125 YEARS

metfriendly

save, invest and protect

Annual Report 2018

Metropolitan Police Friendly Society Limited

Annual Report and Accounts

For the year ended 31 December 2018

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

Contents

Chair's Report

This is my first report as Chair of Metfriendly and it was a great honour to be elected in June 2018 following the retirement of Mike McAndrew. Mike had served the Society with professionalism and care for 17 years as a Director, and Chair since 2013

I fully recognise the responsibilities this carries, as well as the privilege of once again being able to serve police officers, police staff, my former colleagues and their families in London and the home counties.

Like Mike, having been a police officer for over 30 years, I continue to have a passion for policing and a deep respect for those who have served and those who continue to serve.

And serving the police family is why Metfriendly exists – we are here to assist you to plan and provide for your future financial needs through fair value financial products and information to meet your changing needs.

I know the dedication it takes to work in policing and I see a very similar commitment within Metfriendly: on the Board, in the leadership team and from all our staff. I think this stems from two key factors: our long history and origins, and the fact that many within Metfriendly have previously served within policing and/or have close family who have been or are still within policing.

I also know how much and how fast policing has changed over recent years and the impact this must be having on both serving and recently retired officers and staff and their families.

We, in turn, are looking at how we need to change to reflect the changes in policing and how we engage with our members, both face to face and through newer digital media. We are reviewing our product range to ensure it keeps pace with the changing needs and expectations of our members and their families throughout their service, whether they are new recruits, mid-service or are approaching, or indeed, in retirement.

We are also acutely aware that Metfriendly and the police family we serve must respond to the external environment. This has been challenging in 2018, with seismic political events both at home and across the world. This is set to continue and possibly deepen in 2019.

The increase in the polarisation of political debate and the rise of extremist parties across Europe is a cause for real concern, particularly where it is accompanied by civil unrest, as in France. For police officers, the possibility of similar disruption in the UK in the aftermath of the Brexit debate is a real and troubling prospect.

In this context, it is pleasing that, in contrast to the performance of the FTSE 100, which saw a 13% fall in 2018, the losses on our With-Profits Fund, with its balanced and conservative approach, were restricted to 3.2%.

More relevant to our members is that, because of the financial strength of the Society and the long-term view we take, despite the losses in this one year, we have been able to maintain annual bonuses for members.

We have delivered on our promise of giving you more stable returns on which you depend, rather than the more volatile swings and roundabouts seen with other investments.

Our performance is covered in more detail in the Strategic Report which follows, but it is encouraging that word-of-mouth recommendation from police officers, who believe we have earned their trust, has enabled us to recruit more new members in 2018 than for many years. In 2018, we saw our membership grow by more than 8% to over 14,230.

We have also experienced considerable change in the Metfriendly team. Early in 2018, our CEO, Stuart Bell, stepped down. We were delighted to select Mark Myers, a highly experienced and competent CEO, to take us through the transition period, while we took time to select the new permanent CEO.

Our vision: To be the trusted provider of choice for financial products relevant to the needs of the police family in the London area

During the transition, Mark helped us to redefine our strategy, update our culture and build a new leadership team. Together, that team presented to the Board an exciting and innovative business plan for 2019 and beyond.

The Board also undertook an extensive search process of external and internal candidates for the new CEO and were delighted finally to appoint our existing Chief Finance and Risk Officer, Kathy Byrne, to the role. I am very much looking forward to working with Kathy on implementing our plans, building on Metfriendly's proud history.

In January 2019, we welcomed Craig Haslam as a Non-Executive Director. Craig retired from the Met in November 2018 and was co-opted onto the Board to ensure we keep our policing knowledge and connections fresh.

In June, we will sadly say goodbye to Tim Birse, who has been with Metfriendly for nine years and has been an invaluable member of the Board, with his expertise, experience and wise counsel – we will miss him.

Don Ratcliffe, who has been a part of the police family for close to 50 years, will also leave us. I recognise the huge hole he will leave at Metfriendly, with his extensive knowledge and, literally, lifelong commitment to policing. We have tried to hang onto him for as long as possible and he has expressed a desire to retire for some time, but has stayed to help us through the transition for which I, the Board and the staff are immensely grateful. We wish Don and his family all the very best for the future.

I would also like to thank my other Board colleagues for the support and guidance they have given me in my early days as your Chair. Metfriendly and I are indeed fortunate to have a board with diverse views, a wealth of experience and a shared commitment to the task ahead.

This commitment is shared by our dedicated team, both in Orpington and in the field, who gives unstinting service to our members, always focusing on doing the right thing by each individual member.

Inevitably, the focus of this report is backward-looking, highlighting what we have achieved and how the Society has performed in the past year. My priority however, and that of all my colleagues, is to look forward. Despite the challenging environment we face, I am both positive and passionate about the future for Metfriendly.

There is much we need to do, but we have a clear strategy, detailed and costed plans and, most of all, we have a talented and committed team. I have every confidence they will help us build the new Metfriendly, enabling us to serve our members in the future every bit as well as you tell us we have done for the last 125 years.

Joanna Young MSt (Cantab), MBA CertEd

Chief Executive's Report

This is my first report as Chief Executive, having joined the Society in 2017 and been appointed Chief Financial Officer and Chief Risk Officer in 2018.

I am delighted to take on this role with the Society in a strong position – a strength that will be needed to face the challenges outlined in Joanna's statements and on which we will expand in the Strategic Report.

As Joanna has outlined, 2018 has been a year where your Society has continued to prosper, with growing membership and increased assets, as more and more members trust us with their savings. However, it has been a very challenging year for investment markets with pronounced volatility, particularly in equity markets.

Metfriendly wasn't immune to this, but we were fortunate in that we implemented a new investment strategy early in 2018. This moved our investments to a more balanced approach, which has proved to be resilient to market turbulence.

As a mutual organisation that offers with-profits investments, we take a long-term view and seek to deliver consistent returns for our members. When markets are buoyant, our returns may look less impressive, as we keep back some of the return to ensure we can maintain bonuses where markets have been more challenging, as in 2018. This is reflected in the annual and final bonuses that we add to members' with-profit benefits. So, members will see that the value of their accumulated contributions and annual bonuses has increased over 2018.

2018 was a year of change for Metfriendly, driven both internally and externally. Within Metfriendly, we made changes to our investment management arrangements and management structure, and embarked on a journey to change our culture. External influences included a raft of new regulation that came into force during 2018, notably, General Data Protection Regulation (GDPR) in May, the Insurance Distribution Directive (IDD) in October and the Senior Managers and Certification Regime (SM&CR) in December. There are further details of these changes in the Strategic Report.

The other new challenge we are facing is one that you, the members we serve, will be very well aware of. The nature of employment within the police service is evolving, and we are already seeing changes to recruitment, working patterns and police pensions. Changes to the police pension scheme mean that, from 2022, officers will need to complete 40 years' service, rather than 30, to earn a full pension, and retirement patterns in the future will be very different. Metfriendly is investing now in the people, products and technology we have, to ensure we continue to remain relevant for the police family in the future.

Kathy Byrne, CEO

> "As a mutual organisation that offers with-profits investments, we take a long-term view and seek to deliver consistent returns for our members."

Strategic Report

Business Model and Principal Activities
Metfriendly is a friendly society registered under the Friendly Society 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 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. This enables the profits we make to be used to deliver better returns for members and invest in the Society to continue to serve our members well in the future.

Business Strategy

Our Vision: To be the trusted provider of choice for financial products relevant to the needs of the police family in the London area.

Our vision contains two key elements. The first of these is trust and this relies on some of our core values:

- **Honesty and Integrity**
- **Trust and Respect**
- **Expertise and Professionalism**
- **Empathy and Compassion**

As a business that serves a defined affinity market – police officers and staff in the London area, including their families and encompassing retired members – TRUST is key, as word-of-mouth recommendation plays an important role. A close working relationship with the police service in London, where we provide help, support and sponsorship, is critical.

We rely on the quality of the service we provide being recognised as outstanding and we are also judged on whether we keep the promises we make about our products, both absolutely and relative to other providers.

While our vision is timeless, the way in which we deliver it will change and must do so if we are to deliver on the second key component of remaining RELEVANT. The police force of the future will be very different from what it is today. Long service and a job for life will become part of an increasingly diverse mix of working patterns. Failure to keep pace with these changes and develop products and services needed by the police family of the future will see us marginalised. To deliver on this part of our vision, we will need to pursue our newer values with vigour and determination.

These values are:

- **Courage and Innovation**
- **Passion and Performance**

Our Mission: We exist to offer members of the police family the opportunity to provide for their future financial security through education, information and fair value products.

Our mission reflects the fact that we are increasingly open to membership from outside London, albeit we concentrate resources on our core area. Education and information are central to our member offering, and we have a long-standing commitment to educate police officers on their pension schemes. The provision of products that are fair value requires us to focus on our costs, and the Society recognises the need for growth, provided it delivers economies of scale.

Our Strategy: Seeks to grow the core business organically within our existing market, combined with expanding beyond our core geographical area to include areas outside London.

Growth is important for both delivering value to members and to cover our costs. We focus on growing our membership base and attracting new and repeat business from members, as recognised in our strategic objectives.

Similarly, we recognise that continuing to invest in our IT platform to deliver resilience (including cyber protection) and improved capability is important.

Our Strategic Objectives:
We have four long-term strategic objectives, which are shown below, along with our 2018 targets:

Objective 1:
Grow our core business

In 2018, our target was to increase our lump sum business and assets under management.

Objective 2:
Grow a sustainable long-term affinity base.

In 2018, our target was to achieve 14,000 members.

Objective 3:
Deliver value to members and cover our costs over the medium term.

In 2018, our target for core expenses was £3.7m.

Objective 4:
Invest in people and infrastructure to improve the member experience.

In 2018, our targets were:
- To move most of our investments to Columbia Threadneedle Investments (CTI) and Royal London Asset Management (RLAM) by the end of June 2018
- To enhance our IT security by increasing the frequency and depth of our external and internal testing
- To improve our business continuity processes to ensure we can continue to do business promptly in a disaster situation

Review of 2018
During 2018, new business has continued to grow, driven by focused marketing activity and field sales activity, including pre-retirement options seminars and presentations during induction days for new recruits at Hendon. Overall membership grew by 8% to 14,230 members at the end of the year and single premiums increased by 27% to £34.3m.

2018 was a year of change for Metfriendly, driven internally by changes to our investment management arrangements and management structure, together with developing a greater focus in the business of our people. External influences included a raft of new regulation that came into force during 2018, notably the General Data Protection Regulation (GDPR) in May, the Insurance Distribution Directive (IDD) in October and the Senior Managers and Certification Regime (SM&CR) in December.

Transition to New Investment Management Arrangements
In the 2017 Annual Report, we mentioned the review of our investment strategy we had carried out. During 2018, we transitioned to the new investment management arrangements. The majority of our investments were moved to two investment managers, with one managing our bond and cash funds and another managing our risk assets via a multi-asset fund. These are supported by three commercial property funds.

New Management Structure to Support Business Growth
During 2018, both our Chair, Mike McAndrew, and CEO, Stuart Bell, retired from the Society after 17 and 12 years' service respectively. While these retirements were reflected in the Board Succession Plan, we took the opportunity to review the management structure to reflect recent growth and future strategic plans. Over the last five years, the number of staff members has more than doubled from 15 to 31 and assets under management have increased from £99m to £183m. The new structure expands the leadership team to disperse roles across more individuals. This includes separating the CEO, Chief Finance Officer and Chief Risk Officer roles and creating a new Chief Operating Officer role. Mark Myers was appointed as interim CEO in June and recruitment for a new leadership team was undertaken during the second half of 2018. Joanna Young was appointed as Chair in June 2018 and the Board selected Kathy Byrne to be the new CEO with effect from 1 January 2019. The transition to the new structure will be completed in 2019.

Strategic Report cont.

Our Values: Passion & Performance, Honesty & Integrity, Trust & Respect, Expertise & Professionalism, Courage & Innovation, Empathy & Compassion.

Our values and behaviours now form part of the appraisal process so that everyone is measured on both living the values and meeting their objectives. This was a first step in changing the culture of Metfriendly.

Regulatory Change

During 2018, three key pieces of regulation that had been in the pipeline for some time were implemented.

GDPR was the most important change in data privacy regulation in 20 years. It fundamentally reshaped the way in which data is handled and impacted every business across the UK and Europe. Members will have seen our privacy notice, which explains how Metfriendly deals with data collected from members. Data privacy is extremely important to us and our members, so we invited the Information Commissioner's Office (ICO) to carry out an advisory audit of Metfriendly. They visited our office and carried out a review of our data protection controls, policies and procedures, which support our data protection obligations. From this audit, the ICO produced a report for us, which gave us recommendations on how to improve. These recommendations have been implemented so that members can be sure that their data is being correctly and safely used.

The IDD aims to enhance consumer protection when buying insurance and introduced requirements in new areas, including product oversight and governance, and enhanced conduct rules for insurance-based investment products, which include Metfriendly's with-profit policies. Members will have seen additional questions included in our application forms, which help ensure that the product they are applying for meets their needs.

SM&CR changed how people working in financial services are regulated. The aim of SM&CR is to reduce harm to consumers and strengthen market integrity by making individuals more accountable for their conduct and competence. As part of this, the SM&CR aims to:

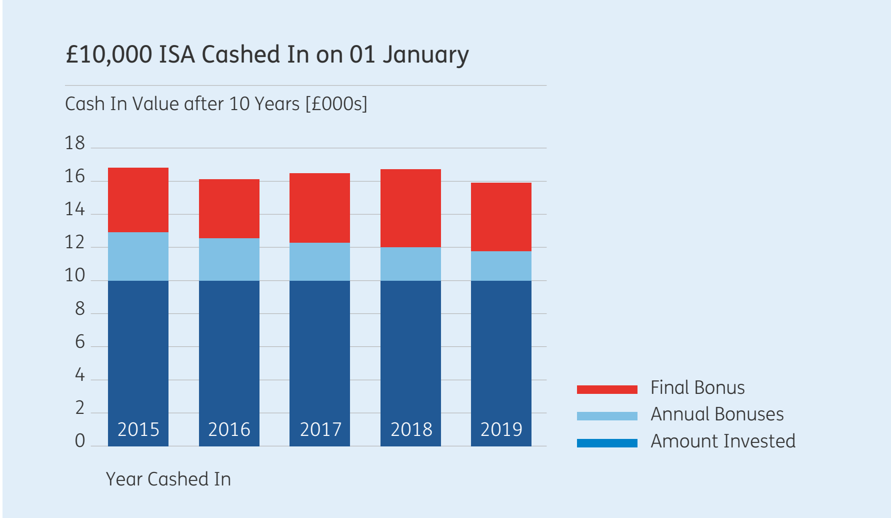
- Encourage a culture of staff at all levels taking personal responsibility for their actions
- Make sure firms and staff clearly understand and can demonstrate where responsibility lies

Our Mission: We exist to offer members of the police family the opportunity to provide for their future financial security through education, information and fair value products.

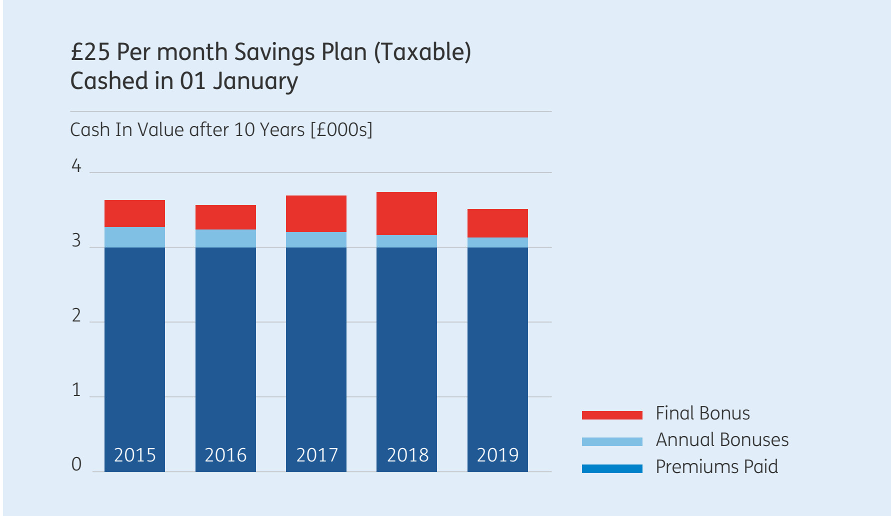
Returns to Members

Consistent returns to members are illustrated by the graphs below, which show the performance under two of our popular plans: the Lump Sum ISA and the 10-Year Savings Plan. The graphs show the amount that would have been paid out if a plan was cashed in on 01 January after being invested for 10 years.

A Lump Sum ISA with £10,000 paid in on 01 January 2009 has a cash-in value of £15,900 on 01 January 2019, which represents an average annual growth rate of 4.7% p.a.



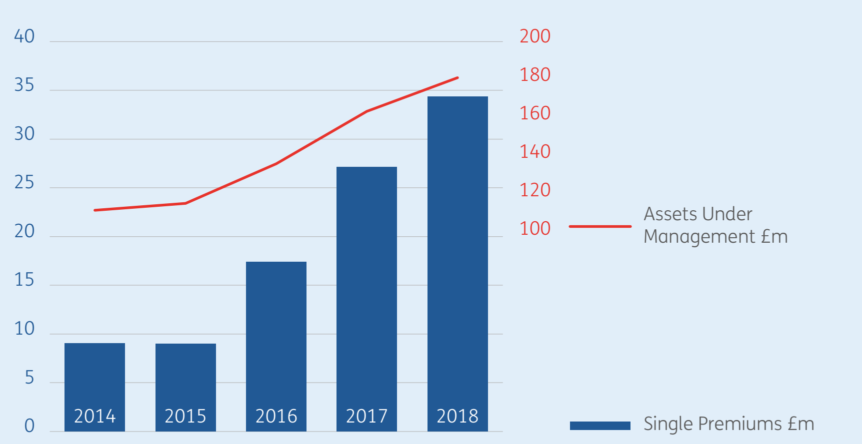
£25-per-month 10 year savings plan (taxable), taken out on 01 January 2009, has a cash-in value of £3,510 on 01 January 2019, which represents an average annual growth rate of 3.1% p.a. A similar tax-exempt plan for £25 per month has a cash-in value of £3,590 on 01 January 2019, which represents an average annual growth rate of 3.5% p.a.



Strategic Report cont.

Key Performance Indicators
After the rise in new business seen in 2017, we were delighted to achieve a further record result in 2018. Since our new strategy began to have its full impact, we have doubled new single premium business in the last three years. 2018 saw a further rise in asset values, as we received record levels of premiums from members. In contrast to 2017, the 10% increase in asset values this year was less pronounced due to an industry-wide fall in market values at the end of 2018.

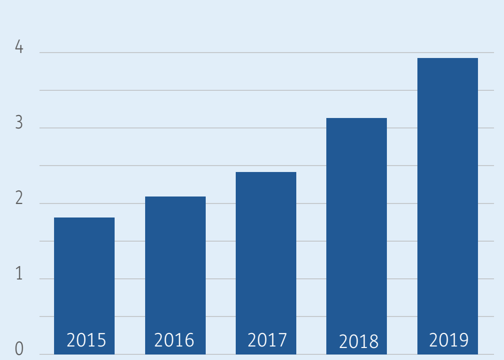
Single Premiums and
Assets Under Management* £m



*excluding reinsurance purchases

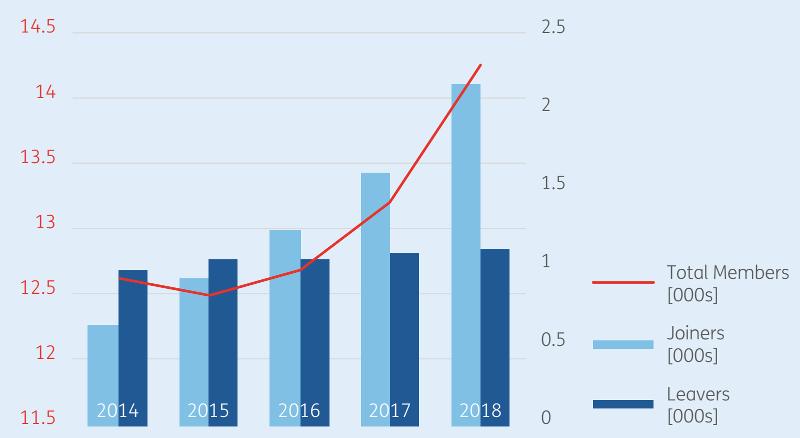
This has been accompanied by an increase in our expenses. Some of this has been exceptional, due to restructuring costs, but it has also been driven by the investments we are making in our new structure and strategy to build the Metfriendly of the future. Excluding these exceptional costs, we have marginally exceeded our core expenses target.

Management Expenses £m



Membership has also grown, with the growth rate accelerating in 2018. While we are pleased with these results, we are clear that there remains more for us to do to recruit new members of the police family and serve their needs.

Single Premiums and
Assets Under Management* £m



During the year, we successfully transferred most of our investments to Royal London Asset Managers (RLAM) and Columbia Threadneedle Investments (CTI). We continued to enhance our IT security and business continuity processes, including testing, additional investment and development of a cyber strategy.

Business Environment

There are a number of forces that are likely to affect the structure of the life insurance industry. In the short-term, the combined effect of continued low interest rates and market volatility arising from uncertain political and economic outcomes, coupled with technologically driven change and falling margins, is likely to put traditional business models under stress.

The current economic environment of low investment returns and major regulatory changes means profitability for life insurers is under pressure. On the political front, a lack of clarity surrounding Brexit or a no-deal Brexit, and heightened tensions between sovereign states are issues of concern for life insurers.

Technological
Trends in technology are creating both risk and opportunity. Cyber-attacks continue to increase in volume, scale and complexity. The growing use of technology, particularly electronic and digital services, increases cyber security risks.

Technology also has the potential to support innovation and efficiency, transform business processes and create new products and services.

Legal/Regulatory
The Financial Conduct Authority (FCA)'s 2018/19 business plan sets out the FCA's priorities for the coming year and identifies key regulatory themes. The primary focus is ensuring a smooth transition for the UK withdrawal from the EU and that EU legislation is transposed into UK legislation, in order to maintain a robust regulatory system.

For 2019, matters on the radar include fair treatment ofcustomers (particularly vulnerable customers), transforming culture in financial services and operational resilience. With-Profits business also continues to be under scrutiny with the FCA's ongoing Thematic Review of With-Profits.

Strategic Report cont.

Business Environment

The Society manages a range of risks, some of which are specific to us and some of which reflect the broader environment in which we operate. We operate a risk management framework that is overseen by the Risk and Investment Committee, with the major risks reported to the Board. The Board has defined a risk appetite that ensures we maintain a substantial margin above our solvency capital requirement (SCR).

Risk Appetite
Metfriendly has a low risk appetite, which is based on solvency capital coverage. The acceptable range for risk appetite is Own Funds being between 150% and 300% of the solvency capital requirement on a Solvency II basis. The upper limit recognises that coverage reflects market conditions and therefore fluctuates. The case for distribution of capital is considered if the upper limit is reached and a forward-looking assessment shows that the upper limit is expected to continue to be exceeded based on future projections.

New and Emerging Risks
New and emerging risks are identified by regular horizon scanning, which is carried out by the Compliance Officer and Risk Officer. The Risk Working Group meets regularly, usually monthly, to review new and emerging risks. This may result in further work being carried out to assess these risks, monitoring of risks being undertaken and/or controls being put in place to manage new risks. The emerging risks we have been monitoring during 2018 are shown below:

Risk	Actions
Brexit The main issue for Metfriendly arising from Brexit is that of a severe equity market crash following withdrawal or if there is no deal.	We have carried out stress testing as part of our Forward Looking Assessment of Own Risk (FLAOR) and ORSA process to test our ability to withstand severe market crashes in a number of different scenarios. In all cases, our solvency coverage remains within limits. European Insurance and Occupational Pensions Authority EIOPA published guidance in 2019 to confirm that insurance contracts concluded in the UK and where members subsequently move to the EU can continue to be serviced by the UK insurer. The Society considers that there is no significant impact of Brexit upon its business. There are a limited number of members who have relocated to overseas territories, of which some are in the EU. The judgement of the Society is that, as all overseas members pay premiums from a UK bank account, there is no regulatory risk in continuing to service the existing business. The Society has not taken legal advice due to the limited number of members and, through its attendance at the Governance and Compliance Committee of the Association of Financial Mutuals, it understands that this is the current market practice. The Society has no significant exposure to suppliers outside the UK and its members are principally UK public sector employees.
Cyber Risk Trends in technology are creating both risk and opportunity. Cyber-attacks continue to increase in volume, scale and complexity. The growing use of technology, particularly electronic and digital services, increases cyber security risks, opportunities for money laundering and scams.	This is monitored regularly by the Board and actions taken are included in the controls for the key risks set out below.

Risk Categories
The risk categories are shown below.

Risk Category	Description
Strategic Risks	Risk that the Society is unable to meet its objectives through the inappropriate selection or implementation of strategic plans. This includes the ability to generate membership numbers and investment strategies inside the risk appetite.
Conduct, Legal and Compliance Risk	Conduct risk is the risk that the Society's behaviour will result in poor member outcomes and that our people fail to behave with integrity. Legal and compliance risk is the risk of regulatory enforcement and sanction, material financial loss, or loss of reputation the Society might suffer as a result of its failure to identify and comply with applicable laws, regulations, codes of conduct and standards of good practice.
Market and Investment Performance Risk	Market risk is the risk that the Society's assets are not suited to the nature and duration of the Society's liabilities, and the guarantees under members' contracts. Investment performance risk is the risk that there are fluctuations in the value of the Society's investments or in the associated income arising from market movements and, as such, we are unable to meet members' expectations for returns.
Operational Risk	Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems failures, or from external events, including strategy and reputational risk.

Strategic Report cont.

Key Risks

Key risks are monitored by the Board, and are assigned to the R&I Committee to carry out an in-depth review. The Board recognises that certain risks are naturally large, and those risks also require due consideration at Board level. Board risks are reviewed by the Board at each board meeting and are reported in the Board Risk Register. The key risks that are monitored by the Board and the controls we use to mitigate them are set out below:

Risk	Controls	Change over 2018
Strategic Risk – Membership: The risk is that our membership declines and we generate insufficient business both to cover costs and to deliver value to our members. Adequate new membership is required to ensure that this does not happen. We also need to focus on retaining members.	In recent years, we have recognised the strategic importance of membership levels. We have elevated business development to Board level, and the marketing resource has been expanded. This work is complemented by member engagement activity to ensure we retain our members, and an expanded field team to ensure we are represented at all appropriate events.	↔
Strategic Risk – Succession Planning Risk The risk is that we fail to replace departing senior leaders with a team able to develop strategy, deliver future plans and meet regulatory expectations. As the business grows and seeks additional talent in the leadership team, we have to anticipate a far greater turnover. Recruiting for senior level personnel is therefore likely to become a regular feature of our future business model.	A new management structure has been developed and several new appointments have been made during 2018. We have developed a full succession plan for all senior positions. Where there is limited potential for internal succession, we have identified our requirements for a successor. We have also increased notice periods for key personnel to a minimum of six months to give them time for an orderly recruitment process and prevent elongated periods without an appointment in key positions.	↓
Conduct Risk – Conduct of Sales The risk is that we fail to treat members fairly and that, as a result, our reputation is damaged and new business volumes are adversely impacted. We also monitor changes in the regulatory environment to ensure we are aware of, and implement, any new regulatory measures effectively.	The Compliance Officer undertakes “horizon scanning” for changes to regulation and is also a member of the AFM Regulation and Governance Committee. When major regulatory projects need to be managed, a cross-department project team is established. The Compliance Officer signs off all communications and produces and manages a Compliance Monitoring Plan which is agreed and monitored by the Audit and Compliance Committee.	↓

Risk	Controls	Change over 2018
Market Risk – Asset-Liability Matching The risk is that assets are not suited to the nature and duration of the Society’s liabilities and the guarantees under members’ contracts. Unsuitable assets could lead to our own funds falling too much in adverse market conditions. Such losses could additionally result in reputational and regulatory risk.	The investment strategy is reviewed annually by the Board and its implementation is overseen by the Risk and Investment Committee. The investment strategy includes target ranges for the asset mix that reflect matching requirements. This target asset mix also takes into account the with-profit nature of the Society’s principal liabilities, and the benefit of investment diversification. Matching is monitored by the Chief Risk Officer quarterly and is reported in management information to the Risk and Investment Committee, who consider any asset class outside its target range. Additional controls implemented during the year reduced our overall risk.	↓
Market Risk – Investment Performance Risk The risk is that there are fluctuations in the value of the Society’s investments or in the associated income arising from market movements and we are unable to meet members’ expectations for returns. Inflation risk is not considered to be material for the Society, given the nature of its liabilities and the assets held to cover them. Long-term insurance funds are generally subject to market risk, and there is potential reputational risk if we select assets that materially underperform our peers.	Investment management is undertaken by externally appointed managers who operate to an agreed investment mandate and report regularly to the Society on performance. These reports are reviewed quarterly by the Risk and Investment Committee. Due diligence was undertaken, and professional advice sought, when selecting the principal investment managers. Limits are placed on cash holdings with any single counterparty. These limits, and any new funds, are approved by the Risk and Investment Committee. Asset mix is essentially derived from our matching policy, with consideration given to regulatory capital requirements and the reasonable expectations of members holding with-profits contracts. All real assets are allocated to members’ asset shares. We use pooled funds to gain exposure to all types of investment that are held in sterling-priced funds. A small percentage of with-profit assets are held in insurance-linked funds which are in share classes hedged into sterling.	↓

Strategic Report cont.

Risk	Controls	Change over 2018
Market Risk – Expense Risk The risk is that expenses are not fully recovered from margins in the premiums, including all amounts charged to Asset Shares on with-profits business. There is also a risk that we would not recover all of our expenses if we considered it unfair or counterproductive to levy the whole cost.	The expense allocations are overseen by the Risk and Investment Committee and then reported to the full Board. Budgets are signed off by the Board and monitored in our management accounts. Expense risk and the associated solvency capital requirement are considered by our actuaries when reporting on our own funds. We analyse expenses at the end of each year with a view to ensuring that we cover our costs over the medium term.	↑
Operation Risk – Cyber Security Risk The risk is that a malicious or accidental internal or external event occurs. For example, data, including member data, may be lost or stolen on an unencrypted laptop or USB stick, through external hacking or outsourcer error.	We have IT policies covering both security and staff usage. Both policies consider theft. An incident plan has been developed, which can be invoked in the event of a security breach. Staff are trained regularly in data security and IT usage. External targeted penetration tests are carried out annually. External providers provide a proactive threat notification service and bespoke advice through an IT support contract. All desktops, laptops and servers are installed with centrally managed security software.	↔

Corporate Social Responsibility

Metfriendly was founded for a social purpose in 1893 by volunteers from the Metropolitan Police Service. This purpose was to provide financial help to widows and retiring police officers. Today, Metfriendly continues to provide financial help to members of the police family through education, information and fair value products. We aim to act in the best interests of the environment and society as a whole.

Providing Support for the Police Service
Along with the competitive financial products that we offer, Metfriendly is committed to providing practical help and support to the broader police family through a range of sponsorships and other initiatives.

Some of the areas we supported in 2018 include:

<u>The Memorial Flame at Hendon Regional Learning Centre</u>

In 2016, we supported the original installation, and the continual upkeep of, the memorial flame - a modern holographic Book of Remembrance with an eternal flame, which takes pride of place in the main foyer area of Hendon Regional Learning Centre. The interactive touch screen allows you to search for every officer who has lost their life whilst serving the people of London and includes the date and circumstance of their death.

<u>The Metropolitan Police Rugby Football Club</u>

In September 2018, we announced our shirt sponsorship of the Metropolitan Police Rugby Football Club. The Club was established in 1923 and, since its formation, has been made up of serving and former police officers, as well as their close relatives.

Our sponsorship money is used to provide kit for the First XV, as well as ground facilities, such as hoarding sponsorships and the scoreboard. Additionally, the funds are used to spread the popularity of rugby among those who are interested in, for example, regular social touch rugby sessions.

<u>Notting Hill Carnival</u>

We worked in partnership with the Metropolitan Police to supply branded water bottles to keep officers hydrated as they policed the 2018 Notting Hill Carnival. Our field team attended the police breakout areas to hand out bottles to the officers. The water bottles are designed to be reusable to reduce our environmental impact.

We expect to add several relevant sponsorships throughout the course of 2019 to further deepen our ties with the Met Police and the broader police family.

Responsible Investment
Metfriendly takes the issues of long-term environmental and social sustainability seriously. Economic, environmental and social issues, including climate change and human trafficking, matter to our members. These considerations form part of our selection criteria when we select our fund managers. Our chosen fund managers share our core values and they have embedded Environmental Social Governance (ESG) at the heart of their investment decisions, as demonstrated below.

Royal London Asset Management (RLAM) is committed to being a responsible investor: from being a good steward of assets and promoting responsible investment with other stakeholders to offering a range of sustainable and ethical investment options.

RLAM has been a signatory to the United Nations Principles for Responsible Investments (PRI) since 2008 and is an active member of several other relevant organisations, including the UK Sustainable Investment and Finance Association.

In recent months, RLAM has included targeted engagement around the decarbonisation of portfolios across utility holdings, the climate resilience of its water holdings, and the strategic response to energy efficiency regulation that their commercial mortgage-backed securities and other real estate issuers are taking. RLAM has a dedicated ESG team that provides research, analysis and insight to investment teams across the organisation.

For selected funds, RLAM operates a strong ethical framework whereby it identifies 'best of breed' companies within permitted sectors, while avoiding companies that are involved in excluded activities. Companies that generate over 10% of their turnover from either, or a combination, of the following categories are excluded in such funds:

- manufacturing of armaments or nuclear products, or any associated or strategic products
- growing, processing or selling tobacco products

Columbia Threadneedle focuses on responsible investment capabilities and has operated a weapons exclusions policy since 2011.

It operates on the ethos that conducting detailed ESG research provides insight into the quality leadership, culture and operational standards of practice of a business. Its team uses ESG to assess and prioritise opportunities, and to identify areas of potential concern.

- ESG is incorporated into investment analysis and decision-making
- CTI actively votes and engages in investee companies

Board of Directors 2018

Details of members of our Board of Directors during 2018 are set out below, including their Board Committee membership.

Non-Executive Directors

01 Joanna Young MSt (Cantab), MBA CertEd
Risk & Investment Committee; Nomination & Governance Committee; Remuneration Committee; Member Relations Committee – until 18 July 2018. Board Chair; Chair of Nomination Committee from 14 June 2018; Risk & Investment Committee from 18 July 2018.

02 Mike McAndrew QPM, CFCIPD
Retired as a Non-Executive Director on 14 June 2018 when he stepped down from the following roles – Board Chair; Chair of Nomination & Governance Committee; Member Relations Committee; Remuneration Committee; Risk & Investment Committee.

03 Tim Birse MA, FIA
Chair of Risk & Investment Committee; Audit & Compliance Committee; With-Profits Non-Executive Director.

04 Janet Cassettari
Chair of Member Relations Committee until 18 July 2018; Nomination & Governance Committee.

05 Fiona Gregory BA
Senior Independent Director; Chair of Remuneration Committee; Nomination & Governance Committee; Member Relations Committee until 18 July 2018.

06 Graeme McAusland BSc FFA
Chair of Audit & Compliance Committee; Risk & Investment Committee; Remuneration Committee.

07 Craig Haslam
Non-Executive Director

08 Lee Schopp ACA, C.Dir.
Audit & Compliance Committee; Nomination & Governance Committee.

Executive Directors

09 Kathy Byrne BSc, FIA, MBA
Chief Finance Officer/Chief Risk Officer – approved as Executive Director on 21 August 2018; Chief Executive Officer from 1 January 2019.

10 Ben Grainger BA, MCIM
Sales & Marketing Director until 30 September; Chief Operating Officer from 1 October 2018.

Stuart Bell MA, FIA
Chief Executive Officer until 31 May 2018; retired from Board 14 June 2018.

Ben Terrett FCA
Finance Director – resigned 28 February 2018.

Although not a Director, the following was deemed to be a member of the Board by virtue of his position:

Mark Myers MA, ACIB
Chief Executive Officer appointed 1 June 2018 – resigned 31 January 2019.

Directors' Biographies

Joanna Young
Non-Executive Director – Chair

Appointed to the Board in May 2013 and Chair since June 2018, Joanna was the full-time Secretary to the Superintendents' Association prior to her retirement from the Met in April 2015. She continues to have numerous connections and interactions with policing. She delivers personal resilience and wellbeing workshops to police services across the UK; she is an associate of the College of Policing supporting leadership and diversity programmes; and coaches individuals, including police officers and staff, to achieve their potential. She is well aware of the changes in, and the pressures facing, policing today. Joanna is married with three children, is an active member of her church, leading a Sunday youth group, and continues to enjoy skiing, badminton and keeping fit.

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, 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 the education of future generations of actuaries. Tim is currently playing a high-profile role in a review of the actuarial profession's education strategy. He is an examiner for actuarial science courses at various 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 served on the Member Relations Committee, and its precursors, the Business Development and Marketing Committees and was its Chair from July 2012 until the Committee was disbanded in July 2018.

Fiona Gregory
Non-Executive Director –
Senior Independent Director

Appointed to the Board in April 2014, Fiona is the daughter and wife of former police officers, both of whom served in Bedfordshire. She qualified as a Solicitor and Notary Public, specialising in commercial property and residential conveyancing. She ceased practising and provided business management consultancy services to legal firms and other businesses for 14 years. Fiona was a Non-Executive Director with British Friendly Society Ltd for over 12 years, having previously been their legal advisor for over 10 years. She served the last three years as Chairman when she led the business through a period of transformational change, recruiting a new Chief Executive and 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. Fiona was appointed Senior Independent Director in June 2017, serves on the Nomination and Governance Committee and is Chair of the Remuneration Committee.

Directors' Biographies

Craig Haslam
Non-Executive Director

Craig was appointed to the Board on 1 January 2019, having retired from the Metropolitan Police Service the previous month. He spent 32 years with the Metropolitan Police Service, joining as a Cadet and finishing as the OCU Commander for The Taskforce with a varied career in challenging boroughs and in training while specialising in the arena of public order. Craig is proud of the support, help and advice he has given to friends and colleagues over the years, in both their professional and personal lives, and did much to promote the financial security and wellbeing of others. Craig has been a member of Metfriendly since joining the police, making his move onto the Board a natural progression. Craig is a professional toastmaster and master of ceremonies, and keeps busy while officiating at weddings, awards ceremonies and charity events.

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 other non-executive roles with an AIM listed stockbroker, where he chairs the Audit Committee. In his spare time, Graeme plays the cornet in a brass band and studies with the Open University.

Lee Schopp
Non-Executive Director

Appointed to the Board in August 2016, Lee is a Chartered Accountant, Chartered Director and also the interim CEO of mutual insurer British Friendly Society Limited. Lee brings with him considerable strategic planning and execution experience, gained over the past 20 years. 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 built his own home and founded a successful microbrewery that operates in Bedfordshire.

Kathy Byrne
Executive Director

Kathy Byrne is a qualified actuary with over 30 years' experience in the insurance industry, including Managing Director of Cardif Pinnacle's investment business unit and, prior to this, as Group Actuarial Director. Outside the insurance world, she was involved in setting up a new savings business from scratch, which involved dealing with a range of stakeholders including IFAs and consumers. Kathy's book "Where Have My Savings Gone?" provides savers with the knowledge they need to manage their savings effectively. Kathy has an MBA from Henley Management College. She has served on the Institute and Faculty of Actuaries Council, the Diversity Advisory Group and was Chair of the profession's Behavioural Finance for Actuaries working party. She is a Non-Executive Director and shareholder of Alpasión Vineyard in Mendoza. She enjoys playing golf and skiing in her spare time.

Ben Grainger
Executive Director

Ben's background is in marketing for private and public sector organisations. He started his career with Metfriendly in 2014, heading up the sales and marketing team – a role in which he oversaw membership growth for the first time in many years, as well as record levels of investment in the Society's With-Profits Fund. He is a full Board member and has served on the Risk & Investment Committee and the Member Relations Committee. Promoted to the role of Chief Operating Officer in 2018, he is responsible for the Member Services, IT, and People functions. Outside of work, he is a keen runner and avid rugby fan.

Report of the Board of Directors

The Board of Directors is pleased to present its Report and Accounts for the year ended 31 December 2018, which 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, are fair, balanced and understandable, and provide 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 Lindsay Unwin, 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 developments, bonus decisions and investment strategy. The Society employs 31 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 2018, stood at 14,230 (2017: 13,192).

Board of Management

Details of the Board of Management and Committee members are shown on page 17. There were four changes to Board membership during 2018. Ben Terrett resigned as a Director with effect from 28 February 2018. Stuart Bell retired from the Board on 14 June 2018 after 12 years' service and, as planned, Board Chair Mike McAndrew retired from the Board on 14 June 2018, after nearly 17 years' service. Kathy Byrne was approved as an executive director by the Prudential Regulation Authority on 21 August 2018.

Risk Management

The Risk & Investment (R&I) Committee is generally responsible for overseeing risk management, with particular reference to systems, 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 financial crime, investments review and product lifecycle, the results of which were reported to the Audit & Compliance Committee and the Board.

The R&I Committee also monitors business risks, including investment, underwriting and expense management, which are core areas driving the returns to our members. The Committee also has 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 2018. 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 reassessment.

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

The Society did not make any official donations during 2018. However, the field teams 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, they collected £1,613 for the charity.

During 2018, the Society provided the following sponsorships:

- Memorial Flame
- Passing Out Parade refreshments
- Long Service Awards refreshments
- Commissioner's Excellence Awards
- Baton of Honour, presented to the best new student of the intake at Hendon training centre
- Main sponsor for the Metropolitan Police Rugby Football Club for the 2018/2019 season
- Detective Constable Alex Protts of Surrey Police, nominated for Detective of the Year at the Police Federation National Detective Forum

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 2018.

The Society did not conduct any activities in 2018 that it believes were outside its powers.

Future Developments

These are covered in the Strategic Report.

Appointment of Auditors

Mazars LLP acted as Auditors to the Society throughout 2018. The Board considered the independence of Mazars LLP 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 in 2018 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 2019.

Don Ratcliffe
Secretary

Report to Members with With-Profits Contracts

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 2018, Tim Birse served as WPNED – his terms of reference were reviewed in July, with no changes.

There were no changes made to the PPFM in 2018, and the PPFM issued on 1 January 2018 applied throughout 2018.

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 that 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).

While managing the with-profits business during 2018, the Society changed its investment management arrangements. It is now using two fund managers to manage the majority of its with-profit assets. Most of its return-seeking assets are now invested in a "multi-asset" fund with a wide investment mandate and the balance is invested in commercial property funds, with three fund managers.

The Board considers that the volumes and terms of business written in 2018, and those planned for 2019, 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 2017 was continued for 2018.

It is the Directors' opinion that the business has been managed throughout 2018 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 to the PPFM during 2018.

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 for annual bonuses added to with-profits contracts for 2018 at the same rates as were added for 2017. The interim rates for claims paid in 2018 were set at the same rate as those for 2017.

Annual bonus rates for 2018 are shown below. The interim annual bonus rate paid on claims in 2019 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%
- Lump Sum ISAs (including Lifetime ISA) 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 2019 will generally be slightly lower than in 2018. These changes reflect movements in the underlying asset shares.

The Monthly Savings ISA only has annual bonuses – no final bonuses. A guaranteed rate is applied for the open year (the contribution tax year) and for a further 12 months (the first closed year). Thereafter, we apply a variable annual bonus rate. The rates that applied during 2018 were:

- Guaranteed rate for the business written in the 2018/19 tax year – 2.5%
- Variable annual bonus rate – 2.5%

The interim rates applying in 2019 are:

- Guaranteed rate for the 2019/20 tax year – 2.0%
- Variable annual bonus rate – 2.0%

Monthly contributions to the Lifetime ISA have the same guaranteed rates for the open tax year as the Monthly Savings ISA.

Surrender Values

The Society has maintained its practices for surrender values throughout 2018.

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 2018.

Report of the With-Profits Actuary

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 2018 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 2018 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2018 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
9 April 2019

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 2018 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 2018, the Board was formed of eight Directors, six of which were Non-executive directors with the remaining two 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 until 14 June 2018, when he stepped down at the Annual General Meeting. Joanna Young was appointed as the new Chair of the Board on the same day.

Fiona Gregory 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. Tim Birse performed the role of With-Profits Non-Executive Director during 2018, and Stuart Bell was the CEO until his resignation on 31 May 2018. Mark Myers was appointed as Interim Chief Executive Officer on 1 June 2018 and Don Ratcliffe served as the Society's secretary for the entirety of 2018. On 1 January 2019, Kathy Byrne took up post as Chief Executive Officer.

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 four committees:

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

The Member Services Committee was disbanded on 18 July 2018, having been a major catalyst to the regeneration of the Society's marketing approach and activity under the leadership of Janet Cassettari. The Board decided that, as the Society now had a well-established sales and marketing function with able leadership, this function should return to executive management, with oversight by the Board as part of the normal reporting by the Sales and Marketing Director.

The main purposes, duties and responsibilities of these committees, together with brief details of their key activities during 2018, 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 the aspects covered and any issues arising.

The 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. The 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 Nomination & Governance Committee considers the overall composition of the Board and of each Committee.

The Board met on eight occasions during 2018, which it considers was sufficient to discharge its duties both fully and effectively. In addition to the formal Board meetings, one additional meeting was convened specifically to consider the Society's future strategic direction. This was not a formal Board meeting and is therefore not reflected within the table below.

Additionally, during the year Tim Birse, as With-Profits Non-executive Director, Stuart Bell, Chief Executive (until 31 May 2018), Kathy Byrne and Graeme McAusland, met with the Society's With-Profits Actuary.

Directors' attendance at Board and relevant Committee meetings in 2018 was as follows:

Director	Board of Directors	Audit & Compliance Committee	Risk & Investment Committee	Member Relations Committee	Nomination and Governance Committee	Remuneration Committee
T. Birse	8/8	3/4	4/4	–	–	–
S. Bell[1]	2/3	(2/2)	2/2	2/2	(2/2)	1/1
K. Byrne[2]	3/3	–	(1/1)	–	–	–
J. Cassettari	7/8	–	–	2/2	4/4	–
B. Grainger	8/8	–	(1/1)	2/2	–	–
F. Gregory	8/8	(2/2)	(2/4)	1/2	4/4	2/2
M. McAndrew[3]	4/4	(2/2)	2/2	2/2	3/3	1/1
G McAusland	8/8	4/4	4/4	–	–	2/2
L Schopp	8/8	4/4	–	–	4/4	–
B Terrett[4]	1/1	–	1/1	–	–	1/1
J. Young	8/8	(1/2)	2/4	2/2	4/4	2/2

1 Retired from Board 14/06/2018 – AGM
2 Appointed 21/08/2018
3 Retired from Board 14/06/2018– AGM
4 Resigned from the Board 28/02/2018

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

Corporate Governance Report cont.

Board Committees

Terms of Reference for all Board Committees are published within the Your Society/Boards-and-Committees/Committees section of the Society's website: www.metfriendly.org.uk. The Terms of Reference for all committees are regularly reviewed by each Committee and the Board. 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, although the Member Relations Committee was disbanded on 18 July 2018, having met twice earlier in the year. The key purposes, duties and 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 2018, together with membership details during 2018, are set out here:

Audit & Compliance Committee

The Committee's membership during the year comprised:

Membership
Graeme McAusland (Chair)
Tim Birse
Lee Schopp

The Committee's members have been appointed having due regard for their individual skills and experience, with a view to ensuring that the Committee as a whole has a suitable range of financial and commercial expertise to discharge its duties and responsibilities as documented within its Terms of Reference. 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 External Auditor and its outsourced Internal Auditor. Having been co-opted onto the Board as a Non-Executive Director on 1 January 2019, Craig Haslam became a member of this Committee.

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

- To enable the Society's compliance procedures to be reviewed in greater detail than at regular Board meetings

Duties and Responsibilities
The Committee's main duties and responsibilities are set out within the Committee's terms of reference, which can be found within the Your Society/Boards-and-Committees/Committees section of the Society's website: www.metfriendly.org.uk

Activities During the Year
The Committee's key activities during 2018 included, but were not limited to:-

- Review of the Society's 2017 Annual Report and Accounts and the External Auditor's report upon that document
- Review of outcome of interim work undertaken by External Auditors
- 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
- Review of Whistleblowing annual report

The audit, carried out by Mazars LLP in respect of the Society's 2017 financial statements, was subject to a review by the Financial Reporting Council (FRC). The Audit & Compliance Committee reviewed the findings and discussed them with Mazars LLP, and applicable matters will be included in the planning for the year-end audit for 2019.

Reporting
The Committee, through its Chair, submits regular reports to the Board on its activities after each Committee meeting. Minutes of all Committee meetings are prepared and, once approved by the Committee's Chair, are circulated to all members of the Society's Board.

Risk & Investment Committee

Membership
The Committee's membership during the year comprised:

Tim Birse (Chair) Graeme McAusland
Joanna Young
Kathy Byrne (from 18 July 2018)
Ben Grainger (until 18 July 2018)
Michael McAndrew
(until 14 June 2018)
Stuart Bell (until 31 May 2018)
Ben Terrett (until 28 February 2018)

In addition, the Senior Independent Director may attend Committee meetings and Fiona Gregory did so on two occasions in 2018.

The Society's Secretary and Risk Officers support the Committee 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:

- Independent oversight of the Society's systems of risk management, internal control, financial reporting, and investment control

- Review of the following areas of business in greater detail than is possible at full Board meetings:

  - 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

  - Management of the with-profits business

  - Product pricing for all the Society's products

  - Expense analyses

  - The Solvency and Financial Condition Report (SFCR)

  - Prudential regulatory returns, including the Society's Own Risk and Solvency Assessment (ORSA)

Duties & Responsibilities
The Committee's main duties and responsibilities are set out within the Committee's Terms of Reference, which can be found within the Your Society/Boards-and-Committees/Committees section of the Society's website: www.metfriendly.org.uk.

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

Corporate Governance Report cont.

Activities During the Year
The Committee's activities during 2018 included:

- Review of the Society's risk exposures 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 transfer of business to the new investment managers
- Review of the Society's investment planning and strategy
- Consideration of the impact of the General Data Protection Regulation and the Insurance Distribution Directive and monitoring the Society's preparations for their implementation
- Review of actions taken in respect of existing and emerging IT risks
- Review of the Society's expenses and the arrangements implemented for their control
- Review of regulatory returns including the SFCR and the ORSA
- Consideration of the Society's Forward Looking Assessment of Own Risk (FLAOR)
- Review of the Society's product range to ensure it is appropriate for members and that expenses can be covered by product margins

Member Relations Committee

Membership
The Committee's membership during the year comprised:

Janet Cassettari (Chair)
Stuart Bell (until 31 May 2018)
Paul Deller (co-opted)
Ben Grainger
Fiona Gregory
Michael McAndrew (until 14 June 2018)
Joanna Young

The Committee met twice in 2018 but was disbanded by the Board in July 2018.

The Member Relations Committee served the Society well and was a major catalyst to the regeneration of the Society's marketing approach and activity, under the leadership of its Chair, Janet Cassettari. The Board considered that the Society now had a well-established sales and marketing function, with able leadership, and that this function should return to executive management with oversight by the Board as part of normal monthly reporting by the Sales & Marketing Director.

The Committee also oversaw the vital function of stakeholder management, which the Board concluded could equally be discharged by the executive and field team with support from those NEDs with police service connections.

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Specifically
- Annual review of stakeholder and member engagement plans – approved by the Board as part of the annual business plan
- Police stakeholder development – responsibility for individual stakeholders was given to the Chair, NEDs with a police service background, CEO and Sales and Marketing Director
- Dialogue between members of the Society and the Board – all Board members to attend two field events per year, not including the AGM
- Ensuring members treated fairly – monitored by the Board and management to include an improved suite of quarterly customer service standards MI
- Review of complaint and comment data – monitored by the Board and management to include a suite of quarterly customer service standards MI

Nomination & Governance Committee

Membership
The Committee's membership during the year comprised:

Joanna Young
(Chair from 14 June 2018)
Michael McAndrew
(Chair until 14 June 2018)
Stuart Bell (until 31 May 2018)
Janet Cassettari
Fiona Gregory
Lee Schopp

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. Having been co-opted as a Non-Executive Director on 1 January 2019, Craig Haslam became a member of this Committee.

Purposes
The Committee has one main purpose:

- 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 Functions (SIMF), later Senior Management and Certification Regime (SM&CR) roles; while 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 are set out within the Committee's Terms of Reference, which can be found within the Your Society/ Boards-and-Committees/Committees section of the Society's website: www.metfriendly.org.uk.

Activities During the Year
- Proposals for revisions to the Society's management structure
- Oversight of the recruitment of Chief Executive Officer and other Senior Manager positions
- Periodic review of Society's Governance Map/responsibilities Map, required by the regulatory Senior Insurance Managers Regime and later the Senior Managers and Certification Regime
- Considering and recommending directors for appointment to the Board
- Considering and recommending directors standing for election/ re-election
- Considering and recommending Committee memberships
- Succession plans and Board development plans, including Chair and CEO succession
- Board performance management
- Board Skills Audit

Remuneration Committee

Membership
The Committee's membership during the year comprised:

Fiona Gregory (Chair)
Michael McAndrew
(until 14 June 2018)
Graeme McAusland
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 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 for executive remuneration and the remuneration packages for each of the Executive Directors as directed by the Board

The Committee's main duties and responsibilities are set out within the Committee's Terms of Reference, which can be found within the Your Society/ Boards-and-Committees/Committees section of the Society's website: www.metfriendly.org.uk.

Corporate Governance Report cont.

Activities During the Year
The Committee's key activities during 2018 included, but were not limited to:

- Remuneration Report and Remuneration Policy Statement
- Non-Executive Director Remuneration
- Managers and Staff Pay Review outcome
- Executive remuneration proposals

Matters Reserved for Board Decision

These were reviewed during 2018 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 Senior Leadership Team Structure (including SIMF roles)
- 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 Strategy and Business Plans, at least annually
- Major investment decisions
- PPFM and annual bonus decisions
- Variations to product ranges
- Approval of arrangements for With-Profits oversight
- Approval of Own Risk Solvency Assessment

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 2018 Annual General Meeting, two directors (Mike McAndrew and Stuart Bell) retired from office. Mike had been a member of the Board since 2001 and Chair since 2013, and had been instrumental in leading the Board though a period of great change within the Society. Stuart had been CEO and a member of the Board since 2006. During Stuart's tenure, the Society made great strides 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.

The Society's former Finance Director, Ben Terrett, resigned from the service of the Society, with effect from 28 February 2018. Following approval by the Board, Kathy Byrne was approved by the Prudential Regulation Authority to perform the roles of Chief Finance Function and Chief Risk Function with effect from 30 May 2018. Kathy Byrne was appointed to the Board in accordance with the provisions of Rule 25, with effect from 21 August 2018 and held both positions under both the Senior Insurance Managers Regime and the Senior Managers and Certification Regime for the remainder of 2018.

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 considers where there are any factors that 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 2018, 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' Corporate Governance Code, published in January 2019 (the Code), provides for regular election or re-election (as appropriate) of all directors of organisations like Metfriendly, by its members. The Society is therefore submitting all directors, except Tim Birse, for election or re-election (as appropriate) by the Society's members, at the 2019 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, Tim Birse the Society's current With-Profits Non-Executive Director, has indicated his intention to step down from the Board at the 2019 Annual General Meeting and will not therefore offer himself for re-election at that time.

The Board considers that all eight directors are important to the organisation's long-term sustainable success, 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 21 June 2019.

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 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 last undertaken by the Society's internal auditors, RSM – Risk Assurance Services LLP (RSM) in November/December 2016. 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 2019.

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.

In June 2018, the Board received focussed training on Cyber Crime and its 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.

Corporate Governance Report cont.

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. During 2018, the Society did not operate a bonus system for Executive Directors on the basis that the Society did 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 was conscious of the tendency for such remuneration structures to distort behaviour. However, in December 2018, at the time of reviewing its Remuneration Policy, the Society decided to introduce a bonus scheme for all staff including executives, which will be trialled during 2019.

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

Remuneration Policy for Executive Directors and Senior Management

For Executive Directors and other Senior Managers, the Society has operated a remuneration policy based solely on basic salary. This was not in compliance with the Annotated Version of The UK Corporate Governance Code, which suggested that a proportion of Executive pay should be variable, based on the performance of the organisation. The Society believed that this was not appropriate to the then existing limited management structure, where Executives were operating across a wide range of disciplines and where the Board was reluctant to single out particular areas to receive the emphasis of incentivisation. This policy operated for 2018.

However, as covered elsewhere in the Chair's Report and the Strategic Report, the Society has grown in size and complexity over the last three years and this has required an investment in additional management. The Society has found itself competing for the best talent in the open employment market and it has become apparent that our previous approach would not be adequate to recruit and retain individuals of the right calibre to implement our new strategy for the benefit of our members.

We have therefore added a modest bonus scheme, equivalent to 10% maximum of salary against defined objectives, as set out in the report. In addition, in the first part of 2019, we will be reviewing the range of benefits offered by other organisations to ensure our packages are capable of attracting and retaining the people we want.

We recognise that the bonus scheme introduced for 2019 is modest and we have wanted to proceed with caution. Over time, we anticipate moving to a position where:

- Basic salaries are set at the median for our peer group
- Bonuses allow earnings toward the upper quartile for outstanding performance
- We offer a range of employment benefits that stands comparison with our peers

Remuneration Policy for Non-Executive Directors

During 2018, the remuneration paid to NEDs comprised both a fixed annual amount that recognised the responsibilities held (Chair of a Committee, WPNED etc.) and an attendance fee paid for formal meetings attended. In December 2018, following a recommendation from the Remuneration Committee, the Board decided that, more in line with wider market practice, a fixed amount be paid to NEDs according to the role, with effect from 1 January 2019.

Remuneration Report

The following remuneration was paid to Directors for services as a director of the Society during 2018:

Non-Executive Directors	2018	2017
Mike McAndrew[1]	15,000	27,250
Tim Birse	22,800	22,250
Janet Cassettari	19,800	18,900
Peter Clarke[2]	–	10,000
Fiona Gregory	28,200	19,412
Graeme McAusland	22,200	21,100
Lee Schopp	21,000	16,100
Joanna Young[3]	32,400	18,300
Total	**161,400**	**153,312**

1 Board Chair until 14 June 2018
2 Resigned 6 June 2017
3 Board Chair since 14 June 2018

Executive Directors	2018	2017
Stuart Bell Chief Executive Officer[4]	305,791[5]	200,000
Kathy Byrne Chief Finance Officer/Chief Risk Officer Director[6]	44,378[7]	–
Ben Grainger Sales & Marketing Director, then Chief Operating Officer	97,225[7]	16,062[8]
Ben Terrett Finance Director[9]	19,483	21,134
Don Ratcliffe DCEO/Secretary	–	29,829[10]
Total	**466,877**	**267,025**
Mark Myers Interim CEO[11]	178,750	–

4 Until 31 May 2018
5 Payment of all contractual entitlements owing and due to Stuart Bell under his contract of employment with Metfriendly upon the termination of his employment, including payment in lieu of his contractual notice
6 Appointed to the Board 21 August 2018 and Chief Executive from 1 January 2019
7 Includes an employer contribution to a group personal pension plan
8 Appointed to the Board 13 October 2017 – 2017 payment shows payment from that date
9 Appointed to the Board 24 October 2017 and resigned 28 February 2018
10 Stepped down from the Board 6 June 2017
11 Mark Myers was not appointed to the Board. He was Interim CEO from 1 June 2018 to 31 January 2019.

Statement of 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 that 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
- 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 for 2018.

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 ("the Society") for the year ended 31 December 2018, which comprise the Income and Expenditure Account, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including 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 2018 and of the Society's transfer from 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.

The impact of uncertainties due to the United Kingdom exiting the European Union on our audit

The directors' view of the impact of Brexit is disclosed on page 10. The terms on which the United Kingdom may withdraw from the European Union remain unclear and it is therefore not currently possible to evaluate all the potential implications to the Society's trade, customers, suppliers and the wider economy.

We considered the impact of Brexit on the Society as part of our audit procedures, applying a standard firm-wide approach in response to the uncertainty associated with the Society's future prospects and performance.

However, no audit should be expected to predict the unknowable factors or all possible implications for the Society and this is particularly the case in relation to Brexit.

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 11, 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 40 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 36 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 36 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.

Independent auditor's report to the members of Metropolitan Police Friendly Society Limited cont.

- the directors' explanation set out on page 36 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.

We summarise below the key audit matters in forming our audit opinion above, together with an overview of the principal audit procedures performed to address each matter and, where relevant, key observations arisings from those procedures.

These matters together with our findings were communicated to those charged with governance through our Audit Completion Report.

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. Therefore, there is a risk that the provisions calculated by management are materially misstated.	Our procedures to address the valuation of the long term business provisions risk included, but were not limited to, the following: • We considered the governance arrangements around the reserving process; • We performed consistency checks between the data files received and reviewed in detail the reconciliations performed by the Society; • We engaged our IT specialist team members to assess the IT scripts ('structured query language') used to generate data extractions to evaluate the accuracy and completeness of data relied upon by management for decision making and modelling the provisions; • We engaged our actuarial specialist team members and applied our industry knowledge and experience to assess the methodology, models and assumptions used in calculating the long term business provisions; and • We also gained an understanding of the reasons for significant movements in the best estimate from the prior year. Based on the work performed and the evidence obtained, we consider the assumptions used to value the long term business provisions to be appropriate.

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	£750,000
How we determined it	Materiality was set by reference to the Society's fund for future appropriations at the start of the year (of which it represented approximately 2.5%).
Rationale for benchmark applied	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.
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 £520,000 was applied in the audit.
Reporting threshold	We agreed with the Audit & Compliance Committee that we would report to them all misstatements in excess of £22,000 as well as misstatements below that threshold that, in our view, warranted reporting for qualitative reasons. We also report to the Audit & Compliance Committee misstatements relating to disclosures that we identified during the course of assessing the overall presentation of the financial statements.

An overview of the scope of our audit

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

We gained an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates. We considered the risk of acts by the Society which were contrary to the applicable laws and regulations including fraud. We designed our audit procedures to respond to those identified risks, including non-compliance with laws and regulations (irregularities) that are material to the financial statements.

We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Friendly Societies Act 1992 and correspondence with the Prudential Regulation Authority and Financial Conduct Authority. 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. We used the outputs of a risk assessment, our understanding of the Society's accounting processes and controls and its environment and considered qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Independent auditor's report to the members of Metropolitan Police Friendly Society Limited cont.

Our tests included, but were not limited to, obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by irregularities including fraud, review of minutes of directors' meetings in the year, enquiries of management and inspection of legal and regulatory correspondence. As a result of our procedures, we did not identify any Key Audit Matters relating to irregularities, including fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are discussed under "Key audit matters" within this report.

The primary responsibility for the prevention and detection of irregularities including fraud rests with both those charged with governance and management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report & Accounts 2018 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 26: 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 32, (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 38: 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:

- proper accounting records have not been kept; or

- the 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 40, 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 eight years, covering the years ended 2011 to 2018.

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.

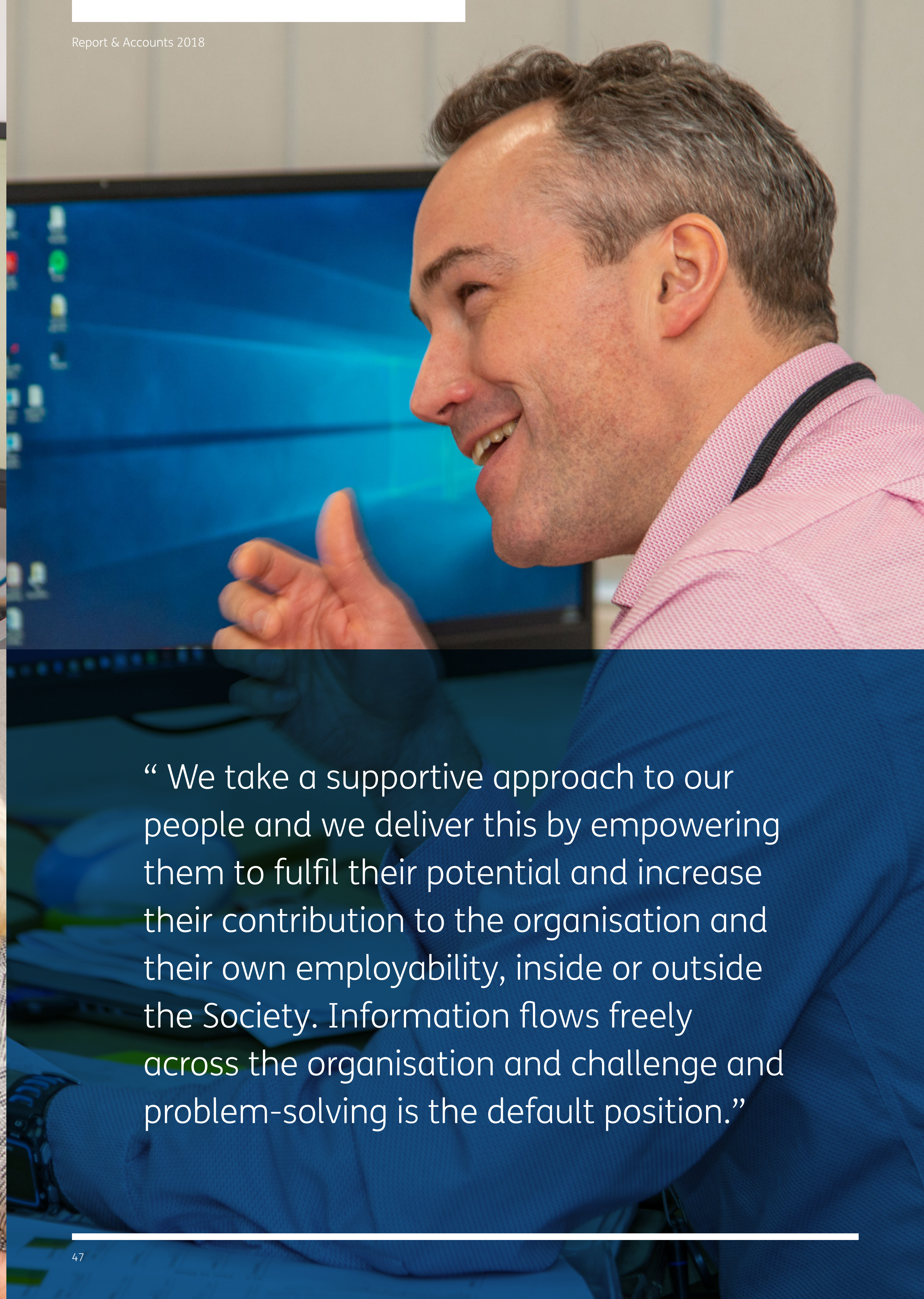
Our audit opinion is consistent with the additional report to the Audit & Compliance Committee.

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.

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

Date: 15 April 2019



" We take a supportive approach to our people and we deliver this by empowering them to fulfil their potential and increase their contribution to the organisation and their own employability, inside or outside the Society. Information flows freely across the organisation and challenge and problem-solving is the default position."

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
TECHNICAL ACCOUNT - LONG TERM BUSINESS			
EARNED PREMIUMS - CONTINUING OPERATIONS			
Gross Premiums Written	2a	**40,984**	33,844
Less: Reinsurance Premiums	2b	**(390)**	(409)
Earned Premiums, net of Reinsurance		**40,594**	33,435
Investment Income and Realised Gains	3	**2,460**	4,188
Unrealised Investment Gains		**–**	6,095
TOTAL TECHNICAL INCOME		43,054	43,718
CLAIMS PAID			
Claims Paid			
- Gross Amount		**14,619**	14,130
- Less: Reinsurers' Share	2b	**(81)**	(160)
Claims paid, net of Reinsurance		**14,538**	13,970
CHANGE IN OTHER TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		**21,749**	23,858
- Reinsurers' Share	2b	**(100)**	(39)
Net of Reinsurance		**21,649**	23,819
OTHER CHARGES			
Net Operating Expenses	4	**3,924**	3,127
Unrealised Investment Losses		**6,461**	
Tax Attributable to Long Term Business	8	**(705)**	174
		9,680	3,301
TRANSFER (FROM)/TO THE FUND FOR FUTURE APPROPRIATIONS	12	**(2,813)**	2,628
TOTAL TECHNICAL CHARGES		**43,054**	43,718
BALANCE ON THE TECHNICAL ACCOUNT - LONG TERM BUSINESS		**–**	–

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
BALANCE SHEET
AS AT 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
ASSETS			
INVESTMENTS	9	**172,413**	159,134
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long Term Business Provision	13	**1,266**	1,166
On Claims outstanding		**10**	66
		1,276	1,232
DEBTORS			
Debtors Arising out of Direct Insurance Operations - Policy Holders		**463**	710
Other Debtors		**962**	464
		1,425	1,174
OTHER ASSETS			
Tangible Assets	10	**183**	211
Intangible Assets	11	**–**	–
Cash at Bank and in Hand		**7,408**	3,747
Deferred tax asset	15	**180**	–
		7,771	3,958
PREPAYMENTS AND ACCRUED INCOME		**95**	44
TOTAL ASSETS		**182,980**	165,542

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
BALANCE SHEET
AT 31 DECEMBER 2018

	Notes	2018 £000	2017 £000
LIABILITIES			
FUND FOR FUTURE APPROPRIATIONS	12	**27,029**	29,842
TECHNICAL PROVISIONS	13		
Long Term Business Provision - Gross Amount		**155,134**	133,385
Claims Outstanding - Gross Amount		**473**	1,006
PROVISION FOR OTHER RISKS AND CHARGES	14	**24**	29
CREDITORS			
Deferred tax liability	15	**–**	474
Creditors including taxation and social security	16	**9**	313
ACCRUALS AND DEFERRED INCOME		**311**	493
TOTAL LIABILITIES		**182,980**	165,542

Approved at a meeting of the Board of Management on 09 April 2019 and signed on its behalf by:

Joanna Young MSt (Cantab), MBA CertEd - Chair

Kathy Byrne BSc, FIA, MBA - Chief Executive

Don Ratcliffe - Secretary

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS

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” (FRS 103); 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 premiums, the following bases of recognition have been adopted:
- Incremental increases are included in new business premiums.
- Single premiums constitute all those contracts for which there is no expectation of continuing premiums being paid including any additional single premiums paid, in respect of individual contracts. All other contracts are included in regular premiums.
- When regular premiums are received other than annually, the regular new business premiums are on an annualised basis.

Claims
Death claims are recorded on the basis of notifications received. Surrenders are recorded upon payment or removal from the technical provision (if earlier). Maturities are recorded when due. Reinsurance recoveries are credited to match the relevant gross amounts.

1 ACCOUNTING POLICIES CONT.

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 FRS 102. The classification of investments is determined at initial recognition.

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

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

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.

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.

1 ACCOUNTING POLICIES CONT.

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.

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 provision is determined in accordance with Solvency II rules as specified by the European Insurance and Occupational Pensions Authority (EIOPA). The principal assumptions are set out in Note 13. Most of the Society's business is with-profits.

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.

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

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

	2018 £000			2017 £000		
Life Assurance Business	**Gross**	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Non-participating contracts						
- periodic premiums	**5,250**	**390**	**4,860**	4,467	409	4,057
Participating Contracts						
- periodic premiums	**1,393**	**–**	**1,393**	2,278	–	2,278
- single premiums	**34,341**	**–**	**34,341**	27,099	–	27,099
Total Premiums Written	**40,984**	**390**	**40,594**	33,844	409	33,435

	2018		2017	
	£000 Regular Premium	**£000 Single Premium**	£000 Regular Premium	£000 Single Premium
Total gross new premium resulting from contracts concluded by the Society	**1,318**	**34,341**	1,206	27,099

(b) Net Impact of Reinsurance

	2018 £000	2017 £000
Reinsurance premiums	390	409
Reinsurers' share of claims paid	(81)	(160)
	309	249
Reinsurers' share of change in Long Term Business Provision	(100)	(39)
	209	210

The effect of reinsurance was to decrease the transfer to the Fund for Future Appropriations by £209,000 for the year ended 31 December 2018 (2017: a decrease of £210,000).

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

3 INVESTMENT INCOME AND GAINS

	2018 £000	2017 £000
Investment Income:	**4,267**	3,792
(Losses)/profits on the realisation of investments:	**(1,807)**	396
	2,460	4,188

Investment Income and gains on the realisation of investments include £Nil (2017: £Nil) from listed investments.

The income and gains arise from financial assets held at fair value through profit and loss. The income arising from assets held at amortised cost is insignificant.

4 NET OPERATING EXPENSES

	2018 £000	2017 £000
Acquisition costs	**1,818**	1,265
Administrative expenses	**2,106**	1,862
	3,924	3,127

Fees payable in respect of the audit of the Society's annual accounts amounted to £95,000 (2017: £84,000).

For 2017, audit-related assurance services comprised the audit of the relevant elements of the Society's SFCR for which fees of £24,350 were charged. The SFCR was exempted from audit for 2018 and there were no other audit-related services. Fees for other services, pursuant to legislation, amounted to £670 (2017: £650).

The Society's Chief 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 £253,112 for 2018 (2017 : £291,817).

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

5 STAFF COSTS

	2018 £000	2017 £000
Wages and salaries	**1,911**	1,268
National insurance costs	**209**	137
Other pension costs	**93**	61
	2,213	1,466

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

	2018 £000	2017 £000
Management	5	5
Sales, marketing and other support staff	25	17
	30	22

6 BOARD MEMBERS' EMOLUMENTS

During 2018, the Chair in the post at year-end received emoluments of £32,400 (2017: £27,250). Six other non-executive Board members received emoluments totalling £129,000 during 2018 (2017: £126.062).

Executive Board members are considered to be the Society's key management personnel and they received total emoluments of £645,627 (2017: £267,025), including remuneration in respect of an interim CEO who, while not formally appointed to the Board, was also deemed a key manager. Details of their respective emoluments are disclosed in the Remuneration Report on page 35 .

7 INVESTMENT EXPENSES AND CHARGES

Investment expenses and charges are not included in net operating expenses, but are reflected in the market value of the Society's investments. For 2018, they were estimated to be £585,000 (2017: £585,000).

8 TAXATION

	2018 £000	2017 £000
Current Corporation Tax at applicable rates	**–**	249
Over-provisions in prior years	**(51)**	(3)
Change in deferred taxation	**(654)**	(72)
	(705)	174

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%.

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

9 INVESTMENTS

a) Investments

	Fair Value		**Historical Cost**	
	2018 £000	2017 £000	**2018 £000**	2017 £000
Variable yield securities and units in Unit Trusts and non-UCITS funds:				
– UK	172,413	158,108	176,061	124,576
Deposits with credit institutions	–	1,026	–	1,000
TOTAL INVESTMENTS	172,413	159,134	176,061	125,576

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 2018:

	Level 1 £000	**Level 2** £000	**Level 3** £000	**Total** £000
Variable yield securities and units in Unit Trusts and non-UCITS funds	–	**172,413**	–	**172,413**

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

None of the Society's Financial Investments are listed. They 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.

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

INVESTMENTS (continued)
c) Financial Risk Management

Objectives and policies:
The Society aims to diversify the investment classes which it holds to meet the expectations of its members who mainly hold with-profits contracts. Matching of assets to liabilities is regularly monitored, with the guaranteed element of the liabilities largely backed by the fixed income assets plus half the holdings in real property funds. Any new class of investment is properly researched as to its security and risk and is only purchased by the Society after prior approval has been given by the Board of Management.

i) Market risk:
The Society is exposed to market risk and in falling markets the capital available to support the business would reduce. In some circumstances, the long term business provision would reduce due to the application of a higher rate of interest being used to value the liabilities. The sensitivity of the Society's Fund for Future Appropriations (FFA) to changes in market conditions is indicated by the following estimates as at 31 December 2018:

	2018 Change in FFA	2017 Change in FFA
20% fall in equity markets	**-5%**	-3%
3% absolute increase in implied volatility of investments	**-1%**	-19%
1% increase in interest rates	**-8%**	-29%
1% increase in credit spreads	**-7%**	-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 c. 8% 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 c. 90% of balance sheet assets are invested in highly liquid UCITs funds . There is no intention to change this liquidity profile.

The liquidity risk is accordingly minimal as the Society limits the extent of its holdings of illiquid assets.

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

iii) Credit risk:
The Society invests a large part of its assets in fixed income assets, mainly liquidity and bond funds totalling £11 million and £74 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 £1.3 million) and cash balances including deposits (total £7.4 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 2018, the proportion was 6% (2017 : 7%).

Additionally, some unrated assets are held within bond funds, where the manager has assessed such assets internally to be investment grade. None of the fixed income assets were past their due date or considered to be impaired . The bond funds had an aggregate value of £74.4 million (2017: £64.5 million) with the following rating profile of the underlying assets as reported by the managers:

Rating	**2018**	2017
AAA	**11%**	6%
AA	**8%**	13%
A	**27%**	25%
BBB	**42%**	45%
Below Investment Grade	**6%**	7%
Unrated	**6%**	4%
	100%	100%

Other credit risk arises in respect of the reinsurers' share of technical provisions, debtors and cash at bank . Debtors are very short term and bear minimal credit risk. Cash balances are held with UK banks within the "ring-fence", which has resulted in 2018 credit ratings of A in respect of them. Reinsurance is with companies with a credit risk of AA.

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 unaudited capital available of £27.0 million (2017 : £29.8 million) to meet our unaudited Solvency Capital Requirement of £10.5 million (2017: £8.7 million), an unaudited coverage ratio of 256% (2017 : 342 %).

The Society considers the sensitivity of its capital resources to extreme market condition. 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 unaudited capital available to £23.9 million, and the unaudited coverage ratio to 216%. Other factors tested on previous occasions, including variations in new business levels, have had a much smaller impact on capital coverage.

The Society is defined as a "small firm for external audit purposes" and its SFCR was not subject to audit for the year ended 31 December 2018.

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

10 TANGIBLE ASSETS

	Short Leasehold Premises £000	Computer Equipment £000	Office Fixtures, Fittings, Equipment £000	**Total £000**
Cost:				
At 1 January 2018	193	122	60	**375**
Additions	8	16	2	**26**
Disposals	–	(27)	–	**(27)**
At 31 December 2018	**201**	**111**	**62**	**374**
Depreciation:				
At 1 January 2018	52	68	44	**164**
Charge for Year	21	21	7	**49**
Disposals	–	(22)	–	**(22)**
	73	**67**	**51**	**191**
Net Book Value :				
At 31 December 2018	**128**	**44**	**11**	**183**
At 31 December 2017	141	54	16	211

The depreciation charge for the year ended 31 December 2018 was £48,970 (2017: £42,575). The loss on disposal of assets for the year-ended 31 December 2018 was £5,364 (2017: £Nil).

11 INTANGIBLE ASSETS

All intangible assets were fully amortised in the previous year.

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

12 FUND FOR FUTURE APPROPRIATIONS

	2018 £000	2017 £000
Balance at 1 January	**29,842**	27,214
Transfer (from)/to Income and Expenditure Account	**(2,813)**	2,628
Balance at 31 December	**27,029**	29,842

13 TECHNICAL PROVISIONS

Gross amounts	**Long term Business** £000	**Claims** £000	**Total** £000
At 1 January 2018	133,38	51,006	134,391
Transfer from technical account	21,749	(533)	21,216
At 31 December 2018	**155,134**	**473**	**155,607**
Reinsurers' share			
At 1 January 2018	1,166	66	1,232
Transfer from technical account	100	(56)	44
At 31 December 2018	**1,266**	**10**	**1,276**

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

TECHNICAL PROVISIONS (continued)

	Non Participating £000)	Participating £000	**2018 Total £000**	2017 Total £000
Analysis of members' liabilities (net of reinsurance)				
Participating (With-profits)	–	139,298	**139,298**	121,713
Non-participating	14,570	–	**14,570**	10,506
	14,570	139,298	**153,868**	132,219
Claims outstanding	96	366	**462**	940
Total technical liabilities	14,666	139,664	**154,330**	133,159

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

The Fund for Future Appropriations of £27,029,000 (2017: £29,842,000) 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

	2018	2017
Cash	10%	18%
Fixed interest	42%	40%
Equities	41%	33%
Property	7%	9%
	100%	100%

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

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	80% AM/FCOO Ult
With-profits whole life	80% AM/FCOO Ult
Non-profit endowment	80% AM/FCOO Ult
Term assurance	80% TM/FN/SOO Ult
Mortgage protection assurance	80% TM/FN/SOO 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

	2018 £000	2017 £000
At 1 January	**29,842**	27,214
Change in the cost of guarantees	**(800)**	900
Investment return on FFA	**100**	700
Strain of writing new business	**(1,600)**	(500)
Change in economic assumptions	**(100)**	400
Other surplus including that arising from premiums and claims	**(413)**	1,128
At 31 December	**27,029**	29,842

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.

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

14 PROVISIONS FOR OTHER RISKS AND CHARGES

	2018 £000	2017 £000
Provision for future pension commitments (Note 18)	**24**	29
	24	29

15 DEFERRED INCOME TAX

	2018 £000	2017 £000
Balance as at 1 January - Liability	**(474)**	(546)
Income and expenditure account credit	**654**	72
Balance as at 31 December - Asset/(Liability)	**180**	(474)

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 2018	303	–	303
Income and expenditure account credit	70	186	256
Balance as at 31 December 2018	**373**	**186**	**559**

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

15 DEFERRED INCOME TAX (continued)

Deferred Tax Liabilities	**Deemed disposals of AIFs*** £000	**Other** £000	**Total** £000
Balance as at 1 January 2018	**750**	27	777
Income and expenditure account (credit)/charge	**(406)**	8	(398)
Balance as at 31 December 2018	**344**	35	379

*Authorised investment funds.

During 2019 the Society expects £56,000 of the deferred tax liability to reverse and comprises

Deemed disposals	149,000
Deferred acquisition expenses	(93,000)
Balance as at 31 December 2018	**£ 56,000**

Deferred tax is prepared at a rate of 20%.

16 CREDITORS INCLUDING TAXATION AND SOCIAL SECURITY

	2018 £000	2017 £000
Other taxes and social security costs	**9**	313
	9	313

All creditors are payable within one year.

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED
NOTES TO THE ACCOUNTS
AT 31 DECEMBER 2018

17 OPERATING LEASES

	2018 £000	2017 £000

Future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	2018 £000	2017 £000
Within one year	84	84
In two to five years	342	328
In over five years	122	219
	548	631
Lease payments recognised in net operating expenses in the Income and Expenditure Account	65	76
	65	76

18 PENSION COMMITMENTS

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

	2018 £000	2017 £000
Defined contribution scheme	93	61

At 31 December 2018 the membership of the defined benefit scheme was 1 pensioner (2017 : 1)

The Board of Management consider that the balance of the defined benefit scheme fund as at 31 December 2018, 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.

Metropolitan Police Friendly Society Limited

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