Metropolitan Police Friendly Society Limited

Annual Report and Accounts for the year ended 31 December 2019

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Chair's Report

This is my second year as Chair of Metfriendly and I continue to feel privileged to be able to maintain my close links with policing, a career I loved, and to support the police family.

As I write this, news is full of COVID-19 and the United Kingdom has just entered lockdown. We are in rapidly changing and uncertain times. Yet there is one certainty and that is the police will again be asked to do more and give more as they keep the peace, prevent and detect crime, save lives and support and enable other public sector workers to continue to do their jobs too.

Working in London is tough. We are here to take the hassle out of savings and investments, making it simpler and giving you confidence that we take our ethical and sustainable responsibilities seriously and that we are also here to support the wider police family in practical ways; through our website, non-financial products and sponsorships.

The Society has performed well in 2019. Most importantly, as a mutual, we continued to grow our membership and assets. 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 2019 than for many years. In 2019 we saw our membership grow by more than 7% to 15,688. In 2019 we also made significant investment in our infrastructure to make the Society more robust and resilient. Importantly, we also took a fresh look at how we support and develop our people to help them deliver the service and organisation our members need. Both of these investments have helped enormously in responding to the current emergency. Our investment strategy paid off during the year and our With Profits fund returned a healthy 9.2% for the year, despite the market volatility caused by political uncertainty. Our performance is covered in more detail in the Strategic Report which follows on page 6.

Our strategy has evolved from Metfriendly being a financial services organisation that offers police family orientated benefits to a Society that has the police family at its heart and develops solutions to help them. This means that we are engaging more with the police family to understand their needs better, providing the right help when it's needed, so that life becomes that little bit easier.

Looking towards the future, we are delighted to announce the launch of our new Monthly Savings ISA. At Metfriendly, we have become increasingly aware of the need to make saving and investing in your future easier and more secure. When I joined policing, I saved monthly with Metfriendly, knowing that it would give me a reasonable return and be there for a great holiday, a 'rainy day', house improvements or a new baby! The new Monthly Savings ISA gives you back that simple opportunity and takes the hassle out of savings. We are continuing to explore other products and initiatives to meet your ever-changing needs as you move through your police career and beyond.

Our Board is changing, too. Craig Haslam, a retired police officer, joined the Board at the beginning of 2019 and we are expecting two new Non-Executive Directors (NEDs) to join the Board in 2020 as part of our Board succession planning. We will, sadly, be saying goodbye to Fiona Gregory and Janet Cassettari in 2020. Fiona and Janet have both been great members of the Board and have helped enormously over the years in moving the Society forward. They will be dearly missed.

Thank you to all my Board colleagues for the dedication, support and guidance they have given during the year. We are fortunate to continue to have a Board with diverse views, innovative minds, a wealth of experience and a shared commitment to serving members and doing the best by them.

The teams at Orpington and in the field have also seen positive changes this year and share the commitment to members, doing the right thing and continually making improvements to Metfriendly's service and outcomes for members.

As is the nature of annual reports, the focus is backward-looking, highlighting what we have achieved and how the Society has performed in the past year. However, our focus is clearly on the future.

We know there are challenges now and to come and, as you would expect, we are ready for them.

There is always much we need to do, and we have the vision, ability and commitment to serve our members well, now and in years and decades ahead.

Joanna Young MSt (Cantab), MBA CertEd

Chief Executive's Report

I am delighted to report to you, our members, on my first full year as Chief Executive of the Society. 2019 has been a year where the Society has grown in every respect. I am proud of the progress the new Leadership Team has made during the year, always keeping you, as our members, at the heart of everything we do.

I have had the privilege of meeting some of you during the year at Passing Out parades, seminars, our AGM and at the Met Police Choir Christmas concert. You continued to save and invest with us and we thank you for trusting Metfriendly to look after your investments for you.

We have been listening to you in a number of different ways, from face to face at our seminars, via our online community and at focus groups. You have told us about the products and services that you want us to help you with. One of the developments we have worked on during 2019 is improving our Monthly Savings ISA so that it is easy to understand and easy to start saving. This is the start of improvements to our products that we will be launching in 2020 so that we continue to be by your side for many years to come.

During 2019 we have invested in infrastructure and people to make Metfriendly more operationally resilient. On the people front, my new Leadership Team is now all in place and working well together. In the Member Services Team, we are measuring the service we deliver to you so that we can make improvements and deliver even better levels of service. Investment in infrastructure has included moving our servers to the cloud to improve business continuity, whilst at the same time ensuring that your data continues to remain secure. We have developed our risk management capability to ensure that we can identify and respond to risk in the fast-changing environment in which we are conducting business.

In the Police Service of England and Wales, we have seen changes as the 20,000 new officers announced by the Government during 2019 are starting to be recruited. This has been reflected in more new recruits being trained at Hendon, increasing from 200 to 500 per month. Our investment in people and infrastructure during the year provides us with a strong foundation to deliver excellent member experience to a greater audience, tackling complexity of our product delivery and injecting a different pace of change into Metfriendly.

Our Options seminars are designed to help officers and staff as they approach retirement. The seminar content is evolving to reflect both the changes in police pensions and the changes in retirement patterns, which in the future will be very different from today. Metfriendly will continue to support you as the job changes and be by your side, taking care of your financial wellbeing.

Despite some challenging market conditions and political uncertainties, our With Profits Fund performed well, returning 9.2% over the year. This reflects our change in investment strategy during 2018, which enabled our investment managers to move tactically into safer assets in light of turbulent markets. Your total investments with us, the assets under management[1], increased to over £200m during 2019 and our financial strength improved, as reflected in the increase in our solvency coverage ratio from 256% in 2018 to 292% in 2019. More details can be found in the Strategic Report on page 6.

That said, we want the best for you and recognise that greater stability in uncertain times is important. That is why we took the decision to decrease annual bonus rates to enable us to provide you with more stable returns on which you depend, rather than the more volatile swings and roundabouts that may be seen with other types of investment. We have therefore held back some of the returns from 2019 to smooth returns and help pay-outs in less successful years.

For our members, this means that declared annual bonus rates for 2019 have reduced slightly compared with those declared for 2015 to 2018.

Looking ahead, there will no doubt be more shifts in our operating environment in the months and years to come, just as there has been in our more than 125-year history. Our strategy and the way we do business will evolve with changing times, but our commitment to our members remains constant.

Kathy Byrne CEO

[1] Assets under management is calculated as total assets less deferred tax assets and reinsurers' share of technical provisions.

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 is timeless and describes why we are in business. Over time, the way in which we deliver it will change as we seek to remain relevant in the future. The vision is underpinned by our values, which were reviewed and updated during 2018:

Our values

- honesty and integrity
- trust and respect
- expertise and professionalism
- empathy and compassion
- courage and innovation
- passion and performance

During 2019, we started a transformation of the way we run our business to make Metfriendly fit for the future. Our values were used as a tool to bring new ways of working to life by describing the behaviours that would demonstrate living the values. The behaviours were described by staff and are measured as part of the appraisal process.

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.

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 we recognise the need for growth, provided it delivers economies of scale.

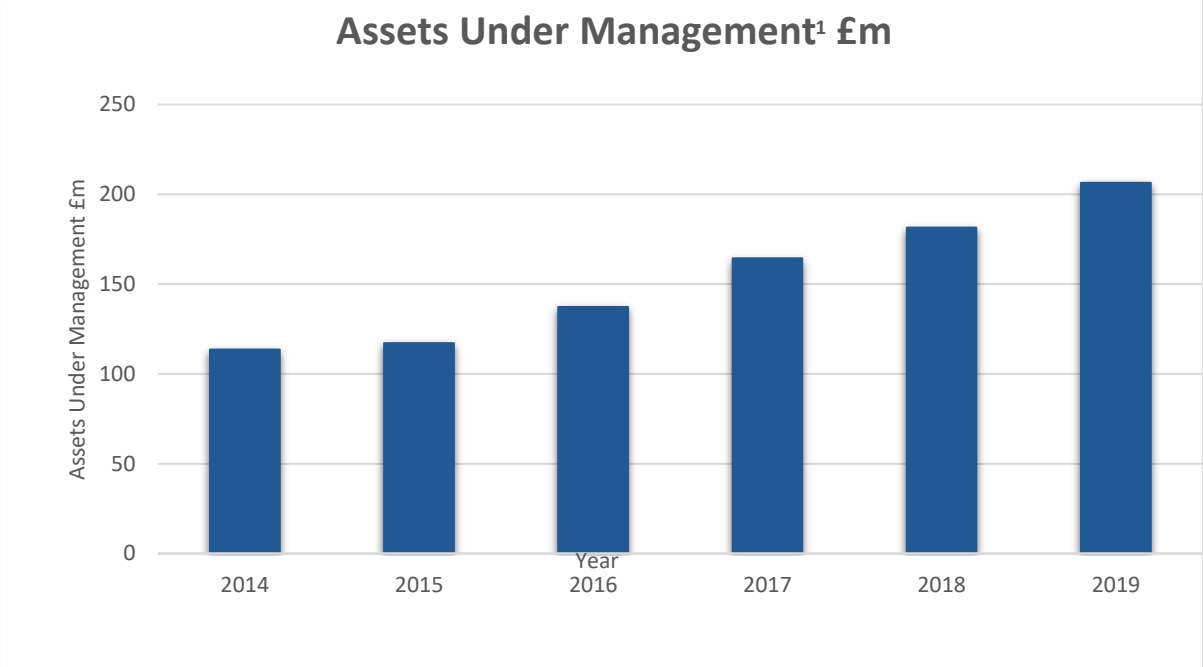
Strategic Objectives:

In 2019, we succeeded in our aims to grow the business and affinity base whilst delivering greater value to our members and improving the member experience. This has been achieved by maximising what we already do well, developing our understanding of our membership and their needs and investing in people and infrastructure to deliver more effectively. We have focused on organic growth by growing our membership base and attracting new and repeat business from members. During

2019, we have started to look at product development to provide members with products and services that are relevant in a changing and uncertain world.

Review of 2019

Assets under management increased from £182m to £206m[2] over the year, due to continued investment by members and good investment returns.



2019 was a year of choppy investment markets due to concerns over Brexit and trade wars. The year closed on a more optimistic note due to perceived progress towards a US-China trade deal and the Conservative's decisive general election win paving the way for a Brexit agreement to be made with the EU. In bond markets interest rates, as measured by the return on UK government bonds, fell below 1%, making guarantees much more expensive to provide.

Against this backdrop the With Profits fund performed well, returning 9.2% over the year. This reflects the change in investment strategy during 2018, which has enabled our investment managers to move tactically into safer assets in light of turbulent markets. We still retain strategic asset allocation, which is the allocation of money between different types of asset to create a diversified portfolio. This means that we continue to balance safety and returns on your money.

Our financial strength improved over 2019, which is reflected in the increase in our solvency coverage ratio to 292% from 256% at the end of 2018 and sits within our solvency coverage ratio of 150% - 300%. Our Own Funds, which are the assets we hold in addition to those required to cover liabilities to members, have increased from £27m to £29m over 2019.

Returns to Members

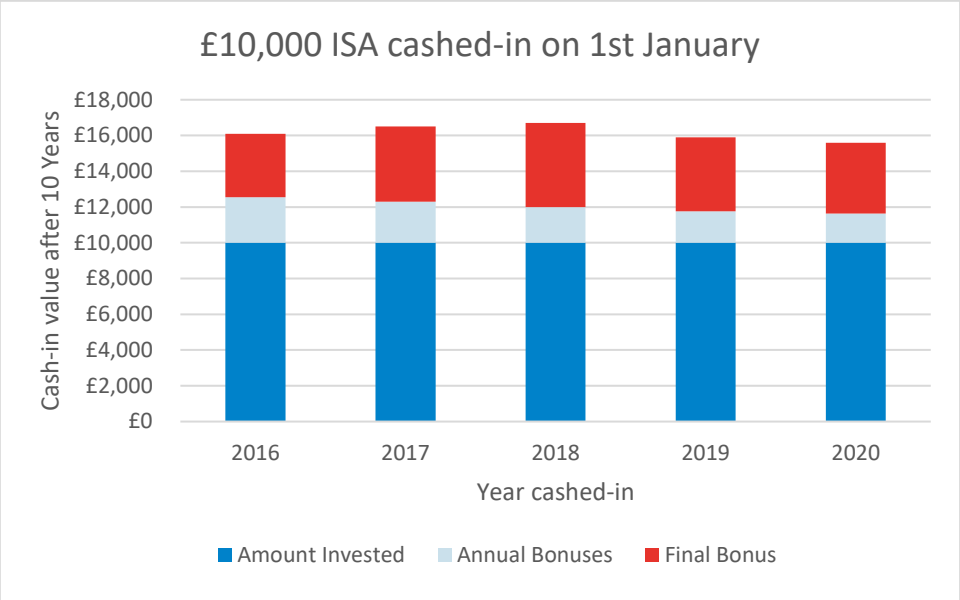
Returns on UK government bonds are the driver for annual bonus rates. Declared annual bonus rates for 2019 have reduced compared with those declared in 2018 due to the increased cost in providing guarantees as a result of interest rates falling below 1%.

[2] Assets under management is calculated as total assets less deferred tax assets and reinsurers' share of technical provisions.

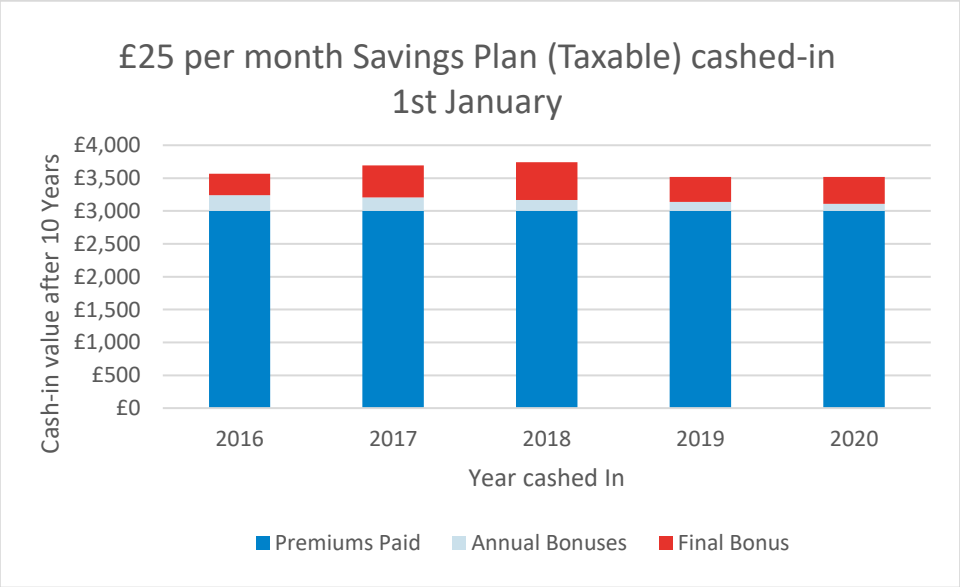
Whilst the With Profits fund performed well, we hold back some of the returns in good years to smooth returns and help payouts in challenging years. Total payouts to members are slightly lower compared with 2018.

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 1st January after being invested for 10 years.

A Lump Sum ISA with £10,000 paid in on 1st January 2010 had a cash-in value of £15,600 on 1st January 2020, which represents an average annual growth rate of 4.5% p.a.



A £25 per month 10-Year Savings Plan (taxable) taken out on 1st January 2010 had a cash-in value of £3,510 on 1st January 2020, which represents an average annual growth rate of 3.3% p.a. A similar tax-exempt plan for £25 per month has a cash-in value of £3,590 on 1st January 2020, which represents an average annual growth rate of 3.5% p.a.



Our 2019 Business Plan involved a substantial investment in people and capability to prepare for significant changes that we have seen starting to take place in our affinity customer base. We expect these changes to accelerate over the next three years and beyond.

Investing in People

2019 has seen considerable change in our people strategy with the creation of a more robust HR function by the Society's first ever dedicated HR Manager. This has been an important step in starting to change the way we do business and we believe change is being achieved. Our values are being championed throughout the Society with a number of new initiatives. The office revamp at the start of the year, with the literal breaking down of barriers (individual offices and walls), has helped encourage a renewed team spirit. During 2019, the new Leadership Team has come on board and is working well.

In the Member Services Team, we are measuring the service we deliver to you so that we can make improvements and deliver even better levels of service. Team members can now see, and be proud of, how they are delivering against service level agreements. In the rare event of falling short of the service level agreements, they are taking it on themselves to assess the reasons for this, then adapting and improving.

We have ensured that all team members have greater exposure to, and thereby understanding of, our member base. Office-based team members now attend field events regularly, which means that administration queries can be answered immediately, help can be given on the spot in completing application forms, thereby improving the level of service we provide to our members by reducing the need to go back to them for more information. We have seen an increase in members visiting the office in Orpington, both for 1:2:1 meetings and to participate in member focus groups.

Investing in Infrastructure

We have continued to invest in infrastructure to deliver a better member experience and to improve our operational resilience.

We are using technology to enable more efficient management and monitoring of member communications and workflow management. This helps us to provide a better member experience.

Our servers and database have been migrated to the Cloud, providing greater security and improving our business continuity capabilities. A full business continuity test was successfully carried out in April 2019 and is now regularly conducted to continue to assess and improve our business continuity abilities.

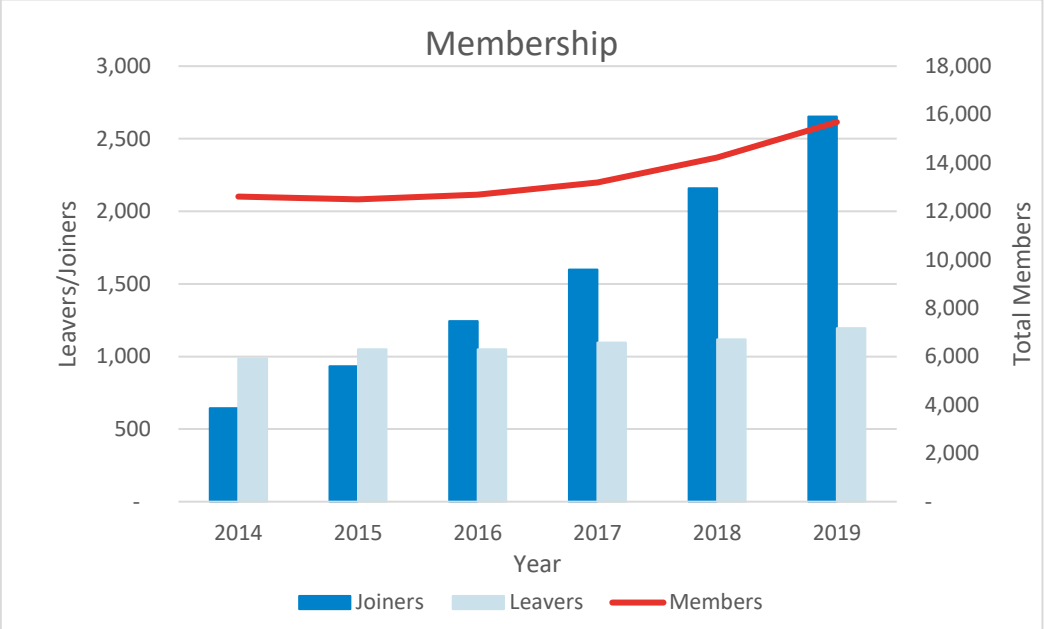
We continue to improve our cyber security capabilities to ensure that member data is kept securely. Our approach is constantly evolving to respond to the changes in cyber risks.

Our regulators have been focusing primarily on Brexit this year and so the regulatory environment has remained relatively stable. There has been increased regulatory focus on operational resilience, which was something we were already working on.

The main change in regulation this year has been in preparing for the financial risks from climate change. Our Chief Risk Officer, Robert Dagg, has been appointed as the person responsible for our plans for this. The Board have approved our initial plan and will continue to monitor progress against this.

Membership

Membership has continued to grow during 2019. While growth in membership has been achieved, there has been an increased focus on member retention. Whilst many savings plans mature and members achieve their savings goals, the Leadership Team enhanced interaction with our members to assist them to continue with their savings behaviours and remain members of the Society.



Premium Income

Premium income in 2019 was lower than 2018, primarily as a result of lower levels of lump sum business. General uncertainty on Brexit, the general elections and volatile markets seen in 2019 no doubt impacted on this and we identified counter measures for improving going forward. Regular premium income showed growth on 2018 levels.

Expenses and Margins

Our expenses in 2019 were within budget but exceeded margins. Expenses exceeding margins was partly due to the investments we made in our new structure to build the Metfriendly for the future, and partly due to lower business volumes.

Solvency Coverage Ratio

Our financial strength improved over 2019, which is reflected in the increase in our solvency coverage ratio to 292% from 256% at the end of 2018.

Business Environment & Future Developments

We continue to trade in a very competitive market. Current global events have had an impact on members and the continued lack of clarity surrounding Brexit and its aftermath adds to the uncertainty we all face. We expect to see some diversification in our product offering during 2020 to ensure that we meet the requirements of our members as their needs change.

An essential part of this is ensuring that our people are trained and capable of delivering what our members require. Our investment in infrastructure is becoming more important as a tool in helping us provide a rounded service to our members.

The significant challenge posed by climate change is becoming an increased focus for the Society, as well as for the wider insurance industry. We expect the identification and management of this risk to develop further over the next few years but have an increased focus on the risk as part of the management of new and emerging risks.

Technology

Trends in technology are creating both risk and opportunity. Cyber-attacks continue to increase in volume, scale and complexity. 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 2019/20 FCA Business Plan sets out the FCA's priorities for the coming year and it identifies key regulatory themes. The primary focus is ensuring a smooth transition for the UK withdrawal from the EU and strengthening the FCA's international engagement with fellow regulatory bodies abroad.

For 2020, matters on the radar include firms' culture and governance; operational resilience; financial crime including money laundering; fair treatment of existing customers; innovation, data and data ethics; demographic change; and the future of regulation.

Kathy Byrne, CEO

Principal Risks & Uncertainties

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 when 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 & 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, with monitoring of risks being undertaken and/or controls being put in place to manage new risks.

Financial Risk from Climate Change

A particular area of focus is the financial risks from climate change. The Society has appointed the chief risk officer as the person responsible for oversight and the Board approved the approach plan ahead of the regulatory timeline of 15 October 2019. Work is progressing to identify key scenarios of climate change that may have a meaningful impact on the Society and how this can be managed, tracked and reported. This will evolve during 2020, as both our own and wider industry understanding increases.

COVID-19

In December 2019, the first cases of the coronavirus (COVID-19) outbreak were reported in China. In early 2020, this outbreak spread rapidly across the globe and the UK Government took various measures to contain the outbreak and mitigate the impact on the economy. The Government has also presented a significant economic relief programme to support both companies and individuals that are financially impacted by the outbreak.

The impact of COVID-19 has resulted in significant volatility in investment markets. The Society's investment strategy has provided protection from the worst of these market movements. At all times during the period up to the date this report was signed, the Society has been able to meet its capital requirements, as measured by the SCR and MCR, by a significant margin. Coverage against the key SCR measure has remained comfortably within the Society's risk appetite target range of 150%-300% of SCR. The Society's SCR and MCR coverage ratios as at 31 December 2019 were 292% and 920% respectively. Despite the market volatility witnessed during February and March 2020, the SCR coverage ratio is estimated to be in the region of 260% at the end of March. Our ORSA, and in particular the Forward-Looking Assessment of Own Risks and Reverse Stress Tests, support the Board's expectation that the Society will be able to continue to meet our capital requirements and has the necessary management actions available to mitigate the risks emerging from the current situation. We will continue to monitor the situation daily and, in particular, the impact of any market volatility on the investment performance of the Society's assets and its ability to meet its regulatory capital requirements.

The Society's prime concern is the personal well-being of its members, the greater police family, its employees and their families. The Society is committed to help its members through this challenging period. Some actions taken include member surveys to ask how the Society can best serve them and setting up capabilities to conduct virtual meetings with its members. To protect its employees, all Metfriendly employees are working from home whilst continuing to maintain service to members by phone, online and via video conference.

Risk Categories

The risk categories that Society considers 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 that may affect our strategy and reputation.

Key Risks

Key risks are monitored by the Board and are assigned to the Risk and Investment Committee ("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 managed operationally by the Leadership Team and 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 2019
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.	We have recognised the strategic importance of membership levels. We have elevated business development to Board level, and the marketing resource continued to expand in 2019. 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 an individual who is 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 leadership structure was completed in 2019 with the appointment of the Chief Finance Officer, Sales & Marketing Director and Chief Risk & Compliance Officer. 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 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. We have developed our training for all staff to encourage self-development with the aim to develop our future leaders from within our Society. We have also developed a talent management scheme that enables the Society to identify and develop future leaders in the Society.	↓
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 & Risk Officers undertake "horizon- scanning" for changes to regulation. We are members 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 and overseen by the Chief Risk & Compliance Officer.	↓

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 Finance Officer quarterly and is reported in management information to the Risk & Investment Committee, who consider any asset class outside its target range.	↓
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 & 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 & 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.	↔

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 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. The expense risk increased during the year as management invested in infrastructure (both people and IT) to make the Society more resilient. The risk is mitigated through Board oversight of the levels of expenditure.	↑
Operational 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. The Risk Working Group considers new development in cyber-attack methods and corresponding defence tools.	↔

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. We strive to be side by side with all members of the police family throughout their career and beyond. For full details of our activities please visit our website. Some of the highlights where we supported in 2019 were:

The Memorial Flame at Hendon Regional Learning Centre

In 2016, we supported the original installation 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. During the year we continued to support the upkeep of the memorial flame.

The Metropolitan Police Rugby Football Club

In September 2018, we announced our shirt sponsorship of the Metropolitan Police Rugby Football Club and we maintained that throughout 2019. The Club was established in 1923 and, since then, 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 board 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.

The National Police Memorial Day

Representatives of the Board and Executive Team attended the National Police Memorial Day in Glasgow to honour those colleagues who have made the ultimate sacrifice whilst serving the public in the proud profession of policing. Metfriendly will continue to support the family, friends and colleagues of fallen officers and staff wherever we can.

London Retired Police Dogs Trust

Metfriendly has sponsored and supported the creation of a brand-new organisation to support retired police dogs. Our canine animals usually devote around 8-10 years of their life to public service but do not necessarily have the pension benefits of their handlers. The Trust is already providing moral and financial support to dogs that require veterinary treatment to ensure they, too, have a long and healthy retirement. Metfriendly are proud to support this pivotal organisation and will continue to do so in the future. Our 2020 calendar reflects our commitment to police dogs across London.

Notting Hill Carnival

We worked in partnership with the Metropolitan Police to supply branded water bottles to keep officers hydrated as they policed the 2019 Notting Hill Carnival, which was one of the hottest days on record. The water bottles are designed to be reusable to reduce our environmental impact.

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 be 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 Investments – Asset Management (CTI) 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 for, and engages in, investee companies

Board of Directors 2019

Details of members of our Board of Directors during 2019 are set out below, including their Board Committee membership:

Non-executive Directors:

Joanna Young MSt (Cantab), MBA CertEd

Board Chair; Chair of the Nomination & Governance Committee; Remuneration Committee

Tim Birse MA, FIA

Chair of Risk & Investment Committee; Audit & Compliance Committee; With Profits Non-Executive Director (Tim retired from the Board by rotation in July 2019)

Janet Cassettari

Risk & Investment Committee from July 2019; Remuneration Committee

Fiona Gregory BA Law

Senior Independent Director; Nomination & Governance Committee; Chair of the Remuneration Committee

Craig Haslam

Audit & Compliance Committee; Nomination & Governance Committee

Graeme McAusland BSc FFA

Chair of Risk & Investment Committee; Remuneration Committee; Audit & Compliance Committee; With Profits Advisory Arrangement

Lee Schopp CDir ACA.

Chair Audit & Compliance Committee; Risk & Investment Committee

Executive Directors:

Kathy Byrne BSc, FIA, MBA

Chief Executive Officer from 1 January 2019

Nomination & Governance Committee; Risk & Investment Committee

Ben Grainger BA, MCIM

Chief Operating Officer

Directors' Biographies

Joanna Young - Non-Executive Director - Chair

Appointed to the Board in May 2013 and Chair since June 2018. Prior to this, Joanna was a serving police officer for over 30 years and the full-time Secretary to the Superintendents' Association in London for four years until her retirement in 2015. She continues to have numerous connections and interactions with policing and 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. Joanna is married with three grown-up children, is an active member of her church, leading a Sunday youth group, and continues to enjoy keeping fit, especially skiing, running and badminton.

Joanna was appointed Chair of the Board in 2018 and Chair of the Nomination & Governance Committee and served on the Remuneration Committee.

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 serves on the Risk & Investment Committee & Remuneration Committee.

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 15 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 five 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.

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.

Craig serves as a member of the Audit & Compliance Committee and Nomination & Governance Committee.

Lee Schopp - Non-Executive Director

Appointed to the Board in August 2016, Lee is a Chartered Accountant, Chartered Director and former 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 also built his own home and founded a successful micro-brewery operating in Bedfordshire.

Lee is the Chair of the Audit & Compliance Committee and serves on the Risk & Investment Committee.

Graeme McAusland - Non-Executive Director

Appointed to the Board in August 2016, Graeme is a qualified actuary and is currently 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.

Graeme is the Chair of the Risk & Investment Committee and serves on the Audit & Compliance Committee and Remuneration Committee. Graeme also serves as the Society's With Profits Advisory Arrangement.

Kathy Byrne – Executive Director – Chief Executive Officer

Kathy Byrne is a qualified actuary with over 30 years' experience in the insurance industry. Kathy was appointed as Metfriendly's CEO on 1 January 2019, having joined in 2017 in a risk management role. She was appointed as Chief Financial Officer and to the Board in 2018.

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.

Kathy is a Non- Executive Director and shareholder of Alpasión Vineyard in Mendoza. She enjoys playing golf and skiing in her spare time.

She serves on the Risk & Investment Committee and the Nomination & Governance Committee.

Ben Grainger – Executive Director – Chief Operating Officer

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. In this capacity he regularly attends the Audit & Compliance, Nomination & Governance and Remuneration Committees.

Ben is a member of the Institute of Directors and is working towards Chartered status, having completed with “Distinction” the Institute of Directors’ Certificate in Company Direction. 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 2019, 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 and leadership 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 35 members of staff, and Central Court Orpington remains the main office of the Society.

The Society’s Leadership Team is led by Kathy Byrne, CEO and comprises Gerhardt Ekermans as Chief Financial Officer, Robert Dagg as Chief Risk & Compliance Officer and Company Secretary, Ben Grainger as Chief Operating Officer and Martin Bellingham as Sales & Marketing Director.

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 2019, stood at 15,688 (2018: 14,230).

Board of Management

Details of the Board of Management and Committee members are shown on page 19. There were three changes to Board membership during 2019.

Kathy Byrne was appointed as CEO from 1 January 2019. Tim Birse retired from the Society by rotation in July 2019 and Craig Haslam was appointed to the Board in January 2019.

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 2019. 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

Although the Society did not make any official donations during 2019, 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.

During 2019, 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 at each intake at the Hendon training centre
- Main sponsor for the Metropolitan Police Rugby Football Club for the 2019/2020 season
- The Metropolitan Police Choir
- The production of the London Retired Police Dog Trust's annual calendar.

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 2019.

The Society did not conduct any activities in 2019 that it believes were outside its powers.

Going Concern

The Society's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Society should be able to operate within the level of current resources over a period of at least 12 months from the date of approval of these financial statements. After making enquiries, the Directors have a reasonable expectation that the Society has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis on preparing financial statements.

The Directors consider that the financial impact of COVID-19 on the UK economy and the Society is not currently estimable with any degree of certainty. The Directors have considered its potential impact on the Society's financial resources and business plans and believe that the Society is well placed to manage its business risks despite the current uncertain economic outlook. Further details of the potential impact of COVID-19 may be found in the Strategic Report on page 12. 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.

Viability Statement

The Own Risk Solvency Assessment ("ORSA") process identifies the assumptions which the Society has made in assessing how the business will develop and results in an annual report available to our Regulators.

With the new Leadership Team in place, a strategic plan for 2020 – 2022 was produced. The Society also produces a Forward Looking Assessment of Own Risk ("FLAOR") that is consistent with the three-year projection in the Society's Business Plan. The FLAOR looks at solvency and capital requirements under several new business scenarios and includes both successful growth in new business and reduced new business volumes.

As a result of this work, the Society has a reasonable expectation that it will be able to continue to operate and meet its liabilities as they fall due for a period of at least three years. The key assumption supporting this expectation is the continuing availability of appropriate resources to cover being available.

Future Developments

These are covered in the Strategic Report.

Appointment of Auditors

Mazars LLP acted as auditors to the Society throughout 2019.

Mazars LLP were first appointed in 2011. The Board will be reviewing tenders for appointment of auditors after the completion of the 2019 financial year. Mazars have expressed an interest in continuing as auditors and will be invited to tender during 2020.

Robert Dagg – Secretary

Report to Members with With Profits Policies

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 Advisory Arrangement and the With Profits Actuary ("WPA"). The With Profits Advisory Arrangement currently chairs the Society's Risk & Investment Committee, which also has a responsibility to consider issues relating to With Profits business. Tim Birse served as the With Profits Advisory Arrangement until retiring from the Board in June 2019. Graeme McAusland served as With Profits Advisory Arrangement from mid-June 2019 onwards. His terms of reference were reviewed in July with no changes.

The Board reviewed the practices in the PPFM twice during 2019. The review in January took effect from 26 February 2019 and the review in December took effect from 2 January 2020. The main changes are set out below.

The Board's discretion relates principally to setting investment strategy, determining asset shares, setting annual and final bonuses, setting fair surrender values, and regularly assessing whether it should make any special distribution from the Society's capital. In setting final bonuses, the objective is to ensure that payouts are fair and, in particular, close to the asset shares 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).

In managing the With Profits business during 2019, the Society has taken account of the strength of the fund and the cost of providing guarantees. This, along with market uncertainty and volatility during 2019, has meant that the investment managers have revised the asset allocation within the multi-asset fund away from equities to other asset classes and have taken a defensive position in asset holdings.

The Board considers that the volumes and terms of business written in 2019, and those planned for 2020, are 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% in 2018 was continued for 2019.

It is the Directors' opinion that the business has been managed throughout 2019 in accordance with the PPFM; and that they have exercised their discretion appropriately, taking into account the reasonable expectations of members, and maintaining fairness between differing types of business.

Changes to the PPFM

There were no changes of substance to the Principles in the PPFM during 2019. The Practices were reviewed in January and December 2019 to remove redundant wording, to improve clarity and to update them.

The January update reflected:

- changes to reflect new investment management arrangements that were implemented over 2018. Where appropriate, references to equities have been updated to risk assets
- clarification of our approach to the existing market value reduction subsidy in the Practices for Final Bonuses, Business Risks and Charges and Expenses

The December update reflected:

- the removal of the market value reduction subsidy for all business written from 1 January 2020 and the reduction in the charge that is made to assets shares in respect of the expected cost of this guarantee. This reflects a change following the Society's move to an investment strategy that is designed to more actively mitigate downside market risk and enables the Society to continue to write increasing volumes of new business whilst remaining financially strong. For ISA business written on recurrent premiums, a new policy is issued for each tax year, which means that any contributions made to these ISA policies from the 2020/21 tax year onwards do not have the market value reduction subsidy

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

Bonuses

The Board set the rates of annual bonus added to With Profits contracts for 2019 at the rates shown in the table below, which are lower than the rates set in 2018. The interim rates for claims paid in 2020 were set at the same rates as those for 2019.

Annual bonus rates for 2019 are shown below, along with the rates for 2018 and interim annual bonus rates to be paid on claims in 2020.

Product	2018 Declared Rate	2019 Declared Rate	2020 Interim Rate
New series endowments	1.00%	0.64%	0.64%
Tax-exempt endowments	1.20%	0.80%	0.80%
With Profit Bonds, Flexible Savings Plans and fully paid Option Plans	1.20%	0.80%	0.80%
Lump Sum and Lifetime ISAs and fully paid tax-exempt Option Plans	1.50%	1.00%	1.00%
Monthly Savings ISA*	2.50%	2.00%	2.00%

** The 2019 declared rate relates to the 2019/2020 tax year. The 2020 interim rate relates to the 2020/2021 tax year. The interim rate for the 2020/21 tax year was reduced to 1% on 23rd March 2020.*

The guaranteed reversionary bonus rate for the Monthly Savings ISA and Lifetime ISA for the 2020/21 tax year will be 1.50%.

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. Examples are given on the Society's website. Payouts on endowments in 2020 will generally be slightly lower than in 2019. These changes reflect movements in the underlying asset shares.

Surrender Values

The Society has maintained its practices for surrender values throughout 2019. 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 2019.

Kathy Byrne

On behalf of the Board

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 2019 may be regarded as having taken the interests of all With Profits policyholders into account in a reasonable and proportionate manner;
- The new business written during 2019 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2019 were appropriate.

In reaching this opinion I have taken into account the information and explanations provided to me by the Society, relevant rules and guidance issued by the PRA and FCA and applicable standards issued by the Financial Reporting Council and the Institute and Faculty of Actuaries.

Lindsay Unwin BSc FIA

Corporate Governance Report

Metfriendly uses the 2019 edition of the AFM's Corporate Governance Code (full text of the new Code is available at www.financialmutuals.org/governance/ourgovernance-code/) as a benchmark to demonstrate good governance. This Code was effective from 1 January 2019, and we have decided to adopt it from that date and report against its principles for this financial year. The Code has six principles:

- purpose and leadership
- Board composition
- Director responsibilities
- opportunity and risk
- remuneration
- stakeholder relationships and engagement

each of which is broken down into more detailed provisions. The following section explains how Metfriendly applies these provisions and where, in this Annual Report or elsewhere, compliance with those provisions is evidenced.

Throughout the year ended 31 December 2019, to the best of the Board's knowledge the Society has complied with the AFM Corporate Governance Code (2019). The Society has applied all the principles set out in the Code and explained how these principles have been applied, as set out below.

Principle One - Purpose and Leadership

Purpose

The purpose of Metfriendly, as expressed in our "Vision Statement", is to be the trusted provider of choice for financial products relevant to the needs of the police family in the London area.

Values

Our values shape every aspect of how we operate as a Society, to ensure we treat everyone equally and fairly, whether as employees, members, regulators, or third-party or partner organisations.

Our values are:

- honesty and integrity
- trust and respect
- empathy and compassion
- expertise and professionalism
- courage and innovation
- passion and performance

We always put our members, and the protection of their interests, at the centre of all that we do.

The Board promotes a clear and collective vision through engagement with employees throughout the year by dissemination of Board decisions through the Leadership Team to all employees at regular staff meetings, and by Board participation at team building seminars held for all staff.

The Board is ever mindful of the dilemma of mutuality; the interests of existing members at any point in time may differ from the needs of the business to generate a surplus sufficient to enable investment, for example in new technology or skill, and/or growth of the business. Both capital investment and growth benefit future members but are made possible using the funds provided in large part by past and existing members. This means we must be very clear as to the benefits to members we expect from our strategic decisions in order to balance these needs over time.

Culture

A healthy culture is critical to the success of any company, but especially for a Friendly Society.

In order to more deeply understand our culture and ensure that it is aligned with our purpose, the Board commissioned staff surveys in 2018 and 2019. The results of the surveys have already informed a wide variety of activity in the Society, from adjusting the appraisal system to informing Board of recruitment choices. Encouragingly, they also highlighted the clear sense of purpose and a collective vision shared across the Society. We intend to run the staff survey annually and respond to the feedback.

The Board continues to monitor indicators of a healthy culture throughout the year, including staff turnover.

Adherence to our values is an integral part of regular staff appraisals carried out quarterly for all staff and is discussed at the regular monthly meetings between individuals and their line managers.

We conduct exit interviews for every employee that has chosen to leave the business.

Strategy

Our strategy, objectives, and performance indicators are found in the Strategic Report starting on page 6.

Principle Two - Board Composition

The function of the Board of Directors is to manage the business of the Society, which may exercise all the powers of the Society as expressed in its Rules and under the provisions of its Terms of Reference.

The primary objectives of the Board are to:

- collectively express the aspirations of the Society's membership
- set the overall values and principles of the organisation
- ensure the strategic vision and decisions taken by the Board in relation to membership, relationships with the police service, and product/service provision and development uphold the Society's reputation

What follows describes how Metfriendly exercises this responsibility.

The Board must meet at least three times a year. During 2019 the Board met seven times, which it decided was sufficient to carry out all its tasks effectively. In addition, the Board has a strategy day when it focuses on wider issues that affect the business and checks that plans remain appropriate.

The Board works to a Schedule of Matters Reserved for Board Decision which is reviewed and approved each year. During 2019, the Terms of Reference for the Board was drafted and approved. All meetings are formally minuted.

The main focus of the Board is on the following areas:

- strategy and management, which includes approving long-term objectives and monitoring the Society's performance against the objectives
- governance and culture, which includes assessing the composition and competency of the Board following the recommendation of the Nomination & Governance Committee and the policies that guide the Society
- stewardship of members' funds, which includes selecting investment managers and strategies through the recommendation of the Risk & Investment Committee
- financial reporting and controls, which includes approval of the annual report and financial statements following recommendation from the Audit & Compliance Committee
- communication and reputation, which includes engagement with members and ensuring polices are in place to deliver high quality service and products
- remuneration, which includes following the recommendation of the Remuneration Committee in determining the salary budget for the Society as a whole and remuneration of Directors. Director remuneration is subject to member confirmation at the Annual General Meeting (AGM)
- delegation of authority, which includes the Society-wide scheme of delegation and terms of reference for various committees following recommendation by the Nomination and Governance Committee

Chair

The Board members for 2019 are listed on page 19. Metfriendly operates with a separate Chair and Chief Executive to ensure the balance of responsibilities and accountabilities are effectively maintained. Joanna Young, as Chair, has responsibility for the effectiveness of the Board.

Balance & Diversity

The Metfriendly Board is mindful of the need to ensure the right balance of skills, experience and background in its recruitment of Directors. We recognise that diversity in gender and ethnic backgrounds would benefit the Society. However, competence relevant to the needs of our business remains our overarching recruitment criterion.

Size & Structure

A trade-off exists between a Board that is large enough to meet the requirements of governance and strategic oversight, but small enough for agile and effective decision-making. The Nomination & Governance Committee keeps under review the size of the Board to ensure sufficient diversity and expertise.

All Non-Executive Directors must be in a position to effectively challenge the Executives; therefore, they must be independent in character and judgement. Four of the five current Non-Executive Directors have served less than nine years on the Board and are regarded as independent in both respects. The longest serving Non-Executive will retire and not seek re-election at the 2020 AGM. The Chair, Joanna Young, who was independent on her appointment, has served less than nine years. All Directors are subject to annual re-election at each Annual General Meeting. The Chair rigorously evaluates all Non-Executive Directors to ensure they remain in a position to operate independently and remain fit and proper people to undertake the role.

The Board directly, and through the Nomination & Governance Committee, monitors succession planning in the business and has succession plans covering senior management function holders in place.

Effectiveness

The Chair evaluates all Board members through individual appraisals. The Chair is also reviewed each year by the Senior Independent Director.

To encourage openness and a free exchange of views, some Board meetings comprise a section with the Executive not present.

New Board members take part in a comprehensive induction programme when joining and all Board members participate in a programme of training and development each year.

The Board conducts an annual self-assessment of its effectiveness and a three-yearly external Board effectiveness review.

The Rules set out the support the Society makes available to Directors to enable them to fulfil their responsibilities. This includes the services of a Society Secretary who is appointed by, and reports to, the Board.

Any Director who is a member of the Society is required to declare that he/she is a member of the Society and for this to be entered into a log maintained and reviewed on an annual basis by the Society Secretary. This would facilitate the investigation of any allegation of conflict of interest. In addition, any possible conflict of interest anticipated from the agenda and papers is required to be disclosed at the commencement of every Board and Committee meeting and is recorded in the minutes of that meeting.

Voting at the AGM is per member attending, rather than per policy. We always expect all our Directors to represent the best interests of members.

Principle Three - Director Responsibilities

Accountability

The Society's Memorandum and Rules, Terms of Reference, and Management Responsibility Map clearly express and explain corporate governance practices and lines of accountability.

Directors declare their interests at least annually and any potential conflicts of interests are openly documented and managed.

The Board is evaluated collectively from time to time by an external party to ensure the business is run in an appropriate manner. In 2017 RSM facilitated an evaluation of Board effectiveness. The actions arising from this review have been, or are in the process of being, acted upon to further enhance overall Board effectiveness.

The Society implemented the Senior Managers and Certification Regime (SM&CR) which was extended to insurers in December 2018. The purpose of the regime, which already applied to banks and investment companies, is to encourage staff to take personal responsibility for their actions, improve conduct in financial services at all levels, and make sure firms and staff clearly understand and can demonstrate who does what. SM&CR replaces the Senior Insurance Manager Regime implemented in 2016.

Committees

The Board operates four Committees; refer to page 34 for more information on the Committees.

Integrity of Information

The Board receives regular and timely information on all key aspects of the business including financial performance, strategy, operations, risks, market conditions, Human Resources, KPIs, compliance and data protection aspects.

The integrity of the Society's financial information is audited annually by our external auditors and our data and information-related processes are periodically reviewed by our externally provided internal audit service.

Principle Four - Opportunity & Risk

Opportunity & Risk

The Strategic Report starting on page 6 sets out the opportunities and risks currently faced by Metfriendly and how Metfriendly is addressing them.

In accordance with Solvency II requirements, Metfriendly formally conducts its Own Risks and Solvency Assessment (ORSA) regularly. We prepare an ORSA report, which we send to the Prudential Regulatory Authority. The purpose of the ORSA is to provide both the Board and the regulators with evidence that the Society frequently and systematically assesses the risks it faces in respect of maintaining solvency capital and achieving its objectives over a three-year horizon.

Responsibility

The Board, via the Risk and Investment Committee, ensures the risks that the business faces are managed in a prudent and conservative manner. The Society operates a comprehensive risk management framework through which it identifies, monitors, reports and manages its principal risks within risk appetite and ensures that adequate capital is held against them. The key tools to enable this to happen are the Risk Register and the ORSA.

The Risk Working Group, which consists of the CEO, the IT Manager and the Risk & Compliance Team, meets regularly to review existing risks and controls and to horizon-scan for new and emerging risks that may affect the Society, and the results of this deliberation are reported to the Leadership Team and to the Risk & Investment Committee.

We are incorporating a newly identified risk - the financial risk from climate change - into our risk management processes. Overall responsibility for oversight of this risk will rest with the Chief Risk & Compliance Officer, Robert Dagg. We expect the identification and management of this to develop further over the next few years.

See the Report of the Risk & Investment Committee starting at page 36 of this report for more information on risks and risk management and control.

Principle Five – Remuneration

In order to deliver value and service to members, the Society must have credible leaders with professional expertise in financial services. Technical proficiency alone is not enough; our colleagues are also chosen for their personal values and how closely these correlate with the values of Metfriendly. Therefore, the remuneration offered by the Society should be competitive within the financial services sector, commensurate with the complexity of the role, and reasonable and responsible in light of our commitment to mutuality in order to attract and retain skilled and expert senior people.

Refer to the Remuneration Report on page 40 for further details on remuneration.

Principle Six - Stakeholder Relationships & Engagement

Members

Wherever possible, we try to add value to our relationships with our members and enhance our dealings with them. We are active members in the mutual movement, including Association of Financial Mutuals (AFM) and Investment and Life Assurance Group (ILAG).

One Board member, Craig Haslam, was specifically recruited to maintain an ongoing dialogue with the majority of our members, having been a long-serving Met Police officer himself, like our Board Chair, Joanna Young. In addition, all our Directors, together with members of our office staff from Orpington, attend the events for new recruits, award recipients and retirees that we organise around London, where they meet members, as new recruits, mid-service, or about to retire.

During 2019 we hosted several sessions with members acting as small focus groups. Those meetings generated several key messages to us about the benefits and facilities offered to members, which would not otherwise be known to us through routine financial communications.

Employees

Our people are particularly important to us. The number of people engaged in the business as at 31 December 2019 was as follows:

	Male	Female	Total
Board	1	1	2
Leadership Team	3	-	3
All Other Staff	11	19	30
Total	**15**	**20**	**35**

We celebrate our diversity and inclusiveness through all strands of our work and our diversity is reflecting throughout all levels of the Society. We have a policy of being as flexible as we can with working arrangements, both to ensure we fulfil member expectations and to help us maximise opportunities for our staff. We encourage our staff to work non-typical hours when needed, which enables them to balance work with other commitments and maintain their career aspirations.

Suppliers

Metfriendly engages with a variety of third-party suppliers to deliver our desired business outcome.

We ensure that decisions regarding member outcomes where Metfriendly are the contracting party, for example whether a claim should be paid and how much, are always retained within the business. We have no appetite to outsource any of this core activity to third parties; the outcomes of this activity are critical to the delivery of our business objectives. Where a supplier can add value to our relationship with our members, such services will be utilised.

Our relationship with suppliers is governed by the Risk & Investment Committee.

Community & the Environment

The police family is at the heart of everything we do. Our affinity group is the reason we exist, and we strive to be a responsible member of the communities in which we operate.

We have continued to support staff in giving time to charities; this year we have worked with charities such as National Police Memorial Day, and we also raised over £6,000 for the London Retired Police Dogs Trust through sales of our calendars produced alongside them. Please see the Corporate Social Responsibility Report for more information on our community engagement.

Robert Dagg

Company Secretary

Reports of the 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 and no additional Committees have been formed during 2019. The key purposes, and 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 and responsibilities and key activities of each of the Society's Board Committees during 2019, together with membership details, are set out below. Directors' attendance at Board and relevant Committee meetings in 2019 was as follows:

Director	Board of Directors	Audit & Compliance Committee	Risk & Investment Committee	Nomination & Governance Committee	Remuneration Committee
T. Birse[3]	3/3	1/1	2/2	-	-
K. Byrne	7/7	-	(4/4)*	3/3	(3/3)
J. Cassettari[4]	7/7	-	2/2	1/1	3/3
B. Grainger	7/7	(4/4)	-	-	(2/2)
F. Gregory	7/7	-	-	3/3	3/3
G. McAusland	7/7	4/4	4/4	-	3/3
L. Schopp[5]	7/7	4/4	2/2	2/2	-
C. Haslam	7/7	4/4	-	3/3	-
J. Young	7/7	(1/1)	(3/3)	3/3	3/3

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

[3] Retired from the Board by rotation in June 2019.
[4] Joined the Risk & Investment Committee in July 2019 and the Nomination & Governance Committee in February 2019.
[5] Joined the Risk & Investment Committee in July 2019.

Audit & Compliance Committee

Membership

The Committee's membership during the year comprised:

- Lee Schopp (Chair)
- Graeme McAusland
- Craig Haslam
- Tim Birse (retired by rotation on 4th July 2019)

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.

Tim Birse retired by rotation from the Society and the Committee during 2019. Graeme McAusland was Chair of the Committee until 4 July 2019 when Lee Schopp was appointed as Chair of the Audit & Compliance Committee.

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 2019 have included, but were not limited to:

- review of the Society's 2018 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, Complaints 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 Managers and Certification Regime documentation
- review of Money Laundering Reporting Officer's annual report
- review of Whistleblowing annual report.

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.

Lee Schopp

Chair of the Audit & Compliance Committee

Risk & Investment Committee

Membership

The Committee's membership during the year comprised:

- Graeme McAusland (Chair)
- Kathy Byrne
- Ben Grainger (rotated off in July 2019)
- Janet Cassettari
- Lee Schopp
- Tim Birse (retired by rotation)

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 risk and investment expertise to discharge its duties and responsibilities as documented within its Terms of Reference.

In addition, the Chair may attend Committee meetings; Joanna Young did so on one occasion in 2019.

Tim Birse retired by rotation from the Society during 2019 and was Chair until he retired. Graeme McAusland was appointed as Chair Elect of the Risk & Investment Committee in November 2018 and took up the Chair post after the 2019 AGM. Ben Grainger retired from the committee by rotation, with Janet Cassettari and Lee Schopp joining in July 2019.

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 & Financial Condition Report (SFCR)
    - prudential regulatory returns including the Society's Own Risk and Solvency Assessment (ORSA).

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.

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.

Activities during the Year

The Committee's activities during 2019 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
- review of the Society's investment planning and strategy
- review of the Society's Cyber Risk and Data Protection practices
- 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.

Graeme McAusland

Chair of the Risk & Investment Committee

Nomination & Governance Committee

Membership

The Committee's membership during the year comprised:

- Joanna Young (Chair)
- Fiona Gregory
- Kathy Byrne (from February 2019)
- Craig Haslam (from February 2019)
- Lee Schopp (rotated off in June 2019)
- Janet Cassettari (rotated off in February 2019)

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 from February 2019 with Kathy Byrne joining on the same date. Lee Schopp and Janet Cassettari ceased to be members of the Committee, taking up other committee roles.

Purposes

The Committee's primary purpose is as follows:

- 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 Managers & Certification Regime (SM&CR) roles; whilst keeping the Board's governance arrangements under review and making appropriate recommendations to ensure their consistency with appropriate and proportionate governance practices.

Duties 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

- oversight of the recruitment of Chief Risk Officer & Company Secretary
- periodic review of Society's Governance Map/Responsibilities Map required by the regulatory 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 NED succession plans
- Board performance management
- Board Skills Audit & Board training schedule
- review of all human resources policies

Joanna Young

Chair of the Nomination & Governance Committee

Remuneration Committee

Membership

The Committee's membership during the year comprised:

- Fiona Gregory (Chair)
- Graeme McAusland
- Joanna Young
- Janet Cassettari (from February 2019)

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

Purposes

The Committee has one main purpose being:

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

Duties and 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.

Activities during the Year

The Committee's key activities during 2019 have included, but were not limited to:

- agreeing Remuneration Report and Remuneration Policy Statement
- agreeing Non-executive Director Remuneration
- agreeing Managers and Staff Pay Review and bonus outcome
- agreeing Executive remuneration proposals
- oversight of staff benefits package proposals

Fiona Gregory

Chair of the Remuneration Committee

Remuneration Report

The approach to remuneration at Metfriendly is set out in the Remuneration Policy for Non-Executive Directors. The Remuneration Report and Policies were subject to an advisory vote and specifically approved by the members as part of the Annual General Meeting in 2019.

For Executive Directors and other Senior Managers, the Society is moving towards a position where:

- basic salaries are set out at the median for its peer group
- the Society offers a range of employment benefits that is comparable to its peers

During 2019, the remuneration paid to NEDs comprised a fixed amount in accordance with the roles held by the NEDs.

In 2019, a bonus scheme for all staff, including the Leadership Team, was introduced. In order to ensure appropriate behaviour and good long-term stewardship by Executives, the criteria were based on total overall performance against Society-wide objectives. The design and operation of the scheme will be reviewed in mid-2020 to ensure that it is operating appropriately in the interests of the Society, its employees and members.

The following remuneration was paid to Directors for services as a Director of the Society during 2019:

Non-Executive Directors	2019 (£)	2018 (£)
Craig Haslam[6]	22,500	-
Fiona Gregory	28,000	28,200
Graeme McAusland	26,750	22,200
Janet Cassettari	22,500	19,800
Joanna Young	38,000	32,400
Lee Schopp	24,000	21,000
Tim Birse[7]	14,000	22,800
Mike McAndrew[8]	-	15,000
Total	**175,750**	**161,400**

Executive Directors	2019 (£)	2018 (£)
Kathy Byrne (CEO)	190,112	44,378[9]
Ben Grainger (COO)	129.353	97,225
Stuart Bell (CEO)	-	305,791[10]
Ben Terrett	-	19,483[11]
Mark Myers	-	178,750[12]
Total	**319,465**	**645,627**

[6] Appointed to the Board on 01 January 2019
[7] Stepped down from the Board on 21 June 2019
[8] Board Chair until 14 June 2018
[9] Appointed to the Board on 21 August 2018, appointed as CEO on 01 January 2019
[10] Payment of all contractual entitlements owing and due to Stuart Bell under his contract of employment with Metfriendly upon termination of his employment, including payment in lieu of his contractual notice
[11] Resigned 28 February 2018
[12] Mark Meyers was not appointed to the Board. He was interim CEO from 1 June 2018 to 31 December 2018

The remuneration paid to the Executive Directors for 2019 comprised:

2019 (£)	Gross Salary	Bonus	Employer Pension Contributions	Total Cost to the Society
Kathy Byrne (CEO)	165,000	10,080	15,032	190,112
Ben Grainger (COO)	110,000	9,030	10,323	129,353
	275,000	19,110	25,355	319,465

Fiona Gregory

Chair of the Remuneration Committee

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 2019.

Kathy Byrne

Chief Executive Officer

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 2019 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 2019 and of the Society's transfer to the fund for future appropriations for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Friendly Societies Act 1992.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Society's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 arising from those procedures.

These matters, together with our findings, were communicated to those charged with governance.

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 financial statements 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: • Performing consistency checks over the data files received; • Reviewing the data reconciliations performed by the Society; • In conjunction with our IT specialist team members, assessing 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; • In conjunction with our actuarial specialist team members, applying our industry knowledge and experience to assess the methodology, models and assumptions used in calculating the long term business provisions; • Gaining an understanding of any significant movements in the best estimate from the prior year; • Considering the governance arrangements around the reserving process; • Considering the derivation of asset share factors including the allocation of investment returns and expenses to different product groups; • Considering the movement in the risk margin; and • Reviewing PRA correspondence.

Area of focus	How our audit addressed the area of focus
	Key observations: Based on the work performed and the evidence obtained, we consider the assumptions used to value the long term business provisions to be appropriate.
Impact of the outbreak of COVID-19 on the financial statements Since the balance sheet date there has been a global pandemic from the outbreak of coronavirus 'COVID-19'. The potential impact of COVID-19 became significant in March 2020 and is causing widespread disruption to normal patterns of business activity across the world, including the UK. The directors' consideration of the impact on the financial statements is disclosed in the Strategic Report, the Basis of Preparation (Note 1) and Note 18 of these Annual Report and Accounts. Whilst the situation is evolving, based on the information available at this point in time, the directors have assessed the impact of COVID-19 on the business and have concluded that adopting the going concern basis of preparation is appropriate. As disclosed in Note 18, the directors have concluded that COVID-19 is a non-adjusting post balance sheet event.	We assessed the directors' conclusion that the matter be treated as a non-adjusting post balance sheet event and that adopting the going concern basis for preparation of the financial statements is appropriate. We considered: • The timing of the development of the outbreak across the world and in the UK; and • How the financial statements and business operations of the Society might be impacted by the disruption. In forming our conclusions over going concern, we evaluated how the directors' going concern assessment considered the impacts arising from COVID-19 as follows: • We held discussions with the Chief Financial Officer who was involved in the assessment of the impact of COVID-19, and other matters arising from ongoing updates from the market and regulators; • We reviewed the directors' going concern appropriateness paper including COVID-19 implications as approved by the Board; • We made enquiries to understand the period of assessment, the impact on the Society's solvency of falls in investment markets and increased volatility, the actions already taken in 2020, and potential further impacts taken into account and the actions the Society might further take to maintain its solvency; • We made enquiries to confirm the actuarial model used to assess the post balance sheet impact uses model sensitivities consistent with those used for the valuation of the long term business provisions;

Area of focus	How our audit addressed the area of focus
	• We evaluated the potential further impacts and actions, and where practicable, whether the directors' assessment was consistent with the most recent management information; • We considered whether the directors' conclusion that adequate solvency headroom remained was reasonable; • We made enquiries and evaluated the directors' assessment of the Society's ability to mitigate the impact of COVID-19 on its liquidity including the liquidity position of the investments held and monies retained by the business and not invested; and • We evaluated the adequacy and appropriateness of the directors' disclosure in respect of COVID-19 implications, in particular disclosures within the post balance sheet events and basis of preparation notes. **Key observations:** Our conclusions on going concern are set out under 'Conclusions relating to going concern' above.

Our application of materiality

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

Overall materiality	£500,000
How we determined it	Materiality was set by reference to the Society's Fund for Future Appropriations (of which it represented approximately 1.75%)
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 £375,000 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 £15,000 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 including extent to which the audit was considered capable of detecting irregularities, including fraud

As part of designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements, whether due to fraud or error, and then designed and performed audit procedures responsive to those risks. In particular, we looked at where the directors made subjective judgements such as making assumptions on significant accounting estimates.

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, its environment, controls and critical business processes to consider qualitative factors in order to ensure that we obtained sufficient coverage across all financial statement line items.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements.

In identifying and assessing risks of material misstatement in respect to irregularities including non-compliance with laws and regulations, our procedures included but were not limited to:

- At the planning stage, we gained an understanding of the legal and regulatory framework applicable to the Society, the industry in which it operates and considered the risk of acts by the Society which were contrary to the applicable laws and regulations;

- During the audit, we focused on areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussions with the directors (as required by auditing standards), from inspection of the Society's regulatory and legal correspondence and review of minutes of directors' meetings in the year. We identified that the principal risks of non-compliance with laws and regulations related to breaches of regulatory requirements of the PRA and the FCA. We also

considered those other laws and regulations that have a direct impact on the preparation of financial statements, such as the Friendly Societies Act 1992; and

- We discussed with the directors the policies and procedures in place regarding compliance with laws and regulations. We communicated identified laws and regulations to the audit team throughout the audit, and remained alert to any indications of non-compliance.

Our procedures in relation to fraud included but were not limited to:

- Inquiries of management as to whether they have knowledge of any actual, suspected or alleged fraud;
- Gaining an understanding of the internal controls established to mitigate risk related to fraud;
- Discussion amongst the engagement team regarding risk of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates (in particular in relation to the valuation of the long term business provisions) and significant one-off or unusual transactions; and
- Addressing the risk of fraud through management override of controls by performing journal entry testing.

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.

As a result of our procedures, we did not identify any “Key audit matters” relating to irregularities. The risks of material misstatement that had the greatest effect on our audit, including fraud, are discussed under “Key audit matters” within this report.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts for the year ended 31 December 2019 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.

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 41, 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 nine years, covering the years ended 2011 to 2019.

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

07 May 2020

Financial Statements for the year ended 31 December 2019

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER

	Notes	2019 (£'000)	2018 (£'000)
TECHNICAL ACCOUNT			
- LONG TERM BUSINESS			
EARNED PREMIUMS			
- CONTINUING OPERATIONS			
Gross Premiums Written	2a	32,959	40,984
Less: Reinsurance Premiums	2b	(371)	(390)
Earned Premiums, net of Reinsurance		32,588	40,594
Investment Income and Realised Gains	3	4,531	2,460
Unrealised Investment Gains		10,022	-
TOTAL TECHNICAL INCOME		47,141	43,054
CLAIMS PAID			
Claims Paid			
- Gross Claims Paid		18,393	14,619
- Less: Reinsurers' Share	2b	(429)	(81)
Claims paid, net of reinsurance		17,964	14,538
CHANGE IN OTHER TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		22,126	21,749
- Reinsurers' Share	2b	(46)	(100)
Net of Reinsurance		22,080	21,649
OTHER CHARGES			
Net Operating Expenses	4	4,271	3,924
Unrealised Investment Losses		-	6,461
Tax Attributable to Long Term Business	8	526	(705)
		4,797	9,680
TRANSFER TO/(FROM) THE FUND FOR FUTURE APPROPRIATIONS	12	2,300	(2,813)
TOTAL TECHNICAL CHARGES		47,141	43,054
BALANCE ON THE TECHNICAL ACCOUNT - LONG TERM BUSINESS		-	-

BALANCE SHEET AS AT 31 DECEMBER

	Notes	2019 (£'000)	2018 (£'000)
ASSETS			
INVESTMENTS	9	198,194	172,413
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long Term Business Provision	12	1,312	1,266
On Claims Outstanding		56	10
REINSURERS' SHARE OF TECHNICAL PROVISIONS		1,368	1,276
DEBTORS			
Debtors Arising From Direct Insurance Operations - Policy Holders		85	463
Other Debtors		1,011	962
TOTAL DEBTORS		1,096	1,425
OTHER ASSETS			
Tangible Assets	10	166	183
Cash At Bank and In Hand		6,886	7,408
Deferred Tax Asset	14	-	180
TOTAL OTHER ASSETS		7,051	7,771
PREPAYMENTS AND ACCRUED INCOME		86	95
TOTAL ASSETS		207,795	182,980
LIABILITIES			
FUND FOR FUTURE APPROPRIATIONS	11	29,329	27,029
TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		177,260	155,134
Claims Outstanding			
- Gross Amount		491	473
TOTAL TECHNICAL PROVISIONS	12	177,750	155,607
Provision for Other Risks and Charges	13	-	24
Deferred Tax Liability	14	157	-
PROVISION FOR OTHER RISKS AND CHARGES		157	24
CREDITORS			
Creditors Including Taxation and Other Social Security	15	126	9
TOTAL OTHER CREDITORS		126	9
ACCRUALS AND DEFERRED INCOME		433	311
TOTAL LIABILITIES		207,795	182,980

Approved by the Board of Management on 07 May 2020 and signed on its behalf by:

Joanna Young Mst (Cantab), MBA CertEd – Chair

Kathy Byrne BSc, FIA, MBA – Chief Executive

Robert Dagg - Secretary

Notes to the Financial Statements

1. ACCOUNTING POLICIES

Basis of Preparation

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 and Republic of Ireland" (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.

The Directors consider that the financial impact of COVID-19 on the UK economy and the Society is not currently estimable with any degree of certainty. The Directors have considered its potential impact on the Society's financial resources and business plans and believe that the Society is well placed to manage its business risks despite the uncertain economic outlook. The Directors have reasonable expectations that the Society 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 and
- 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.

Investment Income & 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 to which the income relates. 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. Investment in Property funds have been valued at the net asset value.

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 & Charges

Investment management fees are not charged directly to the Society but are deducted by the respective fund managers from the pooled funds in which it invests. 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.

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 improvements	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

Pensions

The Society operates two pension schemes. Firstly, the Society operates a non-contributory defined benefit pension scheme for a former member of the Society's staff who was 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 12 and is not subject to any material uncertainty.

2. PREMIUM INCOME & REINSURANCE

a) Premiums Written	2019 (£'000)			2018 (£'000)		
	Gross	Reinsurance	Net	Gross	Reinsurance	Net
Life Assurance Business						
Non-participating Contracts						
- Periodic Premiums	**5,566**	**371**	**5,195**	5,250	390	4,860
Participating Contracts						
- Periodic Premiums	**1,100**	**-**	**1,100**	1,393	-	1,393
- Single Premiums	**26,293**	**-**	**26,293**	34,341	-	34,341
TOTAL PREMIUMS WRITTEN	**32,959**	**371**	**32,588**	40,984	390	40,594

	2019 (£'000)			2018 (£'000)		
	Regular Premium	Single Premium	Total	Regular Premium	Single Premium	Total
Total Gross New Premiums Resulting From Contracts Concluded by the Society	1,426	26,293	27,719	1,318	34,341	35,659

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

b) Net Impact of Reinsurance	**2019 (£'000)**	**2018 (£'000)**
Reinsurance Premiums	371	390
Reinsurers' Share of Claims Paid	(429)	(81)
	(58)	309
Reinsurers' Share of Change in Long Term Business Provision	(46)	(100)
	(104)	209

The effect of reinsurance was to increase the transfer to the Fund for Future Appropriations by £104,000 for the year ended 31 December 2019 (2018: a decrease of £209,000).

3. INVESTMENT INCOME & GAINS

	2019 (£'000)	2018 (£'000)
Investment Income	4,612	4,267
(Losses)/Profits on the Realisation of Investments	(81)	(1,807)
Investment Income and Gains	4,531	2,460

Investment Income and Gains on the realisation of investments include £Nil (2018: £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

	2019 (£'000)	2018 (£'000)
Acquisition Costs	1,842	1,818
Administrative Costs	2,429	2,106
	4,271	3,924

Fees payable in respect of the audit of the Society's annual accounts amounted to £103,500 (2018: £95,000).

The Solvency & Financial Condition Report (SFCR) was exempted from audit for 2019 and there were no other audit-related services. Fees for other services, pursuant to legislation, amounted to £700 (2018: £670).

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 £333,710 for 2019 (2018 : £253,112).

5. STAFF COSTS

	2019 (£'000)	2018 (£'000)
Wages and Salaries	1,994	1,911
National Insurance Costs	205	209
Other Pension Costs	146	93
	2,345	2,213

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

	2019	2018
Management	5	5
Sales, Marketing and other Support Staff	30	25
	35	30

6. BOARD MEMBERS' EMOLUMENTS

During 2019, the Chair in the post at year-end received emoluments of £38,000 (2018: £32,400). Six other non-executive Board members received emoluments totalling £137,750 during 2019 (2018: £129,000). No compensation for loss of office was paid to NEDs who resigned during the year.

Executive Board members are considered to be the Society's key management personnel and they received total emoluments of £319,465 (2018: £645,627), including pension contributions of £25,355 (2018: £16,077). Details of their respective emoluments are disclosed in the Remuneration Report on page 40.

7. INVESTMENT EXPENSES & 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 2019, they were estimated to be £675,000 (2018: £585,000).

8. TAXATION

	2019 (£'000)	2018 (£'000)
Current Corporation Tax at Applicable Rates	161	-
Adjustment in respect of prior year	28	(51)
Change in Deferred Taxation	337	(654)
	526	(705)

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

9. INVESTMENTS

a.) Investments

	FAIR VALUE		HISTORICAL COST	
	2019 (£'000)	2018 (£'000)	2019 (£'000)	2018 (£'000)
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:				
- UK	198,194	172,413	191,844	176,061
TOTAL INVESTMENTS	198,194	172,413	191,844	176,061

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 2019:

	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	TOTAL (£'000)
Fair Value at 31 December 2019				
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:	-	198,194	-	198,194

	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	TOTAL (£'000)
Fair Value at 31 December 2018				
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:	-	172,413	-	172,413

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.

c.) Financial Risk Management

Objectives & 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.

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 2019:

	2019 Change In FFA	2018 Change In FFA
20% Fall in Equity Markets	-4%	-5%
3% Absolute Increase in Implied Volatility of Investments	-1%	-1%
1% Increase in Interest Rates	-7%	-8%
1% Increase in Credit Spreads	-8%	-7%

i.) 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.

ii.) 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.

iii.) 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.

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 approximately 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 approximately 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.

Credit risk:

The Society invests a large part of its assets in fixed income assets, mainly liquidity and bond funds totalling £11.0 million and £86.0 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 £6.9 million), all of which are investment grade.

The bond funds include small elements that 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 2019, the proportion was 6% (2018: 6%).

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 £86.0 million (2018: £74.4 million) with the following rating profile of the underlying assets as reported by the managers:

Rating	**2019**	**2018**
AAA	10%	11%
AA	8%	8%
A	26%	27%
BBB	44%	42%
Below Investment Grade	6%	6%
Unrated	6%	6%
	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 2019 credit ratings of A in respect of them. Reinsurance is with companies with a credit risk of AA.

Solvency Capital Cover & Sensitivities:

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 2019. The numbers contained in this note are therefore unaudited.

The risk and capital management framework of the Society is central to its ability to continue delivering the benefits of a Friendly Society into the future. The Society's capital arises entirely from historical surpluses which have not been distributed to members. The Society has no shareholders' funds and there are no borrowings. The Society is currently well capitalised in respect of its size, limited complexity, business objectives and risk profile. There is no intention to call upon funds from members, and so the capital base must be sufficient to withstand the stresses to which the Society's insurance underwriting, business operations and investment portfolios are subject without recourse to raising further capital in order to maintain financial strength and allow new growth.

The Society is regulated by the Prudential Regulation Authority and is subject to insurance solvency regulations that specify the minimum level and type of capital that must be held in addition to insurance liabilities. The Solvency II regime has been effective since 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Society manages its capital having regard to Solvency II's capital requirements and the Society is required to have an SCR that meets a 99.5% confidence level of the ability of the Society to meet its obligations over a 12-month time horizon. The Society calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations, as the assumptions underlying the standard formula are considered appropriate for the Society's risk profile. The Society has met the requirements of the Solvency II regime to date.

A separate report published on our website, the Solvency and Financial Condition Report, gives details of our Solvency and Risk Management. Under Solvency II, we have capital available of £29.3 million (2018: £27.0 million) to meet our Solvency Capital Requirement of £10.0 million (2018: £10.5 million), a coverage ratio of 292% (2018: 256 %). This is within the Society's risk appetite set by the Board, which is to maintain solvency coverage within a target range, currently set at 150% - 300% of SCR.

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 capital available to £26.5 million, and the coverage ratio to 262%. Other factors tested on previous occasions, including variations in new business levels, have had a much smaller impact on capital coverage.

10. TANGIBLE ASSETS

	Short Leasehold Improvements £'000	Computer Equipment £'000	Office Fixtures, Fittings, Equipment £'000	TOTAL £'000
Cost				
At 1 January 2019	201	111	62	374
Additions	14	19	2	35
Disposals	-	(30)	-	(30)
At 31 December 2019	**215**	**100**	**64**	**379**
Depreciation:				
At 1 January 2019	73	67	51	191
Additions	23	20	7	50
Disposals	-	(28)	-	(28)
At 31 December 2019	**96**	**59**	**58**	**213**
Net Book Value:				
At 31 December 2019	**119**	**41**	**6**	**166**
At 31 December 2018	128	44	11	183

The depreciation charge for the year ended 31 December 2019 was £49,870 (2018: £48,970). The loss on disposal of assets for the year-ended 31 December 2019 was £2,028 (2018: £5,364).

11.FUND FOR FUTURE APPROPRIATIONS

	2019 (£'000)	2018 (£'000)
Balance at 1 January	**27,029**	29,842
Transfer (from)/to Income and Expenditure Account	**2,300**	(2,813)
Balance at 31 December	**29,329**	27,029

12. TECHNICAL PROVISIONS

	Long Term Business £'000	Claims £'000	Total £'000
Gross Amounts:			
At 1 January 2019	155,134	473	155,607
Transfers from Technical Account	22,126	18	22,143
At 31 December 2019	**177,260**	**491**	**177,750**
Reinsurers' Share:			
At 1 January 2019	1,266	10	1,276
Transfers from Technical Account	54	46	92
At 31 December 2019	**1,320**	**56**	**1,368**

	Non-participating £'000	Participating £'000	2019 Total £'000	2018 Total £'000
Analysis of Members' Liabilities (Net of Reinsurance)				
- Participating (With Profits)	-	161,906	**161,906**	139,298
- Non-participating	14,041	-	**14,041**	14,570
	14,041	161,906	**175,947**	153,868
Claims Outstanding	435	-	**435**	462
Total Technical Liabilities	14,476	161,609	**176,382**	154,330

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

The Fund for Future Appropriations of £29.3 million (2018: £27.0 million) also belongs to members, including members with only non-participating contracts. It is not possible to allocate this amount in the above table.

Capital & 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	**2019**	**2018**
Cash	**4%**	10%
Fixed Interest	**33%**	42%
Multi-assets including equities	**55%**	41%
Property	**8%**	7%
	100%	100%

Principal assumptions

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

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

Class of business	**Mortality**
With Profits endowment	80% AM/FCO0 Ult
With-Profits whole life	80% AM/FCO0 Ult
Non-profit endowment	80% AM/FCO0 Ult
Term assurance	80% TM/FN/S00 Ult
Mortgage protection assurance	80% TM/FN/S00 Ult

Lapse rates vary by product and are based on an analysis of the Society's past experience.

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	**2019 (£'000)**	**2018 (£'000)**
At 1 January	**27,029**	29,842
Change in the Cost of Guarantees	**1,100**	(800)
Investment Return on FFA	**900**	100
Strain of Writing New Business	**(700)**	(1,600)
Change in Economic Assumptions	**(800)**	(100)
Other Surplus Including that arising from Premiums and Claims	**1,800**	(413)
At 31 December	**29,329**	27,029

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 or tenth and subsequent fifth anniversaries for business written before April 2013. 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 for both 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. The critical illness business is not reinsured.

13. PROVISIONS FOR OTHER RISKS & CHARGES

	2019 (£'000)	2018 (£'000)
Provision for Future Pension Commitments (Note 17)	**-**	24

14. DEFERRED INCOME TAX

	2019 (£'000)	2018 (£'000)
Balance at 1 January - Asset/(Liability)	**180**	(474)
Income and Expenditure Account Credit	**(337)**	654
Balance at 31 December - (Liability)/Asset	**(157)**	180

The movement in Deferred Income Tax is as follows:

Deferred Tax Assets	**Deferred Acquisition Expenses £'000**	**Other £'000**	**Total £'000**
Balance at 1 January 2019	373	186	559
Income and Expenditure Account Credit/(Debit)	44	(186)	(142)
Balance at 31 December 2019	**417**	**-**	**417**

Deferred Tax Liabilities	Deemed Disposals of AIFs* £'000	Other £'000	Total £'000
Balance at 1 January 2019	(344)	(35)	(379)
Income and Expenditure Account (Debit)/Credit	(200)	5	(195)
Balance at 31 December 2019	**(544)**	**(30)**	**(574)**

** -Authorised Investment Funds*

During 2020 the Society expects £44,000 of the deferred tax liability to reverse and comprises:

Deemed Disposals	**149**
Deferred Acquisition Expenses	**(105)**
Balance at 31 December 2019	**44**

Deferred tax is prepared at a rate of 20%.

15. CREDITORS INCLUDING TAXATION & OTHER SOCIAL SECURITY

	2019 (£'000)	2018 (£'000)
Other Taxes and Social Security Costs payable within one year	**126**	9

16. OPERATING LEASES

	2019 (£'000)	2018 (£'000)
Future Minimum Lease Payments under Non-Cancellable Leases in respect of Land and Buildings are as follows:		
- Within one year	**50**	84
- In Two to Five Years	**390**	342
- In Over Five Years	**24**	122
	464	548

17. PENSION COMMITMENTS

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

	2019 (£'000)	2018 (£'000)
Defined Contribution Scheme	146	93

During 2019 the Defined Benefit Scheme was closed and there were no members at 31 December 2019 (2018:1).

18. POST BALANCE SHEET EVENTS

At the time of reporting the spread of COVID-19 continues across the globe. Given that at 31 December 2019, only limited cases of COVID-19 have been confirmed and substantive information about the virus only came to light in early 2020, it has been treated as a non-adjusting post balance sheet event and no adjustments to the financial statements are deemed necessary. The financial markets will continue to react, and the impact of market volatility is monitored closely by the Leadership Team.