Metropolitan Police Friendly Society Limited

Annual Report and Accounts for the year ended 31 December 2020

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Chair's Report

Last year was a very different year for our members with unprecedented challenges and ever changing demands and expectations. The start of 2021 has so far been the same, with another lockdown and expectations on the police to deal with breaches, as well as rising crime.

Despite the unprecedented demands, police officers in London and around the country have continued to rise to the challenges and serve communities, fight crime, save lives, keep people safe and do so much more. Many former police officers have also helped, whether that is by showing support on social media, volunteering in their community or simply using their not forgotten policing skills to support and help others wherever they can. Families have also been impacted as they have juggled work, schooling, supporting, and caring for others, and unable to see friends or wider family all whilst having someone in their household going out to work in an unpredictable environment. In short, it has been a tough year for many.

It has been a challenging year for Metfriendly, too, and like the police service, we have risen to the task. The team at Metfriendly were quick to move to working from home without interrupting service to our members. They took the changes in their stride with a clear focus on serving members who they recognised were under immense pressure. The team improved service delivery and made our systems and processes more efficient and secure. To meet changing needs and circumstances, pre-retirement seminars, new recruit engagement and one-to-one meetings with members went online and we provided a range of webinars, including health and wellbeing. We held our AGM in June online, which was relatively well attended and welcomed by members, and we may well be holding it online again this year.

The global pandemic impacted on the financial sector, especially in the first half of 2020, and continued to be volatile for some time. Despite the challenges and uncertainty, our With Profits investments delivered a return of 6.2%. We continued to grow our membership numbers, albeit at a slower rate, and received a record £45m in premiums - up from £33m in 2019.

During the year we carried out a fundamental review of our vision, mission and values in order to ensure they remain relevant to the Society and all its stakeholders and these can be seen within the Strategic Report on page 7. We have also continued and expanded our support for our members and policing. In 2020 we sponsored the Metropolitan & City Police Orphans Fund's 150th celebration event, the National Police Memorial Day, and the Metropolitan Police Excellence Awards. We helped launch the London Retired Police Dog Trust and sponsor the Metropolitan Police Choir, Metropolitan Police Rugby Football Club, Team Police, and the Memorial Flame at Hendon Regional Learning Centre.

Metfriendly staff numbers grew in 2020 from 32 to 44 to meet increased demand and help deliver the changes we will be making going forward. Kathy Byrne resigned as Chief Executive in November 2020, having been appointed on 1st January 2019 and has been with the society since May 2017. As CEO, Kathy helped make the Society more resilient and maintained its strong financial position despite the challenges of both Brexit and the Covid-19 pandemic. She introduced the new MSISA, which has improved the Society's offering to members, and she played a key part in selecting the leadership team. Kathy has raised the Society's profile amongst other Mutual societies and presented at various events highlighting the good work and strong position of Metfriendly in the sector. The Board and I personally wish to thank Kathy for her commitment to Metfriendly, its members and staff during her time as Chief Executive and I am delighted that she is going to remain with Metfriendly in an actuarial capacity. The process to select and identify a new CEO is well underway. In the meantime, Lee Schopp has stepped in as the interim CEO.

We continue to have a dynamic Board with diverse views, skills, and experience. The demands on the Board collectively and individually increased in 2020, and they have adapted well to new ways of working. My thanks go to each of them for their continued commitment to Metfriendly and the wealth of experience and expertise they bring to the Society. We welcomed Rebecca Hall to the Board in

February 2021, and she brings a new perspective and additional skills. Rebecca has been an actuarial consultant for much of her career, supporting companies going through strategic change whilst focussing on member outcomes. A new Member Committee was established in 2020, with a clear focus of putting members and the police family at the heart of everything Metfriendly does. You can read more about its work and purpose on page 44.

Despite the challenges of 2020, Metfriendly remains committed to our members and, as you will see from the CEO's report, we are in a strong financial position. At the time of writing, over 20 million people have been vaccinated against Covid-19, we are anticipating coming out of lockdown and being able to meet friends and family again. At Metfriendly, we are planning for a different approach to working and are excited to embrace and maximise the new opportunities the changing environment gives us, to provide an even better service to our members.

Once again, I thank you, our members, for all you do and for your continued trust in Metfriendly. Thank you, also, to the amazing staff at Metfriendly who are proud to be supporting our members.

Joanna Young MSt (Cantab), MBA CertEd

Chief Executive's Report

2020 has been an extraordinary year on many different levels - for Metfriendly, for you our members and for the world we live in. Looking back to January, I don't think any of us expected to see so much change over the course of a year as we have seen in 2020. I would like to thank you, for continuing to entrust your savings and investments with us. During 2020, premium income increased by 38% to £45m and new premium income, as measured by Annual Premium Equivalent, was £7.0m. Assets Under Management increased by 17% to £242m and membership increased to 16,359.

At the start of the year, we expected changes due to Brexit to be felt, and in the police service, changes in the training of new recruits were planned, with a new University-style entry programme. Globally, there were concerns over possible trade wars between the USA and China, and risks from climate change were brought in to focus by natural disasters, including bushfires in Australia. On 30th January, the World Health Organisation declared Coronavirus COVID-19 a public health emergency of international concern, but it wasn't until 11th March that it was declared a pandemic.

Metfriendly was well prepared operationally as the pandemic unfolded owing to actions taken in recent years to improve our operational resilience. We seamlessly moved to working from home when the first lockdown started in March and have continued to provide the levels of service our members expect throughout 2020. The way we operate our popular seminars has changed from face-to-face in person events to webinars and video meetings. Our Virtual Hendon portal, developed in days rather than weeks, helped new recruits navigate their pension choices and provided a gateway for them to access support from both the Federation and Met Trading, as well as from Metfriendly. Our Monthly Savings ISA was updated in April to make it easier for members to take out and includes a new escalator option to help members both start to save and to reach their savings goals more quickly. In the summer, we were delighted to host an event for members with John Sutherland, who introduced his new book, *Crossing the Line*, and shared his experience of policing along with his thoughts on future challenges. Towards the end of the year, we introduced virtual family 1-2-1 meetings to enable family members in different locations to join the same meeting with a Metfriendly representative.

The police service faced many new challenges in 2020 and, as sponsor of the Met Excellence awards, Metfriendly was proud to play a small part in recognising the achievements of officers going above and beyond their duty to keep all of us safe. We continue to support the police family through a variety of different activities. During 2020 these have ranged from supplying PPE to front line officers, to providing funding to live stream and record a passing out parade for families of new officers and sponsoring police-related charities such as the Met Orphans Fund and the London Retired Police Dogs Trust. These are just some of the ways Metfriendly supports and returns money to members of the police family.

Investment markets had a rollercoaster ride throughout much of 2020, with markets tumbling during March due to the anticipated impact of the pandemic on the world economy. Despite this turbulence, our investment strategy helped cushion the With Profits fund from these extremes by investing in a diversified portfolio of assets. Day-to-day tactical investment decisions are managed by our investment managers, whilst the Board sets the strategic asset allocation. I am pleased to report that the return on the With Profits fund for 2020 was 6.2%.

Throughout 2020, Metfriendly has remained at all times financially strong, with its Solvency Capital Requirement Coverage Ratio remaining in its green risk appetite range of between 200% and 300%. This means that we hold between 2 and 3 times the amount of capital required by our regulators.

Looking forward in to 2021, there is still much uncertainty due to the pandemic and the economic impact from it is likely to be felt for some time to come. The biggest vaccination programme in the UK's history is now underway, which means that there is light at the end of the tunnel. Metfriendly continues to be owned by you, our members, and will continue to manage your investments in a safe and steady way, now and in the future.

Lee Schopp Interim CEO

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 long-term strategy is defined by our Vision, Mission, Objectives and Strategy, which are underpinned by our values. Our Vision, Mission and Values were updated in 2020 to really mean something to all our stakeholders that all of us at Metfriendly believe in. It also means that putting our members at the heart of everything we do is embedded in our strategy.

Our Vision: To be the trusted provider of financial solutions relevant to the police family.

Our Vision is about our aspiration, where we want to be. It is enduring, inclusive and idealistic. 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 describe how we go about our work and what is important to the Society:

Our Values

We earn T.R.U.S.T. by:

- Treating our members, team and other stakeholders with courtesy, respect, and professionalism;
- Recognising the unique profession of policing and proudly place members at the heart of our Society;
- Understanding the need to continually improve in order to meet our members' current and future needs;
- Striving to get things right first time; and
- Taking care to act with honesty and integrity at all times.

These phrases encompass the values we uphold and are a good representation of how we should behave and work. They permeate throughout the Society, from the Board to staff and form the cornerstone of how we make decisions. The use of a mnemonic means something to us all and helps in bringing our values to life. TRUST is a word Metfriendly strongly associates with because our members trust us with their hard-earned savings.

Our Mission: To be a commercially strong and modern mutual society that has the financial security of the police family at its heart.

Our mission is about how we want to achieve our vision. It is forward-looking and puts the police at the heart of how we will work.

Strategic Objectives:

Our strategy for a number of years has been growth, primarily though market penetration and some product development. Each year we set objectives so we can monitor our progress. Our six strategic objectives for 2020 were as follows:

1. **Grow membership**

In 2020 our target was to increase our membership to 17,780 by the end of the year.

2. **Grow new business**

In 2020 our target was to deliver £7.28m of Annual Premium Equivalent (APE) new business.

3. **Deliver a member engagement strategy to attract new members and retain current members**

In 2020 we planned to:

- optimise conversion of new members and to retain current members;
- increase 1-2-1 meetings with members; and
- improve our service to members as measured by our service standards.

4. **Begin to deliver a transformation in products and services**

In 2020 we planned to start delivering new products and partnerships in mid-2020.

5. **Improve profitability**

In 2020 we aimed to continue the improvement to the Society's profitability through increasing sales, controlling expenses, and put the mechanisms in place to enhance our ability to continue to improve this over the medium term.

6. **Deliver a high level of operational resilience by 2023**

In 2020 we set four objectives to improve our operational resilience, which were:

- designing a formalised approach to recording processes;
- progressing new approach to risk and compliance;
- evolving our IT systems to be more future-proof and recruiting a larger team; and
- delivering a Talent Management Programme to ensure good succession planning.

Review of 2020

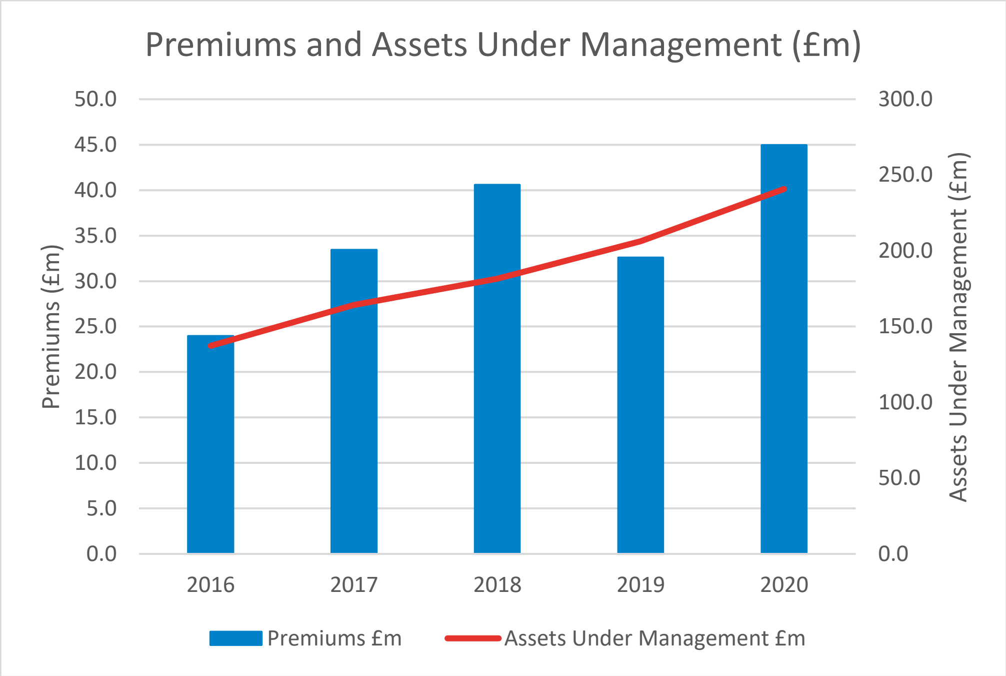
2020 was a successful year for Metfriendly, with premium income and assets under management reaching record levels of £45m and £242[1]m respectively, and this is shown in the graph below. This was delivered against a backdrop of the COVID-19 pandemic, which impacted the way we did business for most of 2020.

During the year, our prime concern has been the personal well-being of members, the wider police family and our staff and their families. We have been, and continue to be, committed to helping our members through this challenging period.

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

Key actions we have taken included the following.

- We set up capabilities to conduct all our normal member seminars and meetings to be on a virtual basis.
- To protect our staff, everyone has been working from home for most of 2020 whilst we have continued to maintain service to members by phone, online and via video conference.
- We conducted member surveys to ask how we can best serve our members.



The Key Performance Indicators set for 2020 are summarised in the table below and show comparisons of the performance for 2020 against annual targets set and comparative results for 2019.

1. Membership Growth

	2020 Actual	2020 Target	2019 Actual
Number of members	16,359	17,780	15,688

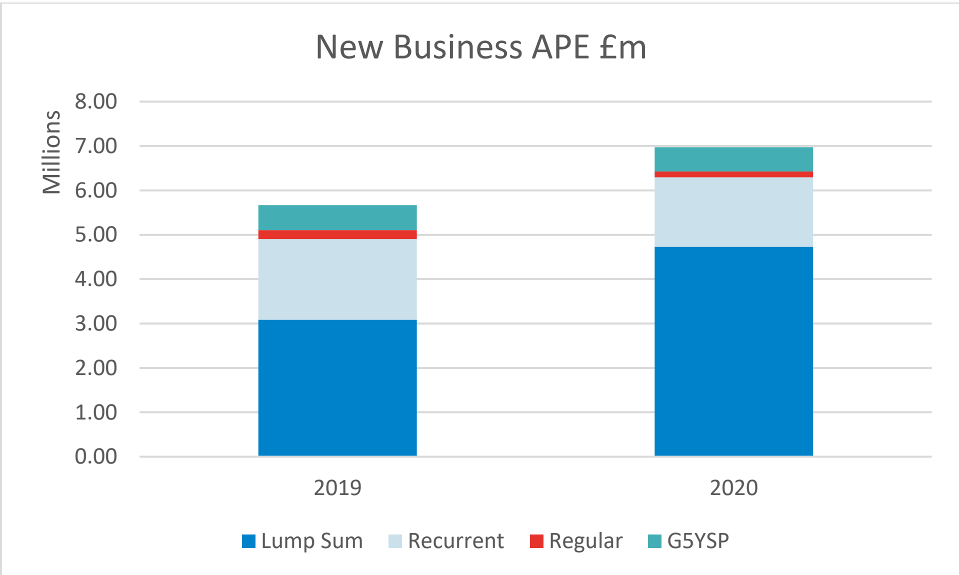
Membership has continued to grow during 2020. Total membership increased from 15,688 at the start of the year to 16,359 at the end of the year. The intake of new recruits to the Met was lower than originally anticipated for 2020 and this has impacted new members joining. The graph below shows how membership numbers have changed over the last five years.

2. New Business Growth

	2020 Actual	2020 Target	2019 Actual
New Business APE	£7.0m	£7.3m	£5.7m

New business growth is measured in terms of our internal measure, Annual Premium Equivalent (APE), which reflects the relative value of different product sales. APE for 2020 was £7.0m - a 23% increase on the equivalent value for 2019. Although we narrowly missed our 2020 target, we achieved the highest level of premium income in any calendar year in the Society's history.

The graph below shows our new business levels by product type:



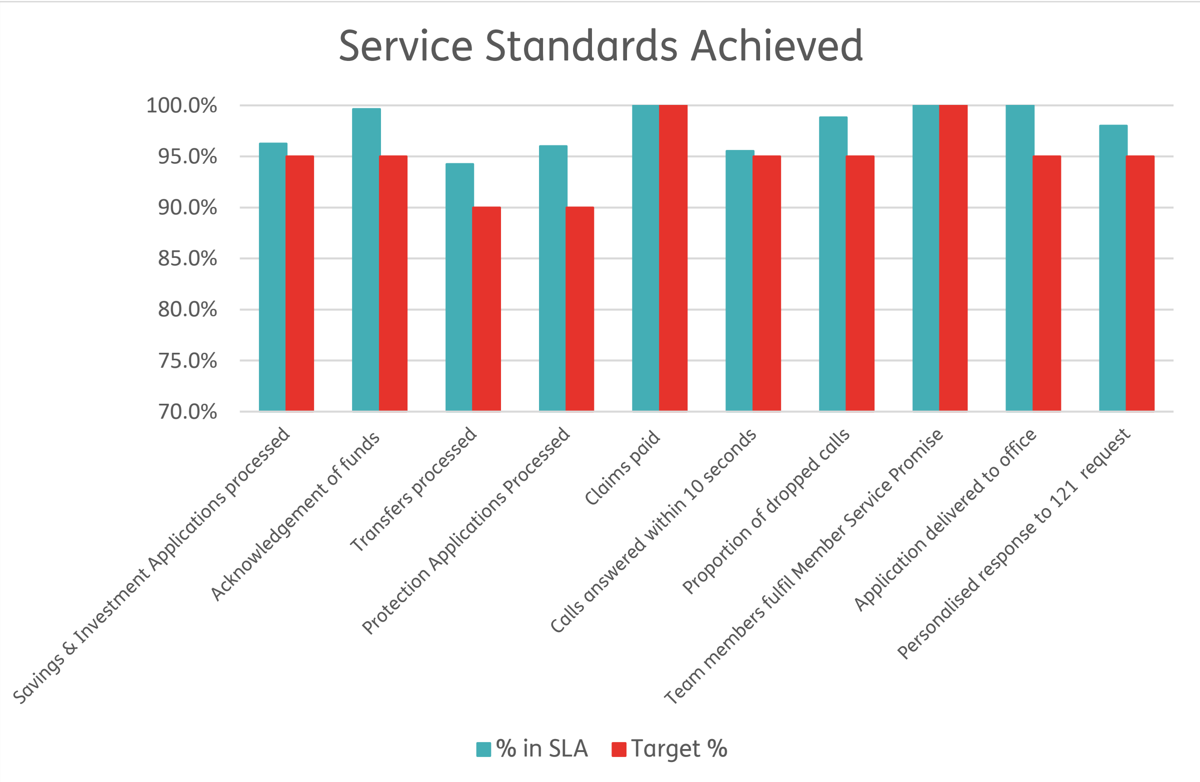
3. Member Engagement and Retention

We aim to deliver the best possible service to our members and so when the pandemic struck, we rapidly moved to online engagement including virtual 1-2-1s, webinars and all our seminars being virtually presented. This has been very well received, often fitting in better with the complex working lives of our members and so it is something we intend to continue to offer in the future.

Last year we also introduced formally monitored Service Standards in Member Services as we started to monitor and improve our service delivery to members. This year, additional service standards have been added and our service standards are listed below.

- Savings and investment applications processed within 5 working days
- Acknowledgement of application of funds within 2 working days
- Transfers processed within 2 working days once documentation and funds received from transferring provider
- Protection applications -make live, offer terms, postpone or decline within 8 working days
- Claims paid within 5 working days once all required information received
- Calls answered within 10 seconds
- Proportion of dropped calls less than 5% (measured by the number within this SLA)
- Team members able to demonstrate their fulfilment of the Member Service Promise in appraisal
- Application received in the field delivered to the office within 4 working days
- Personalised response to 1-2-1 meeting requests within 1 working day

Performance against each of our service standards for 2020 is shown in the graph below. All the standards have been achieved for the year.



Members can also provide instant feedback on their experience with the Member Services team by a short phone survey after a call.

The member services team have focused on member retention to ensure that members considering surrendering their policies are aware of all their options. This has resulted in business being retained and, in some cases, new polices being taken out.

Our member panel has increased to over 1,000 members this year. This allows us to receive regular member feedback by way of surveys or attendance at focus groups, and our digital member engagement activity also includes regular emails and blogs to members.

4. Transformation in products and services
The transformation in our product range started with a new Monthly Savings ISA launched for the new tax year that started on 6th April 2020. It was designed to make it easier for members to save tax efficiently to meet their medium- to long-term savings goals. The introduction of an escalator option allows more members to start saving and to achieve their savings goals more quickly. Savings can start from just £30 per month and automatically increase by at least £10 each year, so members can save more as their pay increases.

A new Junior Monthly Savings ISA was launched alongside the adult product with the same features. It now benefits from a higher annual Junior ISA limit of £9,000 for the 2020/21 tax year and can accept both regular and lump sum payments.

Both our Monthly Savings ISAs can accept transfers in from Child Trust Funds (CTFs). Transfers from CTFs before the child reaches the age of 18 are made to the Junior plan and those from age 18 to the adult plan.

These products proved to be very popular and exceeded the sales targets we had set for them.

The Escalator option was added to the Lifetime ISA in July 2020, allowing those saving for a first home or to top up retirement income to also meet their savings goals more quickly.

During September, we partnered with Police Credit Union (PCU) to include reciprocal links to our websites. For our members it means that they can find information on loans from another police member-owned business. PCUs members are similarly able to access information on Metfriendly's product range.

5. Improve profitability
As a mutual we generate profits to be used for the benefit of our members and provide better returns. We make profit from products by taking charges over the lifetime of the product. These are used to cover our expenses and any remaining surplus is profit. We can improve this by making the business more efficient through increasing volumes and managing our expenses and significant work has taken place this year to achieve this. Sales were just behind plan and expenses were below budget.

During 2020, we initiated a Strategic Business Planning project to improve profitability monitoring. This will assist us in the goal of ensuring we have enough margins in our products to continue to serve our members for many years to come.

6. Building Operational Resilience
The COVID-19 pandemic has been a live test of our operational resilience during 2020. In 2019 we had already invested in infrastructure to improve our resilience and we had tested our business continuity plans to make sure we could run the business without needing to be in the office in Orpington. From 16th March 2020, we started to run the business using two teams alternating between the office and working from home. When the full lockdown started a week later, we were able to seamlessly move to working from home. Feedback from members on continuity of service was good and they were pleased that we were able to provide the same levels of service as usual.

During the year we made good progress with the four objectives we set to improve operational resilience.

Documenting our processes, particularly in IT, has helped to reduce our keyman risk and the recruitment of a new Head of IT in September has further strengthened the IT team. We have also invested in a new management information system that allows key performance indicators to be produced easily from a central data warehouse. Other technology improvements include Smart Search, which is used to carry out identity and address verification automatically and removes the need for members to supply original documents.

Our Chief Risk Officer has introduced a new Risk Management Framework across the business that is being used to improve risk identification, reporting and management.

In member services, a new Technical Manual has been written so that the technical specifications of all our products are consistent and in one place. This has helped to improve product knowledge within the team and ensure consistent application of promotions and other product features.

Staff across the business now complete at least 15 hours of training in a variety of business topics and each staff member has their own personal development plan. These elements are the foundations on which our new talent management programme has been built.

Our financial strength continued to be strong throughout 2020 despite the pandemic and resulting market turmoil. At over 200% our SCR coverage ratio is high, it has reduced over the year, for example due to the impact of writing increased volumes of new business while interest rates are low.

Returning Value to Members

Investment Performance

The year started on an optimistic note as concerns over Brexit and trade wars receded and the outlook for the economy was positive. This all changed when the impact of the pandemic started to be felt across the globe and markets tumbled during March owing to the anticipated impact of the pandemic on the world economy. Despite this turbulence, our investment strategy has provided protection from the worst of these market movements. The With Profits fund has been cushioned from these extremes by investing in a diversified portfolio of assets. Day-to-day tactical investment decisions are managed by our investment managers, whilst the Board sets the strategic asset allocation. Investment returns were volatile over 2020 and despite challenging investment markets, good investment returns were delivered, with the With Profits fund returning 6.2% for the year.

Assets under management increased from £206m to £242m over the year, owing to continued investment by members and positive fund performance.

Returns to Members

The majority of our members hold With Profits plans with us. These earn returns in two ways.

Annual Bonuses

Annual bonuses are awarded each year and are guaranteed. Returns on UK government bonds are the driver for annual bonus rates.

Declared annual bonus rates for 2020 have reduced compared with those declared in 2019 due to the increased cost in providing guarantees as a result of interest rates falling to all-time lows in 2020 and the prospect of negative rates in the future.

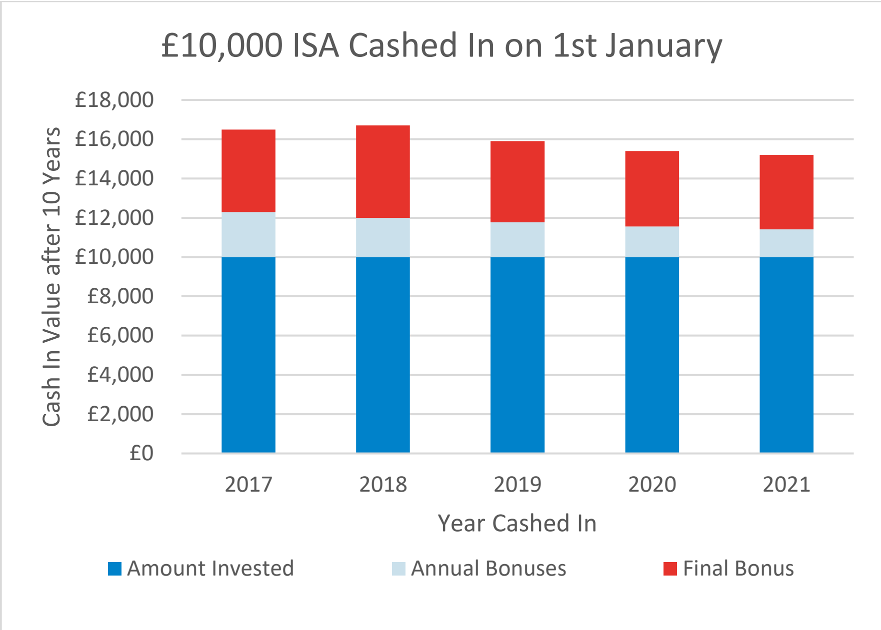
Final (or terminal) Bonuses

These are awarded when the policy is surrendered or cashed in and normally form the bulk of the return paid. The actual investment performance of the fund determines the value of final bonuses paid out in any given year.

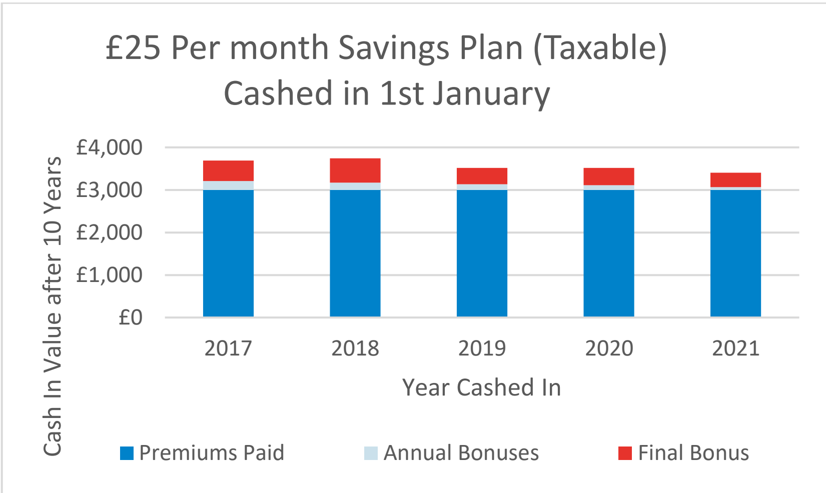
Whilst the with profits fund performed well in 2020 given the pandemic and market volatility, total payouts to members are slightly lower compared with 2019 owing to reductions in bonus rates.

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 were cashed in on 1st January 2021 after being invested for 10 years.

A Lump Sum ISA with £10,000 paid in on 1st January 2011 had a cash in value of £15,200 on 1st January 2021, which represents an average annual growth rate of 4.3% p.a.



A £25 per month 10 Year Savings Plan (taxable) taken out on 1st January 2011 had a cash in value of £3,400 on 1st January 2021, which represents an average annual growth rate of 2.5% p.a. A similar tax-exempt plan for £25 per month has a cash in value of £3,470 on 1st January 2021, which represents an average annual growth rate of 2.9% p.a.



Business Environment and Future Developments

We continue to trade in very challenging times. Current global events, most notably the COVID-19 pandemic, have had an impact on our members and especially those who are serving police officers. We anticipate markets remaining volatile until vaccines are rolled out, not only in the UK but also globally. We are already looking at the potential longer-term impacts of COVID-19 on our members, the markets, wider society, and the way we do business.

Whilst we look forward to face-to-face seminars and meetings with members and prospective members again in the future, we want to build on the success of our virtual engagement strategy, allowing us to reach a wider audience. We are now all comfortable with having video meetings and webinars instead of meeting face to face, and this is likely to continue into the future, with a hybrid mix of virtual and face-to-face activities to optimise efficiency and social contact. This will allow us to engage in ways to most suit you in the future.

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 challenges posed by climate change are becoming an increased focus for us, as well as the wider insurance industry. This year, we have included a Climate Change Scenario in our Forward Looking Assessment of Own Risk for the first time. In 2021 we expect our knowledge of this risk to develop further, and we will start to look at suitable metrics to monitor and measure it.

Technological

Trends in technology have been in the spotlight this year as the pandemic has accelerated these creating both risk and opportunity. Cyber-attacks continue to increase in volume, scale and complexity with cyber criminals taking advantage of the pandemic. 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.

As previously mentioned, our staff have been working from home since March 2020, whilst maintaining the service standards you are used to. Even when the pandemic is over, we intend to continue to use this technology to allow our staff to work in a blended way, both at home and in the office. This will have the advantage of reducing costs, reducing our carbon footprint through reduced commuting, and making future recruitment easier.

The pandemic resulted in us using technology in new ways to engage better with you, our members. Our online engagement improved by utilising technology to host online 121s and webinars and generally making it easier to do business with us.

Legal/Regulatory

The PRA have written to all regulated firms setting out their insurance supervision priorities for 2021. These are as follows:

- financial resilience
- LIBOR transition
- operational resilience
- financial risks arising from climate change
- changes in PRA responsibilities following the EU withdrawal transition period

We have carefully considered all these as part of our risk management process and have mitigating actions or plans in place for them.

Lee Schopp Interim CEO

Principal Risks and Uncertainties

Risk Appetite

Metfriendly has a low-risk appetite, which is based on solvency capital coverage ratio. 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.

Sustainability

The Society places great emphasis on sustainability, which encompasses our financial standing, our operational capabilities, our reputation (which we greatly pride ourselves on) and the environment. All activity undertaken by our Board members and staff will always focus on maintaining a viable business and the long-term sustainability of the Society.

New and Emerging Risks

New and emerging risks are identified by regular horizon-scanning, which is carried out by the Compliance Officer and Risk Officer. These risks are escalated to the Risk Working group, which usually meets monthly, for further review and mitigation. 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

This has been an area of focus for the Chief Risk Officer this year, who has been keeping abreast of both regulatory guidance and industry initiatives. This year, we have included a Climate Change Scenario in our Forward Looking Assessment of Own Risk for the first time. In 2021, we will investigate more specific scenarios that may impact us and our members. Our plan on how to assess, monitor and report this risk is being further developed. As our knowledge of this risk grows, we will start to look at suitable metrics to monitor and measure it. Next year's UN Climate Change Conference-COP26 will undoubtedly provide a further steer on acceptable standards.

COVID-19

We expect the impact of the COVID-19 pandemic to be felt for some years to come. There are positive signs of the vaccine roll-out over 2021, bringing hope. What is still unknown are the long-term effects of COVID-19, which could lead to ongoing respiratory and cardiovascular problems for some people. The working patterns of businesses are likely to change in the future, with more hybrid ways of working using technology to give more flexibility in working patterns.

Risk Categories

The risk categories that the 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
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.	Over the years, we have recognised the strategic importance of increasing membership levels. A new Member Committee was set up in 2020 to continue to put the needs of our members at the heart of what we do. The way new recruits are trained is changing and the outcomes from our virtual new recruit portal, set up in 2020, will be invaluable as this moves to Universities in 2021. This is complemented by member engagement

	activity to ensure we retain our members. We feel it is prudent to consider a slight increase in this risk during the pandemic period.
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.	 Our new Leadership Team have been fully functional for just over a year and are making great strides with implementing strategic change. At the date of this report the recruitment of a permanent CEO is progressing well with the expectation of an imminent offer. 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. Notice periods for key personnel are routinely set at a minimum of six months to give 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. 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 and 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. Our new TRUST values have been well received and staff are regularly engaged and encouraged to do the right thing.
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. A review of the Matching Methodology was undertaken in 2020 by Milliman and a new matching process will be introduced in 2021. This target asset mix will be updated in 2021 to reflect the new methodology and will take into account the with-profit nature of the 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 and 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 and Investment Committee. Due diligence was undertaken, and professional advice sought, when selecting the principal investment managers. Limits are placed on cash holdings with any single counterparty and on exposure to individual property funds. These limits, and any new funds, are approved by the Risk and Investment Committee. Asset mix is essentially derived from our matching policy, with consideration given to regulatory capital requirements and the reasonable expectations of members holding With Profits contracts. All real assets are allocated to members' asset shares. We use pooled funds to gain exposure to all types of investment that are held in sterling-priced funds.
Market Risk – Expense Risk The risk is that expenses are not fully recovered from margins in the premiums, including all amounts charged to Asset Shares on With Profits business. There is also a risk that we would not recover all of our expenses if we considered it unfair or counterproductive to levy the whole cost.	 The expense allocations are overseen by the Risk and Investment Committee and then reported to the full Board. Budgets are signed off by the Board and monitored in our management accounts. Expense risk and the associated solvency capital requirement are considered by our Actuaries when reporting on our Own Funds. We analyse expenses at the end of each year, with a view to ensuring that we cover our costs over the medium term. During 2020 this remained a key focus for the Society. During 2020, we initiated a Strategic Business Planning project to improve profitability monitoring. This will assist us in the goal of ensuring we have enough margins in our products to continue to serve our members for many years to come.

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. Mental health and wellbeing pressures are a key challenge for all the Police Family and even more so during 2020. Metfriendly is actively working with and supporting single points of contact ("SPOCs"), to support the Police Family during this extraordinary year.

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. In 2020 we worked quickly to support Front Line officers and Specialist Policing Commands with PPE. We strive to be side by side with all members of the police family throughout their career and beyond. Where possible and practical, we also help where we can, by providing support to individual officers, their colleagues and their families who have been impacted by serious injuries or made the ultimate sacrifice. For full details of our activities please visit our website. Some of the highlights where we supported in 2020 were:

The Memorial Flame at Hendon Regional Learning Centre

Since 2016, we have 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.

The Metropolitan Police Rugby Football Club

Since September 2018, we have been the main shirt sponsor of the Metropolitan Police Rugby Football Club. The Club was established in 1923 and, since its formation, has been made up of serving and former police officers, as well as their close relatives. Despite the challenges of 2020, the club was able to provide some fitness support to the players and their families and we hope 2021 will bring more opportunities for actual games to take place.

Team Police

During 2020, we sponsored Team Police, the national fundraising body for police sport in the UK. Team Police raises much needed funds through an innovative commercial sponsorship scheme to help improve the wellbeing of everyone who is serving, and has served, in our UK Police Forces by enabling increased participation in sport and physical activity, aiming to deliver improved physical and mental wellbeing outcomes.

The Metropolitan Police Choir

During 2020, we maintained our support to the choir and provided additional funding for the provision of a videoconferencing solution to help them practise.

The Metropolitan Police Excellence Awards

We were the proud sponsors of the review of the year film, and the bravery award. The bravery award was given to PC Stuart Outten, who fought off a vicious machete attack during a routine traffic stop.

Metropolitan & City Police Orphans Fund

We supported the Fund to help them provide an event at St James's Palace celebrating their 150th Anniversary.

The National Police Memorial Day

We support this important initiative through a donation linked to the votes we receive for our AGM, as well as promoting their merchandise at Passing out Parades. Although this event was held virtually during 2020, representatives of the Board and Executive Team attended. 2020 has been a challenging year and this provided a moment 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 have 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 don't necessarily have the pension benefits of their handlers. The Trust is already providing moral and financial support to dogs who 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 2021 calendar reflects our commitment to police dogs across London.

The Society also supported the Metropolitan Police Christmas appeal through donations from staff members and a further contribution by the Society.

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 2020

<u>Joanna Young - MSt (Cantab), MBA CertEd</u>

Board Chair; Remuneration, Nomination & Governance Committee; Member Committee

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 serves as a member of the Member Committee and Remuneration, Nomination & Governance Committee.

<u>Lee Schopp - CDir ACA</u>

Chair Audit & Compliance Committee; Risk & Investment Committee; Senior Independent Director from June 2020 until 30th November 2020 when he was appointed Interim CEO following the resignation of Kathy Byrne

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 an active member of the Association of Financial Mutuals and a Fellow of the Institute of Directors. In addition to these roles, Lee also built his own home, founded and sold successful micro-brewery operating in Bedfordshire, and acts as a consultant to small and medium size businesses, helping owners maximise their potential.

Lee is also Senior Independent Director at OAC plc, an actuarial consulting firm.

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

<u>Graeme McAusland - BSc FFA</u>

Non-Executive Director; Chair of Risk & Investment Committee; Audit & Compliance Committee; With Profits Advisory Arrangement

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. Graeme also serves as the Society's With Profits Advisory Arrangement.

Nicola Hayes MA(Hons)

Non-Executive Director; Joined the Board June 2020; Chair of the Remuneration, Nomination & Governance Committee; Risk & Investment Committee

Nicola has a background in financial services, particularly fund management, where her focus was on global distribution (sales, marketing and client service), operations and governance. She now works as a consultant and sits on several boards including a national charity, where she is Chair of the Finance, Audit, Risk & Commercial Committee. Nicola is the Chair of the Remuneration, Nomination & Governance Committee and serves on the Risk & Investment Committee.

Craig Haslam

Non-Executive Director; Audit & Compliance Committee; Remuneration, Nomination & Governance Committee; Member Committee

Craig was appointed to the Board on 1st 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, Remuneration, Nomination & Governance Committee and the Member Committee.

Clive Triance

Non-Executive Director, Joined the Board June 2020; Chair of the Member Committee; Risk & Investment Committee

Clive worked for 36 years in banking for some of the largest global firms. During his career he served as a CEO, COO, Global Head of Sales, Global Head of Operations and Regional Head of Product. In June 2019, Clive left a global bank to form his own leadership coaching firm. He now works with a number of universities facilitating and teaching leadership skills and assisting firms in their preparedness for the cognitive revolution. He serves on the Risk & Investment Committee and the Member Committee.

Ben Grainger BA, MCIM

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, Remuneration, Nomination & Governance 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.

Gerhardt Ekermans Hons BAcc, CA(SA)

Chief Finance Officer

Gerhardt joined Metfriendly in 2019 from a prominent challenger bank where he spent three years as the Head of External Reporting, Regulatory Reporting and Tax. Prior to that, he gained extensive financial services experience in his role as Financial Manager in the Group External Reporting Team of HSBC Bank Plc.

Gerhardt is a Chartered Accountant with Big Four audit experience and performed various roles ranging from financial management, technical accounting and reporting to business partnering. Gerhardt is a member of the Board of Metfriendly. In his spare time, Gerhardt is a Private Pilot and owner/operator of a vintage aircraft.

Kathy Byrne BSc, FIA, MBA

Kathy served on the Risk & Investment Committee, the Remuneration, Nomination & Governance Committee and the Member Committee. Kathy resigned as CEO in November 2020.

Janet Cassettari

Risk & Investment Committee; Remuneration Committee (Janet retired from the Board by rotation in June 2020)

Fiona Gregory BA Law

Senior Independent Director; Chair of the Remuneration Committee; Nomination & Governance Committee (Fiona retired from the Board by rotation in June 2020).

Company Secretary:

Robert Dagg

Chief Risk & Compliance Officer and Company Secretary

Report of the Board of Directors

The Board of Directors is pleased to present its Report and Accounts for the year ended 31st December 2020, 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 Lee Schopp, CEO (interim) 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 31st December 2020, stood at 16,359 (2019: 15,688).

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 Robert Dagg Chief Risk 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 2020. The policy elaborates on the basis of risk measurement, and risk appetite is addressed in a quantitative manner. The principal risks are reviewed and reported quarterly, with a more detailed annual reassessment.

The Board continues to monitor proposed new legislation (including that emanating from the EU) and assesses its potential impact on the business model.

The Society has appointed a health and safety manager, fire wardens and first aiders at work to comply with statutory requirements and current good practice. We also hold appropriate insurance, including Directors' and Officers' cover.

Donations

The Society continues to recognise the value of police groups that provide support and wellbeing to the wider police family. We are proud to continue to support these groups in various ways.

During 2020, the Society provided donations, sponsorship, or support to the following:

- Memorial Flame
- Team Police
- Met Excellence Awards
- Passing-Out Parade refreshments
- Long Service Awards refreshments
- Commissioner's Excellence Awards
- London Police Football Club
- Metropolitan & City Police Orphans Fund
- 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
- City of London Police new recruits
- Metropolitan Police Service Greek & Cypriot Association
- 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 2020.

The Society did not conduct any activities in 2020 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 have considered the potential impact COVID-19 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 reports the assumptions that 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.

Appointment of Auditors

Mazars LLP acted as auditors to the Society throughout 2020.

Mazars LLP were first appointed in 2011. The Board approached the market for tender during 2020. However, owing to the COVID-19 pandemic, the response was limited and the Board supported remaining with Mazars for the upcoming year. The Board will reconsider a new tender process during 2021.

Robert Dagg – Company Secretary

Report to Members with With Profits Policies

Directors' Report

The Society manages its With Profits business in accordance with the Principles and Practices of Financial Management (PPFM), which are published on the Society's website, along with a member guide – "How we manage the With Profits Fund". These documents are available to members on request, free of charge. The Board exercises its discretion in managing the business taking into account the terms under which business is issued, the constraints of the PPFM and regulatory requirements. In doing so, the Board is advised by the With Profits Advisory Arrangement and the With Profits Actuary (WPA). The With Profits Advisory Arrangement chaired the Society's Risk & Investment Committee during 2020, which also has a responsibility to consider issues relating to With Profits business. Graeme McAusland served as With Profits Advisory Arrangement throughout 2020. His terms of reference were reviewed in July with no changes.

The Board reviewed the Principles and Practices in the PPFM twice during 2020. The first review reflected the introduction of a new version of the Monthly Savings ISA in April 2020 and took effect from July 2020. There were no further changes following the annual review in December. The changes are set out in the Changes to the PPFM section 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 pay-outs are fair and, in particular, close to the asset shares that have built up from members' premiums (after allowing for the investment return on the With Profits Fund, expenses, the costs of providing guarantees and, where applicable, special distributions, taxation and life cover).

In managing the With Profits business during 2020, the Society has taken account of the financial strength of the Society, the investment performance of the With Profits Fund and the cost of providing guarantees. The global downturn in financial markets resulting from the COVID-19 pandemic during the first half of 2020 triggered planned management actions to be taken to ensure that all members were treated fairly. These actions included a review of final bonus rates and a review of the annual bonus rate applying to Monthly Savings ISA policies written between 2015 and March 2020. As at 20th March 2020, the UK stock market had fallen by more than 30% since the start of 2020, whilst the Metfriendly With Profits Fund reduced by less than 10% over the same period. This shows the benefits of diversification in the Society's Investment Strategy, which provided protection from the worst of these market movements.

The financial strength of the Society, as measured by the Solvency Capital Requirement (SCR) Coverage Ratio, moved from 292% at the start of the year to approximately 260% by the end of March and was 221% at the end of the year. These movements were in line with expectations based on the movements in interest rates and new business levels over this period. The Society's SCR coverage ratio remained in its green risk appetite zone of between 200% and 300% during 2020, thus demonstrating continued financial strength despite market volatility.

The Board considers that the volumes and terms of business written in 2020, and those planned for 2021, 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. In 2019 the annual charge was 0.25% of asset shares. Following the removal of the MVR subsidy on new business written in 2020, this annual charge was expected to fall to 0.15% on business written without the MVR subsidy. During 2020, market downturns and falls in interest rates to record lows have meant that the cost of providing guarantees for new business written without the MVR subsidy have been similar to the cost of providing guarantees for the existing business. The Lifetime ISA and Monthly Savings ISA business attracts a younger membership, for whom the associated costs of guarantees are lower due to lower mortality rates. Therefore, the annual charge for guarantees for Lifetime ISA and Monthly Savings ISA business written from 6th April 2020 was set at 0.15% and at 0.25% for all other business.

It is the Directors' opinion that the business has been managed throughout 2020 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 2020. The Practices were updated in December 2019 and took effect from January 2020. This update was covered in the 2019 Report. An update to the PPFM was made in July 2020 to include a new version of the Monthly Savings ISA product, which applied to all Monthly Savings ISA policies issued from April 2020 onwards. The Principles and Practices were updated to distinguish between the two versions of the product. The main differences are:

- Monthly Savings ISA policies issued between 2015 and March 2020 are issued under Tables 29 and 30;
- Monthly Savings ISA policies issued from April 2020 are issued under Tables 32 and 33;
- Monthly Savings ISA policies issued between 2015 and March 2020 only have annual bonuses and no final bonus. Accordingly, the annual bonus rate for this plan will normally be higher than for other single/recurrent premium plans. Monthly Savings ISA policies issued from April 2020 have the same annual and final bonus rates as the Lump Sum ISA;
- For surrenders of Monthly Savings ISA policies issued on or before March 2020, the accumulated sum assured is reduced by a charge during the year of subscription of one month's premium;
- For surrenders of Monthly Savings ISA policies issued from April 2020, the accumulated sum assured is reduced by a charge where surrender occurs in the first two years of a contract. The charge is currently 5% of the accumulated sum assured where surrender occurs in the first year of a plan and 3% where surrender occurs in the second year of a plan.

There were no material changes to the member guide. The Society's website provides details about its With Profits business at https://www.metfriendly.org.uk/member-resources/your-society/with-profits/

Bonuses

Annual Bonuses

The Board set the rates of annual bonus added to With Profits contracts for 2020 at the rates shown in the tables below, which are lower than the rates set in 2019. The reduction in some of the annual bonus rates (regular premium with profits and Monthly Savings ISA policies issued between 2015 and March 2020) is slightly more than would normally be expected. This reflects the higher cost of providing annual bonuses that are driven by risk free interest rates and these fell during 2020. The interim rates for claims to be paid in 2021 were set at the same rates as those for 2020.

Table 1 below shows the declared annual bonus rates for 2020, along with the rates for 2019. Annual Bonus rates for 2021 will not be decided until the end of the year. Interim annual bonus rates to be paid on claims in 2021 are also shown. These annual bonus rates are applied on a calendar year basis.

Table 1: Annual Bonus Rates applied on a Calendar Year Basis

Product	Tables	2019 Declared Rate	2020 Declared Rate	2021 Interim Rate
Tax-exempt savings plans	8, 10, 11, 21, 22	0.80%	0.10%	0.10%
Standard savings plans	12, 15, 16	0.64%	0.08%	0.08%
With Profit Bonds, With-Profit Income Bonds and Flexible Savings Plans	19, 26, 27	0.80%	0.20%	0.20%
Fully paid tax-exempt Option Plans	11	1.00%	0.25%	0.25%
Fully paid standard Option Plans	12	0.80%	0.20%	0.20%
Lump Sum ISA, Lump Sum Junior ISA & Regular Premium ISAs prior to 2016	24, 25, 28	1.00%	0.25%	0.25%

Monthly Savings ISA policies issued between 2015 and March 2020 receive only an annual bonus. The annual bonus for these policies is usually expected to be higher than the annual bonus for other ISA policies. The Board reduced the variable annual bonus rate for the Monthly Savings ISA business from 2% to 1% from 6th April 2020 in light of the global downturn in financial markets resulting from the COVID-19 pandemic.

Table 2 below shows the annual bonus rates for policies where bonus rates are applied on a tax year basis, which starts on 6th April each year and ends on 5th April the following year. Annual Bonus rates for the 2021/22 tax year will not be decided until the end of the year and the rates shown are interim annual bonus rates to be paid on claims in 2021. These apply to Monthly Savings ISA and Lifetime ISA policies.

Table 2: Annual Bonus Rates for Monthly Savings ISA and Lifetime ISA Policies

Product	Tables	2019/20 Declared Rate	2020/21 Bonus Rate*	2021/22 Interim Rate
Lifetime ISAs	31	1.00%	0.25%	0.25%
Monthly Savings ISA & Junior ISA policies issued between 01/01/2016 and March 2020	29, 30	2.00%	1.00%	0.25%
Monthly Savings ISA & Junior ISA policies issued from April 2020**	32, 33			0.25%

** The bonus rate for the 2020/21 tax year will be applied from 6th April 2020 to 5th April 2021. The Society reserves the right to reduce annual bonus rates in 2021 should market movements mean that this is appropriate to maintain fairness for all policyholders.*
*** For Monthly Savings ISA and Junior ISA policies issued from 6th April 2020 there is no 2020/21 rate, as these policies receive the guaranteed reversionary bonus rate of 1.5% for the 2020/21 tax year.*

The guaranteed reversionary bonus rate for the Monthly Savings ISA and Lifetime ISA for the 2020/21 tax year is 1.5%. The guaranteed reversionary bonus rate for the Monthly Savings ISA and Lifetime ISA for the 2021/22 tax year will be 1%. This will apply to all new MSISA plans starting between 6th April 2021 and 5th April 2022, and to all recurrent premiums and lump sums paid into Lifetime ISA plans for the 2021/22 tax year.

Final Bonus Rates

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. Final bonus rates were reviewed for all contracts in March 2020 and final bonus rates were reduced for contracts without a fixed duration on 24th March 2020. Final bonus rates for contracts without a fixed duration continued to be reviewed and updated quarterly for the remainder of 2020. Examples are given on the Society's website. Pay-outs on endowments in 2021 will generally be lower than in 2020. These changes reflect movements in the underlying asset shares.

Surrender Values

The Society has maintained its practices for surrender values throughout 2020. 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.

MVRs were applied from 24th March to 30th June 2020. The application of the MVR was triggered by the global downturn in financial markets resulting from the COVID-19 pandemic.

Lee Schopp

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 2020 may be regarded as having taken the interests of all with-profits policyholders into account in a reasonable and proportionate manner; and
- The new business written during 2020 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2020 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 1st January 2019, and we have decided to adopt it from that date and continue to 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 31st December 2020, 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 financial solutions relevant to the Police family.

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:

- Treating our members, team and other stakeholders with courtesy, respect and professionalism.
- Recognising the unique profession of policing and proudly place members at the heart of our Society.
- Understanding the need to continually improve in order to meet our members' current and future needs.
- Striving to get things right first time.
- Taking care to act with honesty and integrity at all times.

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 events 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 understand our culture more deeply and ensure that it is aligned with our purpose, the Board commissioned staff surveys during the year. 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 2020 the Board met seven times, which it decided was sufficient to carry out all its tasks effectively. In addition, the Board has strategy days where 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. 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 Remuneration, 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 policies are in place to deliver high quality service and products
- remuneration, which includes following the recommendation of the Remuneration, Nomination & Governance 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 Remuneration, Nomination & Governance Committee

Chair

The Board members for 2020 are listed on page 23. 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 and 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 and 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 Remuneration, 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. All five current Non-Executive Directors have served less than nine years on the Board and are regarded as independent in both respects. 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 Remuneration, 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 also 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 2020 BP&E Global 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 continues to operate within the Senior Managers and Certification Regime (SM&CR). The purpose of the regime 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.

Committees

The Board operates four Committees; refer to page 39 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 and Risk

Opportunity and 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 rolling three-year horizon.

Responsibility

The Board, via the Risk & 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 CFO, 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 have incorporated a new risk - the financial risk from climate change - into our risk management processes. Overall responsibility for oversight of this risk rests with the Chief Risk & Compliance Officer, Robert Dagg. The identification and management of this will continue to develop further over the next few years.

See the Report of the Risk & Investment Committee, starting at page 42 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 45 for further details on remuneration.

Principle Six - Stakeholder Relationships and 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, focuses on maintaining an ongoing dialogue with 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 (during lockdown, virtually) events for new recruits, award recipients and retirees that we organise around London, using virtual technology when necessary, where they meet members, as new recruits, mid-service, or about to retire.

During 2020, we continued to arrange several virtual 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 31st 31December 2020 was as follows:

	Male	**Female**	**Total**
Board	3	3	6
Leadership Team	5	-	5
All Other Staff	13	25	38
Total	**21**	**28**	**49**

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. During 2020, our staff have been working from home, with occasional planned work in the office when permitted by official lockdown measures, in ways designed to minimise risk.

Suppliers

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

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 contracts we hold with them. The Risk & Investment Committee is responsible for oversight of our supplier relationships.

Community and 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 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.

During 2020, the Remuneration Committee was merged into a joint committee with Nomination and Governance. This move enabled more effective use of resources and allows for swifter decision making.

The key purposes, duties and responsibilities assigned to each Board Committee have not been the subject of significant revision during the year.

The members of all Committees are appointed having due regard for their individual skills and experience with a view to ensuring that the Committee concerned, as a whole, has a suitable range of financial and commercial expertise to discharge its duties and responsibilities as documented within the respective Committee's Terms of Reference. Directors' attendance at Board and relevant Committee meetings in 2020 was as follows:

Director	Board of Directors	Audit & Compliance Committee	Risk & Investment Committee	Nomination & Governance Committee	Remuneration Committee	Member Committee	Remuneration, Nomination & Governance Committee[1]
K. Byrne[2]	8/8	-	4/4	1/1	(2/2)	2/2	1/1
J. Cassettari[3]	4/4	-	2/2	-	2/2	-	-
B. Grainger	9/9	(4/4)	(1/1)	(1/1)	(2/2)	(2/2)	(1/1)
F. Gregory[3]	4/4	-	-	2/2	2/2	-	-
G. McAusland	9/9	4/4	4/4	-	2/2	-	-
L. Schopp	9/9	4/4	4/4	2/2	-	-	(1/1)
C. Haslam	9/9	4/4	-	2/2	-	2/2	1/1
J. Young	9/9	(1/1)	(3/3)	2/2	2/2	2/2	(1/1)
N. Hayes[4]	5/5	-	2/2	1/1	1/1	-	1/1
C.Triance[4]	5/5	-	2/2	-	-	2/2	-
G. Ekermans	9/9	(4/4)	3/3	(1/1)	(1/1)	-	-

Summaries of the purposes, duties and responsibilities, and key activities of each of the Society's Board Committees during 2020, together with membership details during 2020, are set out below.

Reporting

All Committees, through their Chair, submit 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.

[1] RemCo & N&G Merged July 2020
[2] Stepped down from the Board on 30th November 2020
[3] Retired from the Board June 2020
[4] Joined the Board June 2020
(Bracketed numbers are where non-committee members also attended)

Audit & Compliance Committee

Membership

The Committee's membership during the year comprised:

- Lee Schopp (Chair)
- Graeme McAusland
- Craig Haslam

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, its outsourced Internal Auditor and the Chief Actuary.

On 30th November 2020, Lee Schopp stepped down as Chair of Audit & Compliance and became interim CEO following the resignation of Kathy Byrne. Application has been submitted with the regulator to nominate a new chair of the committee.

In addition, the chairperson may attend committee meetings and Joanna Young did so on one occasion in 2020.

The Society's Secretary and its Compliance Officer, who also acts as co-ordinator with the Society's 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's main purposes are:

- to monitor the integrity of the financial statements of the Society and any formal announcements relating to the Society's financial performance
- 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 2020 have included, but were not limited to:-

- review of the Society's 2019 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 Insurance Managers Regime documentation;
- review of the resources dedicated to the management and oversight of compliance and control;
- review of Money Laundering Reporting Officer's annual report;
- review of Whistleblowing annual report;
- oversee the audit tender process;
- review of Business continuity policy;
- review of outsourced arrangements; and
- review the Solvency & Financial Condition Report (SFCR).

Risk & Investment Committee

Membership

The Committee's membership during the year comprised:

- Graeme McAusland (Chair)
- Kathy Byrne
- Ben Grainger
- Janet Cassettari (retired by rotation, June 2020)
- Lee Schopp
- Clive Triance (from July 2020)
- Nicola Hayes (from July 2020)

In addition, the Chairperson may attend Committee meetings and Joanna Young did so on three occasions in 2020.

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

Purposes

The Committee has two main purposes:

- independent oversight of the Society's systems of risk management, internal control, financial issues, and investment control; and
- 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;
    - aspects of the management of with-profits business;
    - product pricing for all the Society's products;
    - expense analyses; and
    - 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.

Activities during the Year

The Committee's activities during 2020 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;
- review of the Society's investment planning and strategy including the commencement of a review of the Society's approach to matching;
- assessment and review of the Society's investment performance and management
- 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 expense analysis;
- review of regulatory returns including the SFCR and the ORSA;
- review of the ORSA policy
- 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
- review of the Society's Management Actions document
- review and approval of revised approach to risk management including a new Risk Policy and framework

Remuneration, Nomination & Governance Committee

The Remuneration, Nomination & Governance Committee was formed in 2020 as a result of a merger between the existing Nomination & Governance Committee and separate Remuneration Committee.

The Committee's membership during 2020 comprised:

Remuneration Committee until merger	Nomination & Governance Committee until merger
Fiona Gregory (Chair, retired June 2020)	Joanna Young (Chair)
Joanna Young	Fiona Gregory (SID)
Janet Cassettari (until July 2020, retired by rotation)	Craig Haslam
Graeme McAusland	Kathy Byrne

Remuneration, Nomination & Governance Committee Members:

- Nicola Hayes (Chair from December 2020)
- Joanna Young
- Craig Haslam

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

Purposes

The Committee's primary purpose is 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 Management & 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.
- 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 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

- Periodic review of Society's Governance Map/Responsibilities Map required by the regulatory Senior Insurance Managers Regime and later the Senior Managers and Certification Regime
- considering and recommending directors and NEDs for appointment to the Board
- considering and recommending directors standing for election/re-election
- considering and recommending Committee structure and memberships
- succession plans and Board development plans including NED succession plans
- board performance management and independent Board effectiveness review
- review and approve the process for the 2020 Board Skills Audit
- board training schedule
- review of AFM corporate governance code
- NED and staff recruitment policy
- Remuneration Report and Remuneration Policy Statement
- Non-executive Director remuneration
- Managers and staff pay review and bonus outcome
- executive remuneration proposals
- oversight of staff benefits package proposals

Member Committee

Membership

The committee membership during the year comprised:

- Clive Triance (Chair)
- Joanna Young
- Craig Haslam
- Kathy Byrne

The Member Committee was established in July 2020 to continue the Society's focus on its members. The committee met twice during 2020.

Purpose

The purpose of the Member Committee is to put the members, and the police family, at the centre of what Metfriendly does, to take every opportunity to improve the trust members have in our Society and look after their wellbeing; through member interaction to review the members' experience and journey throughout the Society, assuring and recommending changes based on feedback, market movements and affinity group plans.

To build on our heritage and to operate as an organisation viable and relevant to its affiliate groups and members for another 125 years and beyond.

Duties and Responsibilities

The Committee's main duties and responsibilities are set out within the Committee's Terms of Reference.

Activities during the Year

- Review of focus group findings
- Review of the Society PPFM from a member perspective
- Review of sponsorship and support for police groups

Remuneration Report

For our Non-Executive directors, the approach to remuneration at Metfriendly is set out in the Remuneration Policy for Non-Executive Directors which is available from the Company Secretary on request. 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 2020.

During 2020, the remuneration paid to NEDs comprised a fixed amount in accordance with the roles held by the NEDs. During the reporting period there were two retirements and two new NEDs joined us. As a result of the new Board composition the roles of each NED have been reviewed and appropriate changes to duties made which are reflected in the 2020 overall reward.

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

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

On 30th November 2020, Kathy Byrne stepped down as CEO and Lee Schopp was appointed as Interim CEO while the Board recruits a permanent CEO. This is reflected in the summary table below.

In 2019, a bonus scheme for all staff, including the Leadership Team, was introduced and this continued through 2020. 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, individual objectives and living the values of the Society. The design and operation of the scheme was reviewed by the Remuneration, Nomination & Governance Committee which considered it appropriate for the scheme to continue.

The following remuneration was paid to Executive and Non-Executive Directors for their services to the Society during 2020:

Name	Fee/Salary 2020	Bonus 2020	Pension 2020	Benefits 2020	Total 2020	Total 2019
Joanna Young (Chair)	£45,000	£0	£0	£0	£45,000	£38,000
Craig Haslam	£26,265	£0	£0	£0	£26,265	£22,500
Graeme McAusland	£28,840	£0	£0	£0	£28,840	£26,750
Lee Schopp [7]	£38,149	£0	£0	£11	£38,160	£24,000
Nicola Hayes [1]	£17,285	£0	£0	£0	£17,285	£0
Clive Triance [2]	£17,285	£0	£0	£0	£17,285	£0
Fiona Gregory [3]	£14,420	£0	£0	£0	£14,420	£28,000
Janet Cassettari [4]	£11,587	£0	£0	£0	£11,587	£22,500
Kathy Byrne [5]	£177,465	£3,799	£15,972	£1,575	£198,811	£189,879
Ben Grainger	£115,500	£9,451	£10,395	£355	£135,701	£124,614
Gerhardt Ekermans [6]	£115,500	£9,451	£10,395	£355	£135,701	£117,975
Total	£607,296	£22,701	£36,762	£2,296	£669,055	£594,218

Note - individual figures rounded to nearest whole pound

1. Appointed to the Board 1st May 2020
2. Appointed to the Board 1st May 2020
3. Retired from the Board 19th June 2020
4. Retired from the Board 30th June 2020
5. Resigned from the Board 30th November 2020
6. Appointed to the Board 19th June 2020
7. Stepped down as NED, appointed as Interim CEO, 30th November 2020

Nicola Hayes

Chair of the Remuneration, Nomination and Governance 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 2020.

Lee Schopp - Interim CEO

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 31st December 2020 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 31st December 2020 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 prepared in accordance with the requirements of 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

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our audit procedures to evaluate the directors' assessment of the Society's ability to continue to adopt the going concern basis of accounting included but were not limited to:

- Undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Society's ability to continue as a going concern;
- Obtaining and reviewing the Directors' Going Concern Basis paper;
- Reviewing regulatory correspondence;
- Obtaining and reviewing a copy of the Society's ORSA including the Forward Looking Assessment of Own Risks and the forecast regulatory solvency position based on different stresses and scenarios applied by the Board

- Considering information obtained during the course of the audit for any evidence that would contradict management's assessment of going concern (including the impacts of COVID-19); and

- Evaluating the appropriateness of the disclosures in the financial statements on going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 (whether or not due to fraud) we identified, including 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and 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 key observations arising from those procedures.

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

Key Audit Matter	**How our scope addressed this matter**
Valuation of the long-term business provisions Technical provisions are significant, based on estimates and are subject to inherent variability. Technical provisions are subjective, particularly in the context of selecting and applying the assumptions (economic and non-economic) and the methods and approaches used to determine the value of these provisions. 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: • Reviewing the data reconciliations performed by the Society; • Performing testing and consistency checks over the data files received; • 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 and comparing these with recognised actuarial practices; • Gaining an understanding of any significant movements in the best estimate from the previous 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. **Our 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.

Our application of materiality and an overview of the scope of our audit

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	£580,000
How we determined it	Materiality was set by reference to the Society's Fund for Future Appropriations (of which it represented x%)
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 £430,000 was applied in the audit.
Reporting threshold	We agreed with the Audit & Compliance Committee that we would report to them misstatements identified during our audit above £17,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

As part of designing our audit, we 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.

Other information

The other information comprises the information included in the Annual Report and Accounts other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. 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 course of 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
- the Strategic Report and the Report of the Board of Directors 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 Directors' Responsibilities set out on page 26, 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

Based on our understanding of the Society and its industry, we identified that the principal risks of non-compliance with laws and regulations related to the anti-bribery, corruption and fraud, money laundering and non-compliance with the regulatory requirements of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"), and we considered the extent to which non-compliance might have a material effect on 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 of our audit, gaining 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;
- Discussing with the directors and management the policies and procedures in place regarding compliance with laws and regulations;

- Discussing amongst the engagement team of the identified laws and regulations and remaining alert to any indications of non-compliance; and

- During the audit, focusing 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, UK tax legislation as applied to friendly societies and the AFM Corporate Governance Code.

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

- Making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;

- Gaining an understanding of the internal controls established to mitigate risks related to fraud;

- Discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements, and determined that the principal risks were 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 technical provisions, and significant one-off or unusual transactions; and

- Addressing the risks 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.

A further description of our responsibilities is available on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities.

Other matters which we are required to address

Following the recommendation of the Audit & Compliance Committee, we were appointed by Board of Directors on 13th October 2011 to audit the financial statements for the year ending 31st December 2011 and subsequent financial periods. The period of total uninterrupted engagement is ten years, covering the years ended 31 st December 2011 to 31 st December 2020.

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

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

Use of the audit report

This report is made solely to the Society's members as a body in accordance with Section 73 of the Friendly Societies Act 1992. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members as a body for our audit work, for this report, or for the opinions we have formed.

Sam Porritt (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor

Tower Bridge House
St Katharine's Way
London
E1W 1DD
Date

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED

INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER

	Notes	2020 (£'000)	2019 (£'000)
TECHNICAL ACCOUNT			
- LONG TERM BUSINESS			
EARNED PREMIUMS			
- CONTINUING OPERATIONS			
Gross Premiums Written	2a	45,317	32,959
Less: Reinsurance Premiums	2b	(352)	(371)
Earned Premiums, net of Reinsurance		44,965	32,587
Investment Income and Realised Gains/(Losses)	3	4,857	4,531
Unrealised Investment Gains		8,017	10,022
TOTAL TECHNICAL INCOME		57,839	47,141
CLAIMS PAID			
Claims Paid			
- Gross Claims Paid		17,580	18,393
- Less: Reinsurers' Share	2b	(297)	(429)
Claims paid, net of reinsurance		17,283	17,964
CHANGE IN OTHER TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		34,898	22,126
- Reinsurers' Share	2b	(91)	(46)
Net of Reinsurance		34,807	22,080
OTHER CHARGES			
Net Operating Expenses	4	4,925	4,271
Tax Attributable to Long Term Business	8	313	526
		5,238	4,797
TRANSFER TO THE FUND FOR FUTURE APPROPRIATIONS	11	511	2,300
TOTAL TECHNICAL CHARGES		57,839	47,141
BALANCE ON THE TECHNICAL ACCOUNT - LONG TERM BUSINESS		-	-

BALANCE SHEET AS AT 31 DECEMBER

	Notes	2020 (£'000)	2019 (£'000)
ASSETS			
INVESTMENTS	9	229,119	198,194
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long Term Business Provision	12	1,403	1,312
On Claims Outstanding		15	56
REINSURERS' SHARE OF TECHNICAL PROVISIONS		1,418	1,368
DEBTORS			
Debtors Arising From Direct Insurance Operations - Policy Holders		93	85
Other Debtors		1,344	1,011
TOTAL DEBTORS		1,437	1,096
OTHER ASSETS			
Tangible Assets	10	171	166
Cash At Bank and In Hand		11,918	6,886
TOTAL OTHER ASSETS		12,089	7,051
PREPAYMENTS AND ACCRUED INCOME		187	86
TOTAL ASSETS		244,250	207,795
LIABILITIES			
FUND FOR FUTURE APPROPRIATIONS	11	29,840	29,329
TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		212,157	177,260
Claims Outstanding			
- Gross Amount		975	491
TOTAL TECHNICAL PROVISIONS	12	213,132	177,750
Deferred Tax Liability	13	209	157
PROVISION FOR OTHER RISKS AND CHARGES		209	157
CREDITORS			
Creditors Including Taxation and Other Social Security	14	307	126
TOTAL OTHER CREDITORS		307	126
ACCRUALS AND DEFERRED INCOME		762	433
TOTAL LIABILITIES		244,250	207,795

Approved by the Board of Management 8th April 2021 and signed on its behalf by:

Joanna Young Mst (Cantab), MBA CertEd – Chair   Lee Schopp - CDir ACA – Chief Executive

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 have considered the continued financial impact of COVID-19 on the Society’s financial resources and business plans and believe that the Society continues to manage its business risks despite the ongoing 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.

On 26 May 2020, the Society incorporated a new subsidiary, Metfriends Limited, with £1 Ordinary share capital. The company has not traded during the period. Consolidated accounts have not been prepared as the subsidiary is not material and the preparation of group accounts would be inconsistent with the requirement to give a true and fair view.

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

Investment income includes dividends, fixed income, 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. 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 investments, other variable yield securities and units in unit trusts at fair value through profit and loss in accordance with FRS 102. The classification of investments is determined at initial recognition.

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 and Charges

Certain 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. Other investment management fees, which are invoiced directly to the Society, are accounted for on an accrual basis. These fees are not included in net operating expenses but are reflected in the market value of the Society's investments.

Acquisition costs

These are reflected within net operating expenses in the technical account for long-term business and include direct and indirect costs such as advertising and the administrative expenses connected with the processing of such policies.

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 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 the regulations set out in Article 77 of the Solvency II Directive[5] and are equal to the sum of the best estimate liabilities ('BEL') and the risk margin ('RM').

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.

[5] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0138&from=EN

2. PREMIUM INCOME & REINSURANCE

a) Premiums Written		**2020 (£'000)**			**2019 (£'000)**	
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Life Assurance Business						
Non-participating Contracts						
- Periodic Premiums	**6,088**	**352**	**5,736**	5,566	371	5,195
Participating Contracts						
- Periodic Premiums	**1,119**	**-**	**1,119**	1,100	-	1,100
- Single Premiums	**38,109**	**-**	**38,109**	26,293	-	26,293
TOTAL PREMIUMS WRITTEN	**45,317**	**352**	**44,965**	32,959	371	32,587

		2020 (£'000)			**2019 (£'000)**	
	Regular Premium	Single Premium	Total	Regular Premium	Single Premium	Total
Total Gross New Premiums Resulting From Contracts Concluded by the Society	1,426	38,109	39,535	1,426	26,293	27,719

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	**2020 (£'000)**	**2019 (£'000)**
Reinsurance Premiums	352	371
Reinsurers' Share of Claims Paid	(297)	(429)
	56	(58)
Reinsurers' Share of Change in Long Term Business Provision	(91)	(46)
	(35)	(104)

The effect of reinsurance was to decrease the transfer to the Fund for Future Appropriations by £35,000 for the year ended 31 st December 2020 (2019: a decrease of £104,000).

3. INVESTMENT INCOME & GAINS

	2020 (£'000)	2019 (£'000)
Investment Income	4,874	4,612
Losses on the Realisation of Investments	(16)	(81)
Investment Income and Gains	4,857	4,531

Investment Income and Gains on the realisation of investments include £Nil (2019: £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.

Included in Investment Income are rebates on investment management fees deducted within pooled funds and investment management fees charged directly to the Society.

4. NET OPERATING EXPENSES

	2020 (£'000)	2019 (£'000)
Acquisition Costs	2,111	1,842
Administrative Costs	2,814	2,429
	4,925	4,271

Fees payable in respect of the audit of the Society's annual accounts amounted to £125,040 (2019: £103,500).

The Solvency & Financial Condition Report (SFCR) was exempted from audit for 2020 and there were no other audit-related services. Fees for other services, pursuant to legislation, amounted to £1,000 (2019: £700).

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 £314,960 for 2020 (2019 : £324,878).

5. STAFF COSTS

	2020 (£'000)	2019 (£'000)
Wages and Salaries	2,174	1,994
National Insurance Costs	237	205
Other Pension Costs	273	146
	2,684	2,345

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

	2020	2019
Management	5	5
Sales, Marketing and other Support Staff	39	27
	44	32

6. BOARD MEMBERS' EMOLUMENTS

During 2020, the Chair in the post at year-end received emoluments of £45,000 (2019: £38,000). Seven other non-executive Board members received emoluments totalling £153,842 during 2020 (2019: £137,750). 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 £470,213 (2019: £319,465), including pension contributions of £36,762 (2019: £25,355). Details of their respective emoluments are disclosed in the Remuneration Report on page 45.

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 2020, they were estimated to be £680,725 (2019: £675,000).

8. TAXATION

	2020 (£'000)	2019 (£'000)
Current Corporation Tax at Applicable Rates	241	161
Adjustment in respect of prior year	19	28
Change in Deferred Taxation	52	337
	313	526

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	
	2020 (£'000)	2019 (£'000)	2020 (£'000)	2019 (£'000)
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:				
- UK	229,119	198,194	214,753	191,844
TOTAL INVESTMENTS	229,119	198,194	214,753	191,844

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:

The fair value of financial instruments included in Level 1 is based on the value within the bid-offer spread that is most representative of the fair value quoted in an active market. An instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regular occurring market transactions at an arms-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.

The Society investments in Property funds which are priced at the funds' net asset value ("NAV"). The NAV is considered as a Level 2 input and therefore these funds have been classified as Level 2. The NAV for these funds was also used at 31 December 2019, so the comparative figures have been restated to reclassify these holdings from Level 1 to Level 2.

Fair value hierarchy at 31 st December 2020:

	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	TOTAL (£'000)
Fair Value at 31 st December 2020				
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:	217,524	11,595	-	229,119

	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	TOTAL (£'000)
Fair Value at 31 st December 2019				
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:	185,527	12,667	-	198,194

c.) Financial Risk Management

Objectives and Policies:

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

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 st December 2020:

	2020 Change In FFA	2019 Change In FFA
20% Fall in Equity Markets	-5%	-4%
3% Absolute Increase in Implied Volatility of Investments	-1%	-1%
1% Increase in Interest Rates	0%	-7%
1% Increase in Credit Spreads	-9%	-8%

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 value of the provision for 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 6% (2019: 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 £18.0 million and £92.0 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 £1.4 million) and cash balances including deposits (total £11.9 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 2020, the proportion was 6% (2019: 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 £91.7 million (2019: £86.0 million) with the following rating profile of the underlying assets as reported by the managers:

Rating	**2020**	**2019**
AAA	6%	10%
AA	8%	8%
A	21%	26%
BBB	53%	44%
Below Investment Grade	7%	6%
Unrated	5%	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 2020 credit ratings of A in respect of them. Reinsurance is with companies with a credit risk of AA.

Solvency Capital Cover and 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 2020. 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 that 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, 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 1st 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 £29.8 million (2019: £29.3 million) to meet our Solvency Capital Requirement of £13.5 million (2019: £10.0 million), a coverage ratio of 221% (2019: 292%). 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 £25.8 million, and the coverage ratio to 191%. 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	Computer Equipment	Office Fixtures, Fittings, Equipment	TOTAL
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2020	215	100	64	379
Additions	-	54	1	55
At 31 December 2020	**215**	**154**	**65**	**434**
Depreciation:				
At 1 January 2020	96	59	58	213
Additions	24	22	4	50
At 31 December 2020	**120**	**81**	**62**	**263**
Net Book Value:				
At 31 December 2020	**95**	**73**	**3**	**171**
At 31 December 2019	119	41	6	166

The depreciation charge for the year ended 31 st December 2020 was £49,869 (2019: £49,870). There were no profits or losses on disposal of assets for the year-ended 31 st December 2020 (2019: £2,028).

11. FUND FOR FUTURE APPROPRIATIONS

	2020 (£'000)	2019 (£'000)
Balance at 1 st January	**29,329**	27,029
Transfer (from)/to Income and Expenditure Account	**511**	2,300
Balance at 31 st December	**29,840**	29,329

12. TECHNICAL PROVISIONS

	Long Term Business £'000	Claims £'000	Total £'000
Gross Amounts:			
At 1st January 2020	177,260	491	177,750
Transfers from Technical Account	34,898	484	35,381
At 31st December 2020	**212,157**	**975**	**213,132**
Reinsurers' Share:			
At 1st January 2020	1,312	56	1,368
Transfers from Technical Account	91	(41)	33
At 31st December 2020	**1,403**	**15**	**1,418**

	Non-participating £'000	Participating £'000	2020 Total £'000	2019 Total £'000
Analysis of Members' Liabilities (Net of Reinsurance)				
- Participating (With Profits)	-	196,313	196,313	161,906
- Non-participating	14,441	-	14,441	14,041
	14,441	196,313	210,754	175,947
Claims Outstanding	-	-	-	435
Total Technical Liabilities	14,441	196,313	210,754	176,382

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

The Fund for Future Appropriations of £29.8 million (2019: £29.3 million) also belongs to members, including members with only non-participating contracts. It is not possible or appropriate to allocate this amount in the above table.

Capital and risk management for life business

For conventional With Profits business, the key sensitivity is to future investment returns. The mix of assets is kept under review, taking into account the level of capital required and the anticipated returns for members. The underlying strategy and considerations are detailed in the Society's Principles and Practices of Financial Management.

Asset Mix at the Valuation Date	2020	2019
Cash	**6%**	4%
Fixed Interest	**33%**	33%
Equities/Multi-assets	**55%**	55%
Property	**6%**	8%
	100%	100%

Principal assumptions

In line with the Solvency II rules, all business is valued using the risk-free interest rate term structure as specified by the PRA at the valuation date to calculate the BEL; in accordance with Article 77 of the Solvency II Directive.

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	2020 (£'000)	2019 (£'000)
At 1st January	**29,329**	27,029
Change in the Cost of Guarantees	**1,200**	1,100
Investment Return on FFA	**900**	900
Strain of Writing New Business	**(500)**	(700)
Change in Economic Assumptions	**(1,600)**	(800)
Other Surplus Including that arising from Premiums and Claims	**511**	1,800
At 31st December	**29,840**	29,329

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. DEFERRED INCOME TAX

	2020 (£'000)	**2019 (£'000)**
Balance at 1st January - Asset/(Liability)	**(157)**	180
Income and Expenditure Account Credit	**(52)**	(337)
Balance at 31st December - Liability	**(209)**	(157)

The movement in Deferred Income Tax is as follows:

Deferred Tax Assets	**Deferred Acquisition Expenses £'000**	**Other £'000**	**Total £'000**
Balance at 1 st January 2020	417	-	417
Income and Expenditure Account Credit	47	-	47
Balance at 31 st December 2020	**464**	**-**	**464**

Deferred Tax Liabilities	**Deemed Disposals of AIFs* £'000**	**Other £'000**	**Total £'000**
Balance at 1 st January 2020	544	30	574
Income and Expenditure Account Credit	97	2	99
Balance at 31 st December 2020	**641**	**32**	**673**

** - Authorised Investment Funds*

During 2021 the Society expects £69,000 of the deferred tax liability to reverse and comprises:

	£'000
Deemed Disposals	**188**
Deferred Acquisition Expenses	**(119)**
Balance at 31 st December 2020	**69**

Deferred tax is prepared at a rate of 20%.

14. CREDITORS INCLUDING TAXATION AND OTHER SOCIAL SECURITY

	2020 (£'000)	**2019 (£'000)**
Other Taxes and Social Security Costs	**307**	126

15. OPERATING LEASES

	2020 (£'000)	**2019 (£'000)**
Future Minimum Lease Payments under Non-Cancellable Leases in respect of Land and Buildings are as follows:		
- Within one year	**97**	50
- In Two to Five Years	**317**	390
- In Over Five Years	**-**	24
	414	464

16. PENSION COMMITMENTS

As described in Note 1 the Society operates a defined contribution pension scheme. The charge to the Income & Expenditure Account was as follows:

	2020 (£'000)	**2019 (£'000)**
Defined Contribution Scheme	273	146

17. POST BALANCE SHEET EVENTS

The United Kingdom departed from the European Union on 31st January 2020, with a transition period that ended on 31st December 2020. The rules governing the relationship between the European Union and the United Kingdom took effect on 1st January 2021. Management concluded that there are no significant impacts on the results of the Society and this has been treated as a non-adjusting post balance sheet event with no adjustments to the financial statements deemed necessary.