, are summarised later in this Corporate Governance Report but in all cases the Committees facilitate the relevant areas of the Society's business to be examined to an appropriate, and arguably greater, level of detail than would be practicable at Board meetings. All of the Committees report to the Board, through their respective Chairs, in relation to their activities and the minutes of all Committee meetings are subject to subsequent review by the Board thereby ensuring that it is kept fully informed of aspects covered and any issues arising.

Day-to-day management of the affairs and business of the Society is delegated to the executive management team headed by the Chief Executive Officer, Stuart Bell. Operational performance of the Society is monitored by the Board through reports and other submissions produced by the executive management team.

The Society recognises the benefits of having an appropriately diverse membership of its Board and of its Committees while recognising the Society's key affinity to the police family. The Society recognises that diversity, in its widest sense, incorporates many facets and due account is taken of such matters when the Nominations & Governance Committee considers the overall composition of the Board and of each Committee.

The Board met on six occasions during 2017 which it considers was sufficient to discharge its duties both fully and effectively. During each meeting, the Board met for a period without the Executive Directors present. At their December 2017 meeting, in accordance with recommended good practice, directors met in the absence of the Chair to discuss his performance. In addition to the formal Board meetings, two additional meetings were convened specifically to consider the Society's future strategic direction. These were not formal Board meetings and are therefore not reflected within the table below.

Additionally during the year Tim Birse, With Profits Non-executive Director, Stuart Bell, Chief Executive, and Graeme McAusland, Non-executive Director, met with the Society's With-Profits Actuary.

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Directors' attendance at Board and relevant Committee meetings in 2017 was as follows:-

Director	Board of Directors	Audit & Compliance Committee	Risk & Investment Committee	Member Relations Committee	Nomination & Governance Committee	Remuneration Committee
T. Birse	6/6	3/4	4/4	-	-	-
J. Cassettari	5/6	-	-	3/3	4/4	-
P. Clarke[1]	3/3	(1/2)	(0/2)	2/2	(2/2)	1/1
B. Grainger[2]	2/2	-	0/0	1/1	-	-
F. Gregory	6/6	2/2 & (1/2)	(1/1)	3/3	4/4	2/2
M. McAndrew	6/6	(4/4)	4/4	2/3	4/4	2/2
G McAusland	6/6	4/4	4/4	-	-	1/1
L Schopp	6/6	3/4	-	-	1/1	-
B Terrett[3]	1/1	(2/2)	-	1/1	-	-
J. Young	6/6	-	4/4	0/1	4/4	2/2
S. Bell	5/6	(4/4)	4/4	3/3	1/1 & (3/3)	(2/2)
D. Ratcliffe[4]	3/3	(2/2)	-	-	(2/2)	(1/1)

[1] Retired from Board 06/06/2017 [2] Appointed 13/10/2017 [3] Appointed 24/10/2017 [4] Retired from Board 06/06/2017 - AGM

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

Board Committees

Terms of Reference for all Board Committees are published at www.metfriendly.org.uk/member-resources/your-society/board-and-committees. Terms of Reference for all five Committees were last reviewed by the Board in December 2017. Paper copies of the Terms of Reference are available upon request to the Society Secretary.

There have been no changes to the names of Board Committees, no additional Committees have been formed and no Committees have been dissolved during 2017. The key purposes and duties & responsibilities assigned to each Board Committee have not been the subject of significant revision during the year.

The Members of all Committees are appointed having due regard for their individual skills and experience with a view to ensuring that the Committee concerned, as a whole, has a suitable range of financial and commercial expertise to discharge its duties and responsibilities as documented within the respective Committee's Terms of Reference.

Summaries of the purposes, duties & responsibilities and key activities of each of the Society's Board Committees during 2017, together with membership details during 2017, are set out below.

Audit & Compliance Committee

Membership
The Committee's membership during the year was comprised of the following:-
Graeme McAusland (Chair)
Tim Birse
Fiona Gregory (until 21/07/2017)
Lee Schopp
The Society's Chair and its Senior Independent Director have a right to attend meetings. In addition, Committee

meetings are attended upon invitation, by the Society's Chief Executive Officer, Senior Finance Officer, its External Auditor, its outsourced Internal Auditor, its Compliance Officer and its Chief Actuary.

The Society's Secretary and its Compliance Officer, who also acts as co-ordinator with the Society's outsourced Internal Audit function, support the Committee by assisting its Chair with the planning of the Committee's work and by ensuring that it receives, adequate, accurate and timely information.

Purposes
The Committee has three main purposes, being:-

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

Duties & Responsibilities
The Committee's main duties and responsibilities include the following:-

- oversee the process for the selection, appointment, re-appointment and removal of the external auditor;
- meet regularly with the external auditor (including at the planning and reporting stages of the audit) and at least annually without the presence of executive members;
- review the external auditor's management letter(s) and management's responses;
- review and challenge where necessary, the actions and judgements of management, in relation to interim and final external audit reports before submission to the Board;
- review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process;
- review any representation letters requested by the external auditor before recommending to the Board that they are signed on its behalf by management;
- consider the appointment of the internal auditor;
- meet at least annually with the internal auditors, without the presence of executive members;
- review the internal audit programme and ensure that the internal audit function is adequately resourced;
- review, and challenge where necessary, the actions and judgements of management, in relation to internal audit reports before submission to the Board;
- ensure appropriate account is taken of all audit issues and that management respond to weaknesses and issues highlighted by external and internal audit reports;
- review the completeness and adequacy of the Compliance Monitoring Work Plan;
- monitor progress on Compliance Function's work;
- review and monitor management's responsiveness to the Compliance Monitoring Function's findings and recommendations;
- monitor and assess the role and effectiveness of the Compliance Monitoring Function, taking into account the work of the internal auditor;
- review the Society's procedures for detecting fraud; and
- review arrangements by which staff of the Society may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters.

Activities During the Year
The Committee's key activities during 2017 have included, but were not limited to, the aspects set out below.

- review of the Society's Annual Report and Accounts and the external auditor's report upon that document;
- review of outcome of interim work undertaken by external auditor;
- review of Internal Audit Plans, Progress Reports and internal audit reports received together with management responses;
- review of Society's Compliance Monitoring Plans, Progress Reports and Compliance reports prepared together with management responses;
- review of Society's Policy documents including those relating to Compliance and Anti-Money Laundering;
- review of Society's Senior Insurance Managers Regime documentation;
- review of Money Laundering Reporting Officer's annual report; and
- review of Whistleblowing annual report.

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Risk & Investment Committee

Membership
The Committee's membership during the year was comprised of the following:-
Tim Birse (Chair)
Graeme McAusland
Mike McAndrew
Joanna Young
Stuart Bell
Ben Grainger
Ben Terrett (joined 21/07/2017)

In addition, Committee meetings are open to attendance by the Senior Independent Director and other designated Non-executive Directors. Fiona Gregory attended a meeting of the Committee in her capacity as Senior Independent Director on 24 October 2017.

The Society's Secretary and its Risk Officer support the Committee by assisting its Chair with the planning of the Committee's work and by ensuring that it receives adequate, accurate and timely information.

Purposes
The Committee has two main purposes, being:-

- the provision of independent oversight of the Society's systems of risk management, internal control, financial reporting & investment control 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; and

- review of the arrangements and principles in relation to the following areas:-
  - risk appetite, risk strategy and risk control;
  - capital management of the Society and assessment of regulatory capital requirements;
  - the Society's investment strategy including the appointment of new fund managers;
  - product pricing for all the Society's products;
  - expense analysis;
  - accuracy and completeness of the Solvency & Financial Condition Report (SFCR); and
  - prudential regulatory returns including the Society's Own Risk Solvency Assessment (ORSA).

Duties & Responsibilities
The Committee's main duties and responsibilities include the following:-

- advise the Board on the Society's overall risk appetite, tolerance and strategy, taking account of the current and prospective financial and macroeconomic environment;
- oversee and advise the Board on the current risk exposures of the Society and future risk strategy;
- keep under review the Society's overall risk assessment processes and the reporting of the principal risks detailed in the risk register;
- make recommendations to the Board on key financial issues involved in managing the business;
- examine premium rates and pricing for the Society's products on launch and when otherwise reviewed;
- review any material issues raised by the With-Profits Non-Executive Director in more detail on behalf of the Board;
- review the Society's statement on internal control systems and make appropriate recommendations to the Board;
- review and challenge, where necessary, the actions and judgements of management, in relation to any Risk & Investment Committee matters before submission to the Board;
- consider and approve the remit of the risk management function and ensure it has adequate resources to enable it to perform its function;
- review IT risks and the strategy for IT systems;
- review budget holders' limits and authorities and make recommendations to the Board for approval;
- monitor and report material expenditure; and
- review all material risks and risk profiles as described in the Society's Risk Policy, including risk appetites and tolerances.

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 the organisation's computer systems and how it controls sensitive data.

Activities During the Year
The Committee's key activities during 2017 have included, but were not limited to, the aspects set out below.

- review of the Society's risk and assessment of the completeness and accuracy of its Risk Register;
- review of the Society's Risk Statements and related documents;
- assessment and review of the Society's Solvency II valuations and the adequacy of capital;
- assessment and review of the Society's investment Performance and Management, including the selection of new investment managers;
- review of the organisation's investment planning and strategy;
- consideration of the impact of the Insurance Distribution Directive impact and monitoring the Society's preparations for its implementation;
- assessment, consideration and monitoring actions taken in respect of existing and emerging Information Technology risks;
- review of the Society's expenses and the arrangements implemented for their control; and
- review of regulatory returns as well as the Society's Own Solvency Risk Assessment (ORSA), the Solvency and Financial Condition Report (SFCR), the Regulatory Supervisory Report (RSR) and the Forward Looking Assessment of Own Risk (FLAOR).

Member Relations Committee

Membership
The Committee's membership during the year was comprised of the following:-
Janet Cassettari (Chair)
Simon Allford (left 31/03/2017)
Stuart Bell
Peter Clarke (until 06/06/2017)
Paul Deller (co-opted)
Ben Grainger
Fiona Gregory
Mike McAndrew
Ben Terrett (joined 21/07/2017) (left 22/09/2017)
Joanna Young (joined 21/07/2017)

The Society's Secretary supports the Committee by assisting its Chair with the planning of the Committee's work and by ensuring that it receives adequate, accurate and timely information.

Purposes
The Committee's main purposes are:-

to ensure that 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 and the Vision and Mission statements to:-

- be the trusted provider of choice for financial products relevant to the needs of the police family in the London area;

- attract new members, maintain existing ones and promote the Society generally by giving members of the police family the opportunity to provide for their future financial security through education, information and fair value products; and

- increase the take-up of the Society's products.

Duties & Responsibilities
The Committee's main duties and responsibilities include the following:-

- review management's plans for the year for facilitating member engagement including participation in the Annual General Meeting, and gaining relevant insight from members and non-members;
- review of the processes for ensuring that member complaints are identified, recorded and promptly addressed;
- review of management information on complaints and comments received, including any trends and root cause analysis;
- review of persistency reports and management information showing service level performance, and aspects arising from exit surveys;
- review of directors' attendance at member events and reports received from the Senior Independent Director and other directors arising from their attendance at such meetings and other interactions (formal and informal) with members;

- review of any key communications sent to members (excluding regular marketing and policy communications) to ensure that they are clear and concise; and
- review of proposals for changes to member benefits (i.e. additional benefits, not policy benefits) and any reports from management in response to issues of concern raised by members that the Committee has asked it to investigate.

Activities During the Year
The Committee's key activities during 2017 have included, but were not limited to, the aspects set out below:-

- review of the Society's Stakeholder Action Plan;
- review of the Society's Sales and Marketing activities including planning and review of Member Engagement events;
- consideration and review of the Society's Annual General Meeting planning and arrangements;
- review and assessment of new technologies with a view to improving membership services and the membership experience;
- consideration and review of management information relating to persistency, service levels and member feedback;
- review of director and senior manager representation at member events;
- consideration and assessment of membership retention initiatives; and
- consideration, review and assessment of Customer Care Reports.

Nomination & Governance Committee

Membership
The Committee's membership during the year was comprised of the following:-
Mike McAndrew (Chair)
Stuart Bell (joined 21/07/2017)
Janet Cassettari
Fiona Gregory
Joanna Young
Lee Schopp (joined 21/07/2017)

The Senior Independent Director has the right to attend meetings. The Society's Secretary supports the Committee by assisting its Chair with the planning of the Committee's work and by ensuring that it receives adequate, accurate and timely information.

Purposes
The Committee's primary purpose is:-

- to oversee the Society's senior management arrangements and to recommend to the Board matters relating to the appointment of Executive and Non-executive directors and individuals performing Senior Insurance Management Function (SIMF) roles, whilst keeping the Board's governance arrangements under review and making appropriate recommendations to ensure their consistency with appropriate and proportionate governance practices.

Duties & Responsibilities
The Committee's main duties and responsibilities include the following:-

- the regular review of the structure, size and composition of the Board and the making of recommendations to the Board with regard to any adjustments that are deemed necessary;
- the identification and nomination, for the approval of the Board, of candidates to fill Board vacancies as and when they arise, taking into consideration issues including skills, diversity (including gender) and the benefits of maintaining strong links with the affinity group served within the police service;
- the review and making of recommendations to the Board at least annually in relation to Board succession plans over the longer term, particularly as regards the Society's Chair and Chief Executive, so as to maintain an appropriate balance of skills, experience, independence, knowledge and diversity to ensure progressive refreshment of the Board;
- keep under review the leadership needs of the organisation at varying levels with a view to ensuring the continued ability to compete effectively in the organisation's marketplace;
- review of the Society's Governance Map and the allocation of SIMF responsibilities and any proposed changes, prior to them being submitted for approval by the Board;
- review of the structure and membership of the Board's committees and their terms of reference and recommendation of any proposed changes to the Board;

- review and recommendation to the Board for approval the Corporate Governance Report for inclusion in the Annual Report, including the Society's compliance with the Annotated UK Corporate Governance Code for Mutual Insurers; and
- the making of recommendations to the Board regarding the re-appointment of any non-executive director at the conclusion of his or her specified term, the continuation (or not) in service of any director who has reached the age of 70, and in respect of any matters relating to the continuation in office as a director of any director at any time.

Activities During the Year
The Committee's key activities during 2017 have included, but were not limited to, the aspects set out below.

- consideration of proposals for revisions to the Society's Management Structure;
- review of the Society's Recruitment Policy Statement;
- consideration of Board Effectiveness Review recommendations;
- periodic review of Society's Governance Map required by the regulatory Senior Insurance Managers Regime;
- consideration and the making of recommendation of directors for appointment to the Board;
- considering and the making of recommendations to the Board regarding directors standing for election/re-election;
- consideration of and the making of recommendations in respect of Committee memberships;
- consideration of succession plans and Board development plans including Chair succession.

Remuneration Committee

Membership
The Committee's membership during the year was comprised of the following:-
Fiona Gregory (Chair – from 06/06/2017)
Peter Clarke (Chair – until 06/06/2017)
Mike McAndrew
Graeme McAusland (joined 21/07/2017)
Joanna Young

The Society's Secretary supports the Committee by assisting its Chair with the planning of the Committee's work and by ensuring that it receives adequate, accurate and timely information.

Purposes
The Committee has one main purpose, being:-

- to oversee and to recommend to the Society's Board matters relating to the remuneration of Executive and Non-executive Directors.

Duties & Responsibilities
The Committee's main duties and responsibilities include the following:-

- making recommendations to the Board concerning the remuneration of Non-executive Directors;
- determining the policy and making recommendations to the Board concerning the remuneration package for Executive Directors and other executives;
- making recommendations to the Board concerning the remuneration of Executive Directors and other executives;
- agreeing and reviewing the terms of employment contracts for Executive Directors and other executives;
- receiving details of the Review of Staff Remuneration carried out by the Chief Executive;
- reviewing the impact of any Committee decision on Board Remuneration to be disclosed in the Annual Report and Accounts; and
- liaising with the Nomination & Governance Committee with regard to the remuneration package for any non-executive or executive director appointed during the year.

Activities During the Year
The Committee's key activities during 2017 have included, but were not limited to, the aspects set out below.

- review of the Remuneration Report and Remuneration Policy Statement;
- review and the submission of recommendations to the Board in relation to Non-executive Director remuneration;
- review and the submission of recommendations to the Board in relation to the remuneration of Executive Directors and other executives; and
- appraisal of the outcome of the Managers and Staff Pay Review.

Matters Reserved for Board Decision

These were reviewed during 2017 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 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 management and staff at Orpington.

Appointments, Board Balance and Independence

At the 2017 Annual General Meeting, two directors, being Peter Clarke and Don Ratcliffe, retired from office. Peter Clarke, a former Police Inspector, stepped down from the Board to enjoy a well deserved retirement. Don Ratcliffe stepped down from the Board to facilitate the appointment of others against the background of the Society's future strategic development, while remaining as part of the senior management team as the Society Secretary throughout 2017.

Following the necessary approval by the Society's Regulators, Ben Grainger was appointed to the Board in accordance with the provisions of Rule 25 with effect from 13 October 2017 as Sales and Marketing Director. Ben has been instrumental in developing the Society's business since joining the organisation in July 2014 and has been central to the formulation of the Society's strategic development plans during 2017.

The Society's former Finance Director designate, Simon Allford, resigned from the service of the Society with effect from 31 March 2017. Recognising the vital importance of the role to the prudential management of the Society, a specialist search and recruitment firm, Fletcher Jones, was engaged to recruit a suitable replacement. Fletcher Jones is independent of the Board and has no other connection with the Society. The Society's search was successful and culminated in the appointment of Ben Terrett as Finance Director designate with effect from 1 July 2017. Following approval by the Society's Regulators, Ben Terrett was appointed to the Board, in accordance with the provisions of Rule 25, with effect from 24 October 2017 and he held the position of Chief Finance Officer under the regulatory Senior Insurance Managers Regime for the remainder of 2017. Ben resigned from the service of the Society on 13 December 2017 and left the organisation on 28 February 2018 to pursue other opportunities.

Based upon guidance from the Society's Nomination & Governance Committee, the Board believes that all Non-executive Directors currently meet the criteria for independence of character and judgement. The Nomination & Governance Committee further consider where there are any factors which could prejudice the independence of NEDs. Against that background 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 6 years.

Election of Directors

In 2017 all directors standing for election/re-election were automatically elected for a 12 month period in accordance with the provisions of the Society's Rule 26(3) on the basis that there was no contest for the office of director.

The latest edition of the Association of Financial Mutuals' Annotated Version for Mutual Insurers of the UK Corporate Governance Code, published in September 2016 (the Code), provides for the annual election or re-election (as appropriate) of all directors of organisations like Metfriendly, by its Members. The Society is therefore submitting all directors for election or re-election (as appropriate) by the Society's Members, at the 2018 Annual General Meeting in order to comply with the Code provisions, notwithstanding the fact that this is not required by the provisions of the Society's Rules. However, Ben Terrett, who resigned from the service of the Society on 13 December 2017 and left the organisation at the end of February 2018, will not be standing for election to the Board at the Society's 2018 Annual General Meeting. In addition, Mike McAndrew, the Society's current Chair, has indicated his intention to step down from the Board at the 2018 Annual General Meeting and will not therefore offer himself for re-election at that time. As reported elsewhere within this document Stuart Bell, the Society's Chief Executive, is also to retire from the Board at the Annual General Meeting, and will step down as Chief Executive on 31 May 2018. He will similarly therefore not offer himself for re-election at the Annual General Meeting.

The Board considers that all seven remaining directors possess the skills, knowledge and experience appropriate to Board membership and continue to contribute to the Board's deliberations and discussions, perform satisfactorily and, in the case of Non-executive Directors, remain independent in their judgement. The Board has no hesitation therefore in commending the election or re-election (as appropriate), of the seven remaining directors to the Society's Board at the Society's Annual General Meeting to be held on 14 June 2018.

Board & Director Performance Evaluation

The Code requires the Board to undertake an evaluation of its performance, that of the Board Committees and of individual directors on an annual basis. The Code also requires for the Board to arrange for an externally facilitated evaluation of its performance once every three years.

An externally facilitated and independent review of Board effectiveness was undertaken by the Society's internal auditors, RSM - Risk Assurance Services LLP ("RSM") in November/December 2016. Their recommendations were reviewed and underpinned the operation of the Board and its Committees during 2017. The Board and its Committees have also subsequently undertaken an evaluation of their performance and effectiveness through its own appraisal process with the results discussed by the Board in February 2018.

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 Fiona Gregory, the Senior Independent Director.

The Board received focused training on the regulatory Senior Insurance Managers Regime during 2017 in view of its importance and operational impact upon the governance and regulatory approval arrangements which impact upon regulated firms like the Society.

The Board encourages directors to attend meetings, relevant training sessions and events where members from the Society's affinity group are present, especially the Society's Annual General Meeting, Options (pre-retirement) seminars and other police family occasions.

The Annotated UK Corporate Governance Code

The Board is committed to a high standard of corporate governance within the Society.

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 (September 2016) ("the Code") as amplified by Corporate Governance for Mutual Insurers – Guidance published by the Association of Financial Mutuals in response to the requests contained in the Myners Review of the Governance of Life Mutuals.

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 currently no plans to introduce performance bonuses for such posts, but the Society remains aware that this is an area where we are out of step with recommended practice, albeit many firms of our size are in the same position.

The Board does not regard the exception as a material departure.

Remuneration

Remuneration Policy for Executive Directors and Senior Management

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

Remuneration Policy for Non-Executive Directors

For Non-Executive Directors, the Remuneration Committee currently considers that remuneration should comprise both a fixed annual amount which recognises the responsibilities held (Chair of a Committee, WPNED), and an attendance fee – throughout 2017 the same rate applied to all NEDs.

Remuneration Report

The following remuneration was paid to Directors for services as a director of the Society during 2017:

	2017	2016
Mike McAndrew - Board Chair	27,250	18,660
Tim Birse	22,250	18,800
Janet Cassettari	18,900	15,560
Peter Clarke - (resigned 6 June 2017)	10,000	3,973
Patrick Girling - (resigned May 2016)	-	4,706
Fiona Gregory	19,412	15,440
Graeme McAusland	21,100	6,236
Lee Schopp	16,100	4,830
Joanna Young	18,300	10,240
Stuart Bell - Chief Executive Officer	200,000	197,500
Ben Grainger - Sales & Marketing Director (appointed to the Board 13 October 2017)	16,062*	-
Ben Terrett – Finance Director (appointed to the Board 24 October 2017)	21,134	-
Don Ratcliffe DCEO/Secretary – (stepped down from the Board 6 June 2017)	29,829*	66,551*
Total	420,337	362,496

*Includes an employer's contribution to a group personal pension scheme and in the case of Mr Grainger only it also includes Child Care Vouchers under a salary exchange arrangement.

Mr Bell has been permitted to retain a directorship of HR (Nigeria) Ltd. He undertakes such work in his own time. His remuneration in 2017 was £3,000 (2016: £3,000).

Statement of the Directors' Responsibilities

The Friendly Societies Act 1992 and the regulations made under the Act require the Board of Directors 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 Directors 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

We have audited the financial statements of Metropolitan Police Friendly Society Limited for the year ended 31 December 2017 which comprise the Income and Expenditure Account, the Balance Sheet and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2017 and of the Society's transfer to the fund for future appropriations for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

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

Use of the audit report

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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 6, in accordance with provision C2.1 of The UK Corporate Governance Code – An Annotated Version for Mutual Insurers ("the Code"), that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 6 in the Annual Report, in accordance with provision C2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Society, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 34 in the financial statements, in accordance with provision C1.3 of the Code, about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Society's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; or
- the directors' explanation set out on page 5 in the Annual Report, in accordance with provision C2.2 of the Code, as to how they have assessed the prospects of the Society, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement. These matters, described below, are those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. They were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and therefore we do not provide a separate opinion on these matters.

AREA OF FOCUS	HOW OUR AUDIT ADDRESSED THE AREA OF FOCUS
Valuation of the long term business provisions The most significant accounting judgement within the accounts is the assessment of future payments the Society is liable for under the terms of its long term insurance contracts. The assessment is highly subjective, and based on a number of key management judgements and assumptions. As a result, there is an inherent risk that the provisions for future claims may be materially misstated. Additionally, the Society is reporting its technical provisions on a Solvency II basis within the financial statements for the first time. This leads to a requirement to adjust the opening balances to a Solvency II basis, thus there is a risk that the prior year adjustment is not properly presented and disclosed in the financial statements.	Our work to address the valuation of long term business provisions risk included the following procedures: On a sample basis, we tested the underlying data to source documentation. Our IT specialist team members assessed the completeness and accuracy of IT scripts ('structured query language') used to generate data extractions relied upon by management for decision making and modelling the provisions. Using our actuarial specialist team members, we applied our industry knowledge and experience to assess the methodology, models and assumptions used in calculating the long term business provisions. We also gained an understanding of large movements in the best estimate from the prior year and considered the governance arrangements around the reserving process. For the prior year adjustment, we evaluated the restated balances and, in conjunction with our financial reporting specialists, assessed the appropriate disclosures within the financial statements.
Capital management The Society operates within a highly regulated industry that sets strict requirements for the levels of capital to be maintained. Following the growth in new members and premiums, particularly lump sum, there is a risk that the Society does not have sufficient surplus of assets, or capital, to enable it to continue writing new business to existing and new members whilst meeting its current obligations, having regard for uncertain future outcomes of payments required.	We obtained the Society's ORSA and assessed it for any indications of issues with capital management such as significantly reduced coverage or adverse results following stress testing. We found no such indications. We reviewed the quarterly management information, business plan, business forecasts and future funding plans and tested for consistency in assumptions used. We also reviewed the development of future expected margins to be earned by the Society. We considered market developments such as the Insurance Distribution Directive and Brexit. We also considered the Society's continuing relationship with police forces in reaching our audit opinion.

Our application of materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole. Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality:	£500,000.
Benchmark applied:	Materiality was set by reference to the Society's 2016 fund for future appropriations (of which it represented approximately 2.5% during our planning procedures).
Performance materiality:	Performance materiality is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in the financial statements exceeds materiality for the financial statements as a whole. Performance materiality of £400,000 was applied in the audit.
Basis for chosen benchmark:	The fund for future appropriations is a measure of accumulated surplus and we have determined, in our professional judgement, it to be one of the principal benchmarks within the financial statements relevant to members in assessing the Society's financial position and financial performance.

We agreed with the Audit & 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 & Compliance Committee on disclosure matters that we identified during the course of assessing the overall presentation of the financial statements.

An overview of the scope of our audit

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the Society's accounting processes and controls and the industry in which it operates. We used the outputs of a risk assessment, our understanding of the Society, and we also considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable, set out on page 10: The statement given by the directors, in accordance

with provision C1.1 of the Code, that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for the members to assess the Society's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit & Compliance Committee reporting, set out in the Corporate Governance Report on page 17, (the section describing the work of the Audit & Compliance Committee): In accordance with provision C3.8 of the Code, does not appropriately address matters communicated by us to the Audit & Compliance Committee; or
- Directors' statement of compliance with the Code, set out on page 23: In accordance with our instructions from the Society we review whether the statement made by the directors reflects the Society's compliance with the nine provisions of the Annotated UK Corporate Governance Code specified by the Association of Financial Mutuals.

Opinions on other matters prescribed by the Friendly Societies Act 1992

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Board of Directors for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with the Friendly Societies Act 1992 and the regulations made under it.

Matters on which we are required to report by exception

In light of the knowledge and understanding of the Society and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Board of Directors.

We have nothing to report in respect of the following matters in relation to which the Friendly Societies Act 1992 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of the Directors' Responsibilities set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Society or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit & Compliance Committee, we were appointed by the Board of Directors on 13 October 2011 to audit the financial statements for the year ended 31 December 2011 and subsequent financial periods. The period of total uninterrupted engagement is seven years, covering the years ending 2011 to 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Society and we remain independent of the Society in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit & Compliance Committee.

Sam Porritt
(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

27 April 2018

Income and Expenditure Account
For the Year Ended 31 December 2017

	Notes	2017 (£000)		2016 Restated (£000)	
TECHNICAL ACCOUNT - LONG TERM BUSINESS					
EARNED PREMIUMS - CONTINUING OPERATIONS	2				
Gross Premiums Written			**33,844**		24,394
Less: Reinsurance Premiums			**(409)**		(432)
Earned Premiums, net of Reinsurance			**33,435**		23,962
Investment Income and Gains	3		**4,188**		3,885
Unrealised Investment Gains	3		**6,095**		8,082
TOTAL TECHNICAL INCOME			**43,718**		35,929
CLAIMS PAID					
Claims Paid					
- Gross Amount		**14,130**		13,202	
- Less: Reinsurers' Share		**(160)**		(344)	
Claims paid, net of Reinsurance			**13,970**		12,858
CHANGE IN OTHER TECHNICAL PROVISIONS					
Long Term Business Provision					
- Gross Amount		**23,858**		19,405	
- Reinsurers' Share		**(39)**		(117)	
Net of Reinsurance			**23,819**		19,288
OTHER CHARGES					
Net Operating Expenses	4	**3,127**		2,416	
Tax Attributable to Long Term Business	8	**174**		573	
			3,301		2,989
TRANSFER TO THE FUND FOR FUTURE APPROPRIATIONS	12		**2,628**		794
TOTAL TECHNICAL CHARGES			**43,718**		35,929
BALANCE ON THE TECHNICAL ACCOUNT - LONG TERM BUSINESS			**-**		-

The restatement has arisen due to the adoption of Solvency II as the basis for the valuation of technical provisions and is explained in Note 20.

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Balance Sheet
At 31 December 2017

	Notes	2017 (£000)	2016 Restated (£000)
ASSETS			
INVESTMENTS	9	**159,134**	132,138
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long Term Business Provision	13	**1,166**	1,127
On Claims Outstanding		**66**	28
		1,232	1,155
DEBTORS			
Debtors Arising out of Direct Insurance Operations - Policy Holders		**710**	419
Other Debtors		**464**	397
		1,174	816
OTHER ASSETS			
Tangible Assets	10	**211**	226
Intangible Assets	11	**-**	31
Cash at Bank and in Hand		**3,747**	4,004
		3,958	4,261
PREPAYMENTS AND ACCRUED INCOME		**44**	61
TOTAL ASSETS		**165,542**	138,431

Balance Sheet
At 31 December 2017

	Notes	2017 (£000)	2016 Restated (£000)
LIABILITIES			
FUND FOR FUTURE APPROPRIATIONS	12	**29,842**	27,214
TECHNICAL PROVISIONS	13		
Long Term Business Provision - Gross Amount		**133,385**	109,527
Claims Outstanding - Gross Amount		**1,006**	368
PROVISION FOR OTHER RISKS AND CHARGES	14	**503**	579
CREDITORS			
Creditors Including Taxation and Social Security	16	**313**	430
ACCRUALS AND DEFERRED INCOME		**493**	313
TOTAL LIABILITIES		**165,542**	138,431

Approved at a meeting of the Board of Directors on 25 April 2018 and signed on its behalf by:

M McAndrew QPM CFCIPD
Director

S H Bell MA FIA
Chief Executive

D P Ratcliffe
Secretary

Notes to the Accounts
At 31 December 2017

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 Reporting Standard applicable in the United Kingdom" ("FRS 102") Financial Reporting Standard 103 "Insurance Contracts", 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 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.

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.

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 at fair value through profit and loss in accordance with FRS102. 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 the technical account 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 Directors, with the assistance of the Chief Actuary, adopting 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.

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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 volatility 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

	2017 (£000)			2016 (£000)		
Life Assurance Business	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Non Participating Contracts - periodic premiums	**4,467**	**409**	**4,057**	3,672	432	3,240
Participating Contracts						
- periodic premiums	**2,278**	**-**	**2,278**	3,319	-	3,319
- single premiums	**27,099**	**-**	**27,099**	17,403	-	17,403
Total Premiums Written	**33,844**	**409**	**33,435**	24,394	432	23,962

	2017 (£000)	2017 (£000)	2016 (£000)	2016 (£000)
	Regular Premium	**Single Premium**	Regular Premium	Single Premium
Total gross new premium resulting from contracts concluded by the Society	**1,206**	**27,099**	1,285	17,403

(b) Reinsurance balance

The effect of reinsurance was to decrease the transfer to the Fund for Future Appropriations by £210,000 for the year ended 31 December 2017 (2016 restated: an increase of £29,000).

3 INVESTMENT INCOME AND GAINS

	2017 (£000)	2016 (£000)
Investment Income	**3,792**	3,358
Profits on the realisation of investments	**396**	527
	4,188	3,885

Investment Income includes £3,775,000 (2016: £3,310,000) from listed investments.

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

4 NET OPERATING EXPENSES

	2017 (£000)	2016 (£000)
Acquisition costs	**1,265**	810
Administrative expenses	**1,862**	1,606
	3,127	2,416

Remuneration in respect of audit services from Mazars amounted to £92,563 (2016: £99,840) for audit services and £29,220 (2016: £29,580) for other services.

The Society's Actuary was Lindsay Unwin BSc FIA of Milliman LLP. The Society has confirmed that neither Ms Unwin nor any member of her family were members of the Society, nor did they have any financial or pecuniary interests in the Society with the exception of fees paid to Milliman LLP which amounted to £291,817 for 2017 (2016: £253,868).

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5 STAFF COSTS

	2017 (£000)	2016 (£000)
Wages and salaries	**1,268**	919
National Insurance costs	**137**	104
Other pension costs	**61**	47
	1,466	1,070

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

	2017	2016
Management	**5**	4
Sales, marketing and other support staff	**17**	15
	22	19

6 NON-EXECUTIVE BOARD MEMBERS' EMOLUMENTS

During 2017, the Chairman received emoluments of £27,250 (2016: £18,600). Seven other non-executive Board members received emoluments totalling £125,962 during 2017 (2016: £79,785).

Executive Board members are considered to be the Society's key management personnel and details of their respective emoluments are disclosed in the Remuneration Report on page 24.

7 INVESTMENT EXPENSES AND CHARGES

Investment management fees are not charged directly to the Society, but are deducted by the respective fund managers 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 2017 they were estimated to be £585,000 (2016: £510,000).

8 TAXATION

	2017 (£000)	2016 (£000)
Current Corporation Tax at applicable rates	**249**	384
Over-provisions in prior years	**(3)**	(14)
Change in deferred taxation	**(72)**	203
	174	573

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		Historical Cost	
	2017 (£000)	2016 (£000)	2017 (£000)	2016 (£000)
Variable yield securities and units in Unit Trusts and non-UCITS funds:				
- UK	**158,108**	131,124	**124,576**	109,065
Deposits with credit institutions	**1,026**	1,014	**1,000**	1,000
TOTAL INVESTMENTS	**159,134**	132,138	**125,576**	110,065

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

b) Fair Value Estimation

The table below provides an analysis of the 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 the fair value using a valuation technique.

Fair value hierarchy at 31 December 2017:	**Level 1** (£000)	**Level 2** (£000)	**Level 3** (£000)	**Total** (£000)
Variable yield securities and units in Unit Trusts and non-UCITS funds	**-**	**158,108**	-	**158,108**

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

Financial investments have been designated as measured at fair value level 2 as they are pooled funds readily and regularly sold and redeemed by fund managers at fair value. In all cases, the value of the unit holding has been derived using the bid (or single) unit price for the relevant pooled fund.

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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 Directors.

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 2017:

	Change in FFA
20% fall in equity markets	-3%
3% absolute increase in implied volatility of investments	-1%
1% increase in interest rates	-2%
1% increase in credit spreads	-5%

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 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 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. The Society's securities are considered readily realisable.

The Society does invest about 10% 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 85% 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 £28 million and £64 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 £1.2 million) and cash balances including deposits (total £3.7 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 2017, the proportion was 7% (2016: 9%). 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 £64.5 million (2016: £54.1 million) with the following rating profile as reported by the managers.

Rating	2017	2016
AAA	**6%**	6%
AA	**13%**	12%
A	**25%**	25%
BBB	**45%**	42%
Below Investment Grade	**7%**	9%
Unrated	**4%**	6%
	100%	100%

iv) Solvency Capital Cover and Sensitivities:

Solvency for regulatory purposes is calculated 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 £29.8 million (2016: £27.2 million) to meet a Solvency Capital Requirement of £8.7 million (2016: £8.3 million), a coverage ratio of 342% (2016: 327%).

The Society considers the sensitivity of its capital resources to extreme market conditions. In particular, it considered the impact of a 55% fall in equity values at the balance sheet date. The estimated effect was to reduce the capital available to £26.5 million, and the coverage ratio to 275%. 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 2017	191	100	57	**348**
Additions	2	22	3	**27**
Disposals	-	-	-	**-**
At 31 December 2017	**193**	**122**	**60**	**375**
Depreciation:				
At 1 January 2017	33	51	38	**122**
Charge for Year	19	17	6	**42**
Disposals	-	-	-	**-**
	52	**68**	**44**	**164**
Net Book Value:				
At 31 December 2017	**141**	**54**	**16**	**211**
At 31 December 2016	158	49	19	226

The depreciation charge for the year ended 31 December 2017 was £42,575 (2016: £37,360).

11 INTANGIBLE ASSETS

	Website (£000)	Total (£000)
Cost:		
At 1 January 2017	-	**-**
Additions	33	**33**
Disposals	-	**-**
At 31 December 2017	**33**	**33**
Amortisation:		
At 1 January 2017	2	**2**
Charge for Year	11	**11**
Write Down	20	**20**
Disposals	-	**-**
At 31 December 2017	**33**	**33**
Net Book Value:		
At 31 December 2017	-	**-**
At 31 December 2016	31	**31**

The amortisation charge for the year ended 31 December 2017 was £10,836 (2016: £1,807).

The directors have considered that the carrying value in the accounts is overstated and therefore have written down the asset in the Balance Sheet to nil. Accordingly the charge to the Income and Expenditure account for 2017 is £30,713.

12 FUND FOR FUTURE APPROPRIATIONS

	2017 (£000)	2016 Restated (£000)
Balance at 1 January	**27,214**	26,420
Transfer from Income and Expenditure Account	**2,628**	794
Balance at 31 December	**29,842**	27,214

The restatement has arisen due to the adoption of Solvency II as the basis for the valuation of technical provisions and is explained in Note 20.

13 TECHNICAL PROVISIONS

	Long Term Business (£000)	Claims (£000)	Total (£000)
Gross amounts			
At 1 January 2017 as restated	109,527	368	**109,895**
Transfer from technical account	23,858	638	**24,496**
At 31 December 2017	**133,385**	**1,006**	**134,391**
Reinsurers' share			
At 1 January 2017 as restated	1,127	28	**1,155**
Transfer from technical account	39	38	**77**
At 31 December 2017	**1,166**	**66**	**1,232**

The restatement has arisen due to the adoption of Solvency II as the basis for the valuation of technical provisions and is explained in Note 20.

	Non Participating (£000)	Participating (£000)	2017 Total (£000)	2016 Total (£000)
Analysis of members' liabilities				
Participating (With-profits)	-	121,713	**121,713**	101,109
Non participating	10,506	-	**10,506**	7,291
	10,506	121,713	**132,219**	108,400
Claims outstanding	40	900	**940**	340
Total technical liabilities	10,546	122,613	**133,159**	108,740

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

The Fund for Future Appropriations of £29,842,000 (2016: £27,214,000) also belongs to members, including members with only non-participating contracts. It is not possible to allocate this amount in the above table.

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

	2017	2016
Cash	**18%**	17%
Fixed interest	**40%**	40%
Equities	**33%**	32%
Property	**9%**	11%
	100%	100%

Principal assumptions

In line with the Solvency II rules, all business is valued using term-dependent risk-free discount rates for the relevant currency, as published by the European Insurance and Occupational Pensions Authority.

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

Lapse rates vary by product and are based on an analysis of the Society's experience over the last 3 years.

Expenses on endowment and whole life business are based on the Society's required margins, as deducted from asset shares in the case of with-profits business. Expenses on term assurances and mortgage protection assurances are based on the Society's most recent experience.

Movement in Fund for Future Appropriations

	2017 (£000)	2016 Restated (£000)
At 1 January	**27,214**	26,420
Change in the cost of guarantees	**900**	1,400
Investment surplus	**700**	1,300
Strain of writing new business	**(500)**	(1,200)
Change in economic assumptions	**400**	(1,000)
Other surplus including that arising from premiums and claims	**1,128**	294
At 31 December	**29,842**	27,214

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.

Options and Guarantees

The sum assured as increased by annual bonuses is guaranteed to be paid on death or, where applicable, on maturity. On surrender, 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.

The Society's technical provisions allow both for the cost of providing guarantees and the charges applied to meet them.

Insurance Risk

The Society considers that it has low aggregate exposure to insurance risk including concentration risk, given its product range. The Society is most 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 credit 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.

14 PROVISIONS FOR OTHER RISKS AND CHARGES

	2017 (£000)	2016 (£000)
Provision for deferred taxation (temporary differences)	**474**	546
Provision for future pension commitments (Note 18)	**29**	33
	503	579

15 DEFERRED INCOME TAX

	2017 (£000)	2016 (£000)
Balance as at 1 January	**(546)**	(343)
Income and expenditure account credit/(charge)	**72**	(203)
Balance as at 31 December	**(474)**	(546)

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 2017	260	-	**260**
Income and expenditure account credit/(charge)	43	-	**43**
Balance as at 31 December 2017	**303**	**-**	**303**

Deferred Tax Liabilities

	Deemed Disposals of AIFs* (£000)	Other (£000)	Total (£000)
Balance as at 1 January 2017	771	35	**806**
Income and expenditure account charge/(credit)	(21)	(8)	**(26)**
Balance as at 31 December 2017	**750**	**27**	**777**

*Authorised investment funds.

During 2018 the Society expects £137,000 of the deferred tax liability to become payable comprising:

£216,000	deemed disposals
(£79,000)	deferred acquisition expenses
£137,000	

16 CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2017 (£000)	2016 (£000)
Other taxes and social security costs	**313**	430
	313	**430**

All creditors are payable within one year.

17 OPERATING LEASES

	2017 (£000)	2016 (£000)
Future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:		
Within one year	84	23
In two to five years	328	313
In over five years	219	317
	631	653
Lease payments recognised in net operating expenses in the Income and Expenditure Account	76	67
	76	67

18 PENSION COMMITMENTS

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

	2017 (£000)	2016 (£000)
Defined contribution scheme	**61**	47
Defined benefit scheme	**-**	-

At 31 December 2017 the membership of the defined benefit scheme was 1 pensioner (2016: 1)

The Board of Directors consider that the balance of the defined benefit scheme fund as at 31 December 2017, 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.

20 PRIOR YEAR ADJUSTMENT

On 1 January 2016, the Solvency II regime came into force. We are now adopting this method as the basis of valuation of our technical provisions and there is a material impact on the Society's Balance Sheet as at 1 January 2016.

We have made these adjustments in 2017 as we are now adopting a consistent basis with the new regime and the publication of the Solvency and Financial Condition Report (SFCR) in order to minimise confusion amongst our policyholders.

The adjustments and restatements to the accounts and these changes are summarised below.

a) Technical Provisions

We have now allowed for Lapses (policies previously treated as continued liabilities) within the technical provisions, reducing the gross value of our liabilities to With Profits policyholders and are no longer allowed to carry a margin of prudence when calculating our expense loadings.

In addition we have taken credit for the present value of guarantee charges which were not allowed under the previous regime.

b) Reinsurance

As with Technical Provisions, we are no longer allowed to carry a margin of prudence within our calculations thereby reducing the value of the Reinsurance asset. The margins of prudence adjusted for are within the Lapse rate (as with Liabilities) and Mortality assumptions.

c) Income and Expenditure Account

The movement in the technical provisions and reinsurers' share of technical provisions included in the Income and Expenditure Account reflects the revised Balance Sheet overleaf.

Balance Sheet	31 December 2016			31 December 2015		
	As previously reported	Adjustment	Restated	As previously reported	Adjustment	Restated
Assets						
Investments	132,138	-	132,138	110,065	-	110,065
Reinsurers' share of Technical Provisions:						
Long Term business Provision	2,404	(1,277)	1,127	2,339	(1,329)	1,010
Claims outstanding	28	-	28	277	-	277
Cash and cash equivalents	4,004	-	4,004	2,660	-	2,660
Other assets	1,134	-	1,134	4,409	-	4,409
Total assets	**139,708**	**(1,277)**	**138,431**	**119,750**	**(1,329)**	**118,421**
Liabilities						
Technical Provisions:						
Long Term business Provision	118,401	(8,874)	109,527	95,774	(5,652)	90,122
Claims outstanding	368	-	368	793	-	793
Other liabilities	1,322	-	1,322	1,086	-	1,086
Fund for Future Appropriations	19,617	7,597	27,214	22,097	4,323	26,420
Total Liabilities	**139,708**	**(1,277)**	**138,431**	**119,750**	**(1,329)**	**118,421**

The effect of the change in valuation methodology is to therefore increase available capital at 31 December 2016 (the opening position) by £7.597 million. The impact on the 2016 Income and Expenditure Account was to increase the transfer (from) / to the Fund for Future Appropriations from (£2,480,000) to £794,000.

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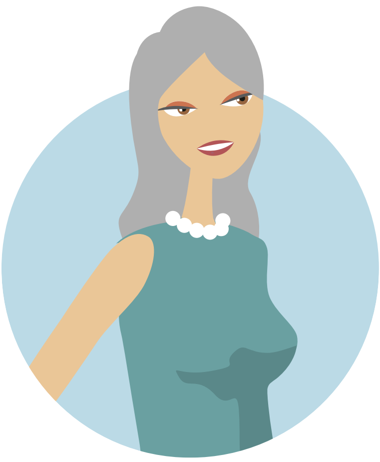

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