Metropolitan Police Friendly Society Limited

Annual Report and Accounts for the year ended 31 December 2021

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Chair’s Report

I expect 2021 has been a mixture of hope and challenge for most of Metfriendly’s members.

It has been another year where for policing the term ‘unprecedented’ could rightly be used. When I first wrote those words, I had no idea that there was still more to come and that Dame Cressida Dick, a commissioner known, respected and admired by so many would resign in February 2022. It felt like a very sad day for policing, and she will be missed. The pressure, demands, expectations, and public criticism of policing have sadly continued, and I imagine that for some Officers and Staff it must feel relentless. Yet, in true ‘can do’ policing fashion they have once again got on with their duties of serving the public, preventing and detecting crime, saving lives, keeping the peace, and much, much more. The ability and commitment to get on with the job despite ever changing circumstances, with political pressures and an ever-moving set of rules is testament to those who work in the Police Family.

It has been a tough year for many of Metfriendly’s members and their families with another lockdown, unable to see and support friends and family, travel restrictions and much uncertainty. My thoughts are especially with those who have lost loved ones during the year whether due to pandemic and its knock-on effects on health, wellbeing and access to services.

And yet there has been hope too. Hope, as the vaccine rolled out, the lockdown and restrictions eased, and we acclimatised to a new normal. Many of us will have enjoyed a long-awaited holiday; some will have been able to get married (at last) or celebrated a significant event with friends and family.

During February 2022, Russia instigated military action in Ukraine and many of us have watched the news with sadness and horror as events have developed. This situation is still developing as at the date of the Financial Statements, and we continue to assess the impact of global turmoil and uncertainty on our members. Many of us also continue to hold in our prayers all those impacted by war.

In all of this turmoil Metfriendly has had a good year. We recruited Annette Petchey as our new CEO in April, and she really did hit the ground running. Annette’s expertise, energy and passion for our members has shone through and she has continued to bring about new focus and action on improving our service to members. You can read more about what has already been achieved and the on-going work in Annette’s report.

Our team at Metfriendly have again adapted well to the changes and the new normal of working a blend of time in the office and at home. They remind me in many ways of policing in that they are committed to serving members, good at finding solutions to problems and have a positive approach. Feedback from members remains positive.

The business continued to grow, and we recorded the highest level of premium income on record with a corresponding growth in our assets under management. We were delighted to be able to increase the annual bonus rates this year. In recent years, we have had to reduce these bonuses applied to With-Profits business reflecting falls in interest rates, as guarantees are more expensive in a low interest rate environment. In 2021 we saw interest rates rise and in line with what we have done in the past, and to be consistent and fair, we have now been able to raise bonus rates again thus giving back to our members.

In 2021 we have continued our support for policing. We sponsored, and I attended, the National Police Memorial Day in Lincoln, the Metropolitan Police Excellence Awards in London and we expanded our sponsorship to Essex and Thames Valley Police bravery awards. In addition to our ongoing support to the wider Police Family, we have also maintained our support for the London Retired Police Dog Trust, the Metropolitan Police Choir, Metropolitan Police Rugby Football Club, Team Police, and the Memorial Flame at Hendon Regional Learning Centre.

As ever, the Board is keen to truly understand our membership and to help us make the right strategic decisions that work in members’ interests. As well as providing online and face to face options seminars, we have started provided specific events focussing on improving the financial wellbeing of the Police Family. We have also widened our informal consultation group which feeds into the Membership Committee to help ensure we are in touch with member needs and wants. This helps us to keep a focus on the realities our prospects and members face with regards to financial security and savings.

We were sorry to see Clive Triance step down from the Board in July 2021. Clive was a great assistance to the Board, and we miss him. My thanks go to Lee Schopp who stepped in as interim CEO for six months and, with the leadership team, led the team at Metfriendly to deliver on performance and steadily move the Society forward. Likewise, I'd like to record my thanks to all members of the Board and Leadership Team who have steered us through difficult times with a clear and calm focus to continue to build a successful platform for Metfriendly's future success. I have been part of Metfriendly's Board since 2013 and I have seen the Society go from strength to strength with 4,102 more members and an increase of £173m in funds under management in this time. Whilst those figures stand out, what has stood out for me is the genuine desire and drive from the Board and all at Metfriendly to place the members at the heart of everything we do. I will be sad to step down as Chair at the end of 2022, but know that Metfriendly's foundations are solid, its team strong and strategy sound. It has been an honour to serve at Metfriendly.

My biggest thanks go to Metfriendly members for all the amazing things you do, the difference you make and for your continued trust in Metfriendly. Thank you, also, to the wonderful staff at Metfriendly who serve you, our members.

Joanna Young
Joanna Young (Apr 1, 2022 16:38 GMT+1)

Joanna Young MSt (Cantab), MBA Cert Ed

Chief Executive's Report

It is my great pleasure to write my first report as Metfriendly's Chief Executive.

As I started in my role, the UK was taking tentative steps out of the third national lockdown, and Metfriendly was following suit with a cautious, staged return to our offices. As we ended 2021, we were facing reintroduced restrictions as a result of another strain of Covid-19, and Metfriendly sadly lost a much-loved member of staff to the virus. Our members and staff have faced great challenges as a result of the pandemic, and I am extremely grateful to both groups for the continued service they delivered throughout 2021.

During 2021, all areas of Metfriendly came back in the office, and we chose to instigate a hybrid model of partially working from home and partially in the office to get the right blend of providing great service to our members and supporting our staff. Our intention is to continue with this model, and to investigate what additional member and staff benefits the flexibility might allow us to deliver. As we do this, we will continue to deliver the service you expect and to ensure that our operational model is sufficiently robust and resilient.

During the year, I had the privilege of meeting a number of Officers and Staff at awards ceremonies, operational units, headquarters and also had a ride-along with TSG. As my understanding of the lives of our Police Family grows, my admiration for what Officers and Staff do increases still further.

As lockdown lifted and the end of the Stamp Duty holiday loomed, we saw an increase in people using their savings to buy homes and book holidays. It is always a joy for Metfriendly Staff to be a part of helping our members realise their ambitions in this way.

At our Annual General Meeting in July, held at The Warren in Bromley, you supported our change in rules to allow Metfriendly to continue to evolve for the future. This was a logical step for us as so many Officers and Staff within the Police Forces are able to progress their careers with more freedom of movement. There is a strong need for a Friendly Society, owned by its members, with the single-minded purpose of the financial wellbeing of the Police Family. We are delighted to be that Society.

Over 2021, Metfriendly continued to expand its Education and Enrichment programmes, funding activity that is important to our members and the wider Police Family. This ranged from continued support for the Met Excellence Awards and sports & social groups, through to informative sessions on personal money matters as part of Talk Money Week. A key part of us understanding our members is recognising the personal challenges faced by Officers and Staff. This is why we provided a vehicle for Dexter the Wellbeing Dog to allow him and his handler, Mike, to provide a valuable break and respite to busy units.

Staying on the dogs' theme, another part of our support for the wider Police Family is our close association with the London Retired Police Dogs Trust. The 2022 Calendar highlights several Police Dogs who are able to enjoy a well-earned, secure retirement in loving homes as a result of the fundraising the Trust carries out, and we are proud to be able to play a part in the great work they do.

Turning to your Society's business performance, we saw a 31% increase in premium income to £59m as more members entrusted their savings to us, new business – as measured by our Annual Premium Equivalent – was £9.0m (2020: £7.3m) and total Assets Under Management increased to £286m (2020: £242m). At the end of the year, our member number had increased to 17,118 (2020: 16.359). All of these measures, particularly given the challenges of 2021, are testament to a thriving business.

Investment markets stabilised somewhat after a turbulent 2020. It is during such uncertain times that the value of a With-Profits fund like Metfriendly's is shown in sharp relief: our ability to save a little growth to smooth out the troughs has stood us in good stead, with the return on the With-Profit fund for 2021 being 4.3%.

We developed and operationalised an ambitious plan for growth and investment in our infrastructure in 2021. The benefits will be realised over the next three years, but the plans are well underway despite the logistical challenges of resuming activities around coronavirus and constraints around resourcing.

Metfriendly is financially strong, with its Solvency Capital Requirement Coverage Ratio remaining in our green risk appetite range. This means that we hold significantly more capital than required by our regulators. This financial strength has allowed us to take the decision to invest in the systems and processes we have in place to serve our members. Over 2023 and 2024, our members will see our service becoming slicker and more aligned to their needs in the mid-21st century, while still maintaining the excellent personal service Metfriendly is justly known for.

During 2021 we continued to develop our approach to environmental, social and governance issues. As I have highlighted above on the social aspects, we take very seriously our commitment to supporting the Police Family. From a governance perspective we continue to challenge ourselves through both individual and collective reviews of Board performance and to seek to ensure that our structures are fit for purpose. A key aspect of this is culture and 2021 saw further developments in measuring and then developing the culture we need for the future which will continue to be built on our values and firmly focussed on our members.

On our environmental perspective, we have identified the key issues for the Society which - at least in the near to medium term - primarily relate to the investment of our assets. We are working with our fund managers to ensure that they and we understand the environmental issues with all aspects of our approach to investing. This is clearly an area that will develop in the next few years, and we will be as transparent as possible about our activities. Supporting all this work, we asked RSM (Risk Assurance LLP, who provide our internal audit function) to carry out an assessment on all of these matters to help us shape our future activity. The results were positive but we, like many other businesses, have further work to do in ensuring we meet what will be required of firms, and by our members, in the future. We are committed to delivering on that work.

Metfriendly continues to be owned by you, our members, and we will continue to manage your investments in the same, careful way our members have entrusted us to do for over a century. We are honoured to be able to do this now, and plan to continue doing so for many years to come.

Annette Petchey

Chief Executive Officer

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. 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 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
- 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. Each year we set objectives so we can monitor our progress. Our five strategic objectives for 2021 were as follows:

1. **Grow membership**

In 2021 our target was to increase our membership to 18,000 by the end of the year.

2. **Grow new business**

In 2021 our target was to deliver £7.3m of Annual Premium Equivalent (APE) new business.

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

In 2021 we planned to:

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

4. **Improve profitability**

In 2021 we aimed to continue the improvement to the Society's profitability through increasing sales, controlling expenses, and putting the mechanisms in place to enhance our ability to continue to improve this over the medium term.

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

In 2021 objectives centred around the scoping and commencing the delivery of a transformation project to redesign our processes to ensure they are more efficient and in line with the needs of our member base. This redesign goes hand in hand with a system redesign. A portion of these costs are capitalised as noted in the accounting policy relating to intangible assets and Note 11 of the Financial Statements.

Review of 2021

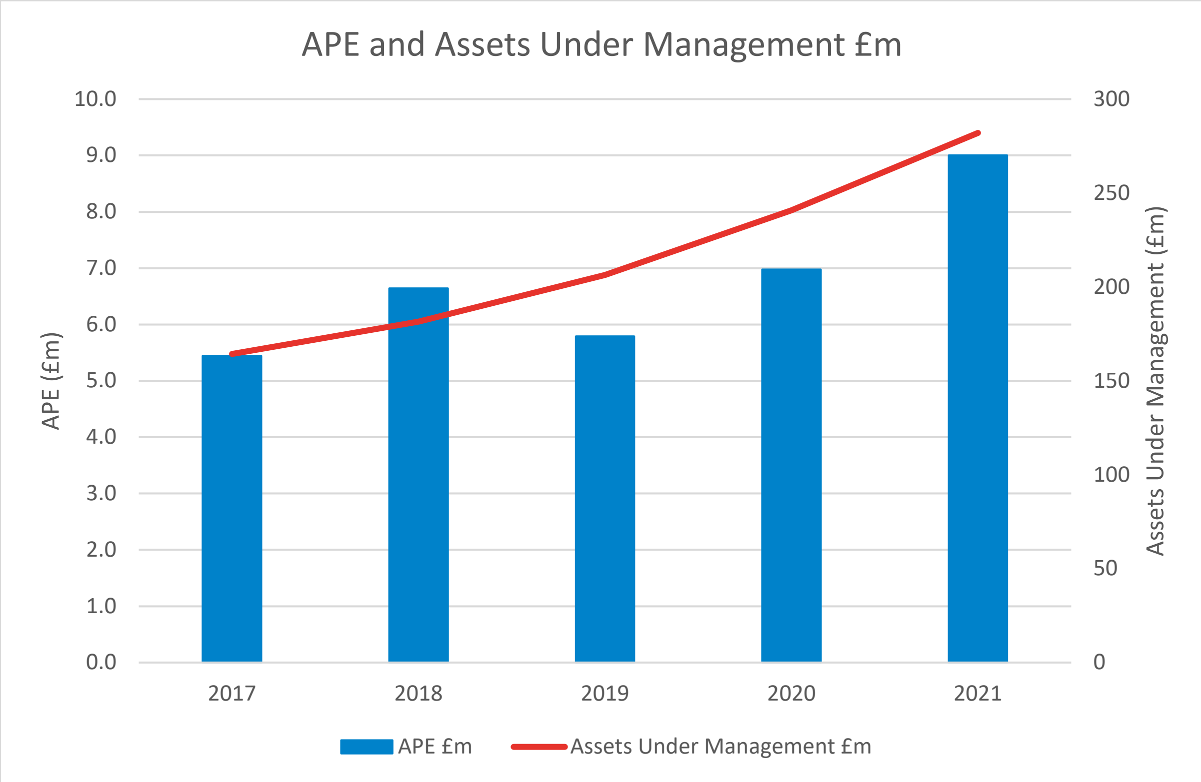
2021 was a successful year for Metfriendly where we met 4 of our 5 strategic objectives. New business volumes measured as APE and assets under management reaching record levels of £9.0m and £285.6[1]m respectively, and this is shown in the graph below. This was delivered against the continued backdrop of the COVID-19 pandemic, which impacted the way we did business for most of 2021.

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.
- During the year all areas of Metfriendly returned to the office, and we chose to instigate a hybrid model of partially working from home and partially in the office whilst we have continued to maintain service to members by phone, online and via conference.
- We responded to member surveys to improve our service offering.

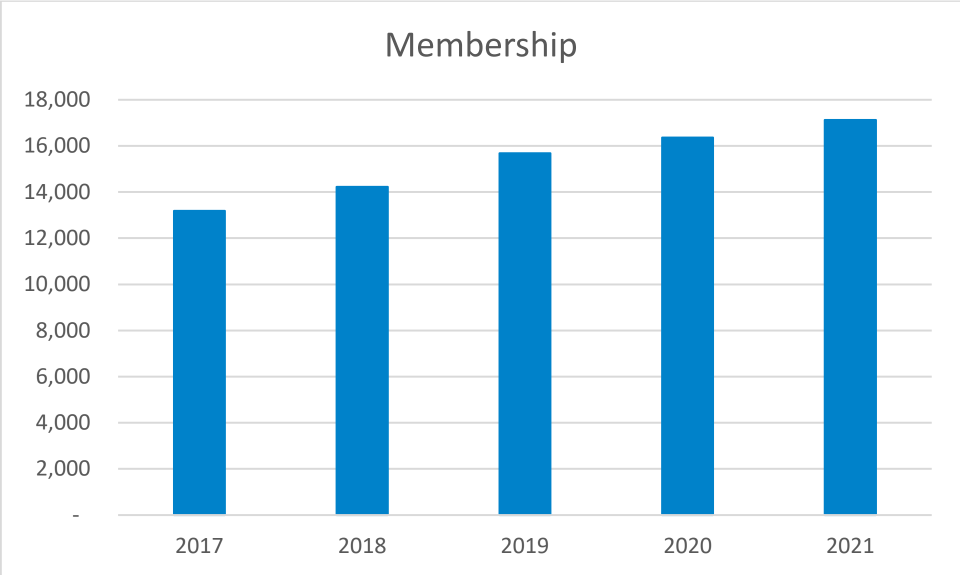


The Key Performance Indicators set for 2021 are summarised in the table below and show comparisons of the performance for 2021 against annual targets set and comparative results for 2020.

1. Membership Growth

	2021 Actual	2021 Target	2020 Actual
Number of members	17,118	18,000	16,359

Membership has continued to grow during 2021. Total membership increased from 16,359 at the start of the year to 17,118 at the end of the year. Access to the new recruit intake at Hendon was lower than originally anticipated for 2021 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

	2021 Actual	2021 Target	2020 Actual
New Business APE	£9.0m	£7.3m	£7.0m

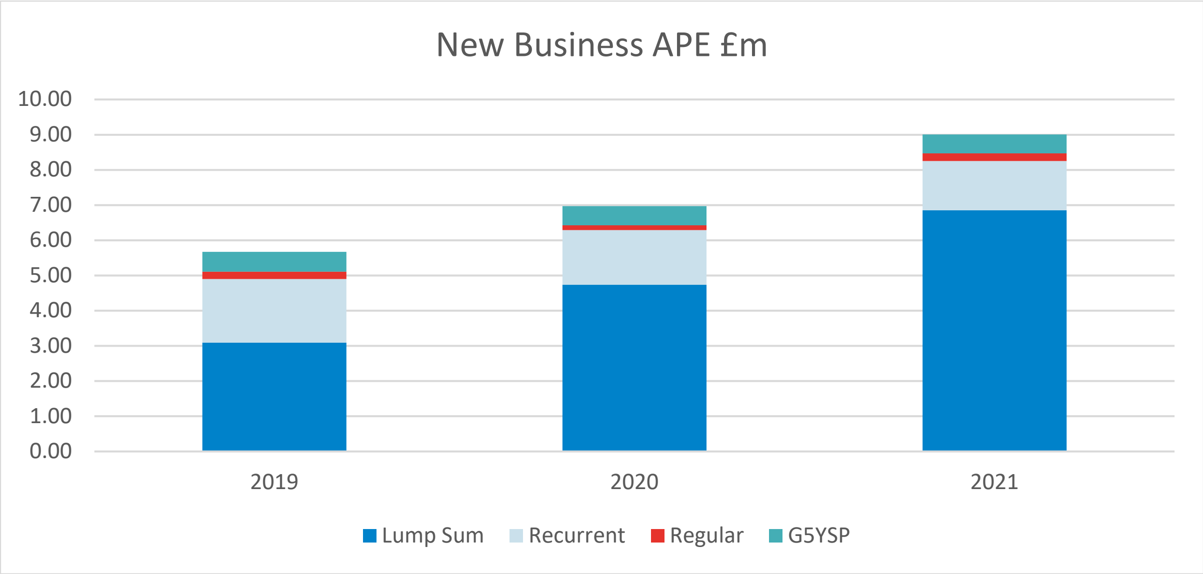
New business growth is measured in terms of our internal measure, Annual Premium Equivalent (APE), which reflects the relative value of different product sales.

APE is an internal performance measure and is calculated as:

- For lump sum contributions: 15% of the premium received.
- For Regular and Recurrent premiums: an equivalent of 12 times the monthly premium received.
- For the Guaranteed Five Year Savings Plan ("G5YSP"): an equivalent of 6 monthly premiums received.

APE for 2021 was £9.0m - a 29% increase on the equivalent value for 2020. For the second year in a row 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:



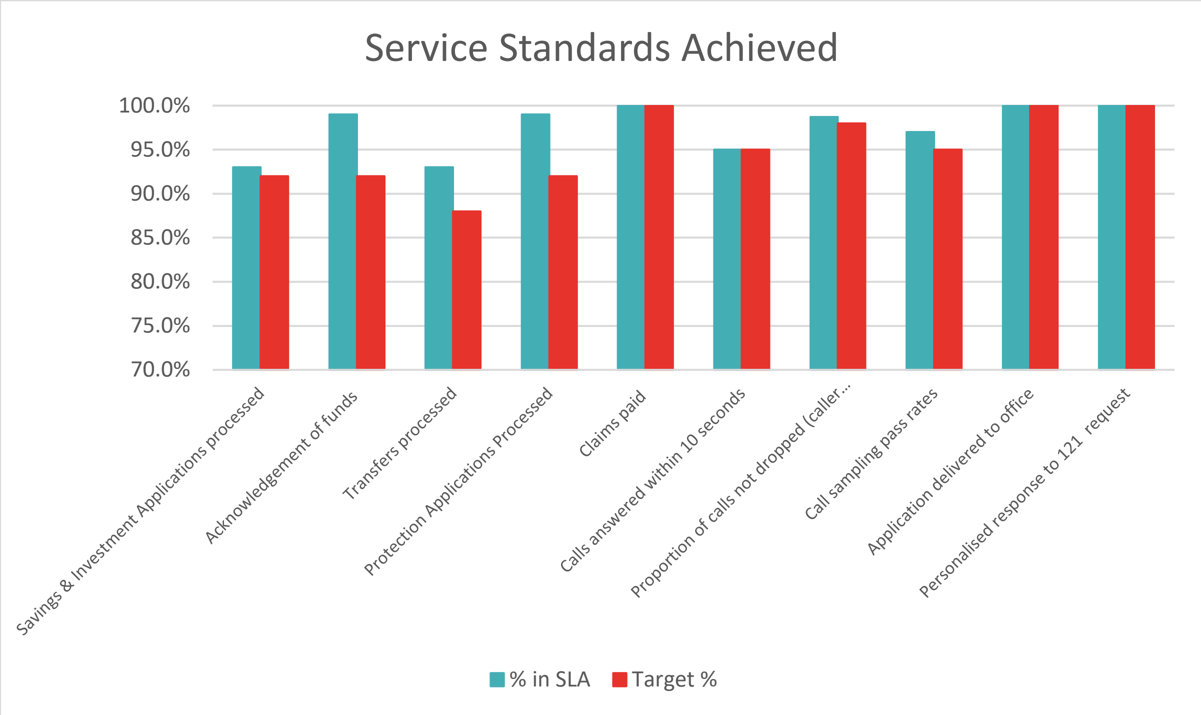
3. Member Engagement and Retention

We aim to deliver the best possible service to our members and so during the pandemic, where possible we moved to virtual one-to-one's, webinars and all our seminars were 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.

Key to our service delivery is having clear service standards that are monitored actively. 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 - made 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 to be kept below 5% of total call volume
- application delivered to the office within 4 working days by the Field Team
- personalised response to one-to-one meeting requests within 1 working day

Performance against each of our service standards for 2021 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. 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. Significant work has taken place this year to achieve this. Sales saw a significant increase and expenses were below budget.

During 2021, we implemented a Strategic Business Planning tool to improve profitability monitoring. The implemented tool enabled us to enhance our strategic business planning capabilities and lead to improvement of our current offering.

5. Building Operational Resilience

Our process and system redesign project was scoped out through much of 2021. Delivery commenced in earnest with early efficiency gains being achieved, which means the cost to serve members is reduced. The project targets many member and business benefits, but specifically in the area of operational resilience will see us able to adapt more quickly to business. At the core of this work is a desire to make us easier to do business with and to ensure that your Society is fit for purpose for the future.

Returning Value to members

Investment Performance

We outsource our investments to three investment managers. During 2021 oversight of the performance of the investment managers was governed through the Risk and Investment Committee that monitors the performance of the fund managers on a frequent basis. The committee meets with the fund managers on a regular basis to discuss both past returns but also the outlook for the future. We are satisfied all managers remain fit for purpose and are delivering to our expected long-term objectives expected from them.

The year started on an optimistic note as concerns over Brexit and trade wars receded and the outlook for the economy was positive. The impact of the pandemic continued to be felt across the globe and markets saw continued volatility as a result. 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. Investment returns were volatile over 2021 and despite challenging investment markets, good investment returns were delivered, with the With-Profits Fund returning 4.3% for the year.

Assets under management increased from £242m to £286m 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.

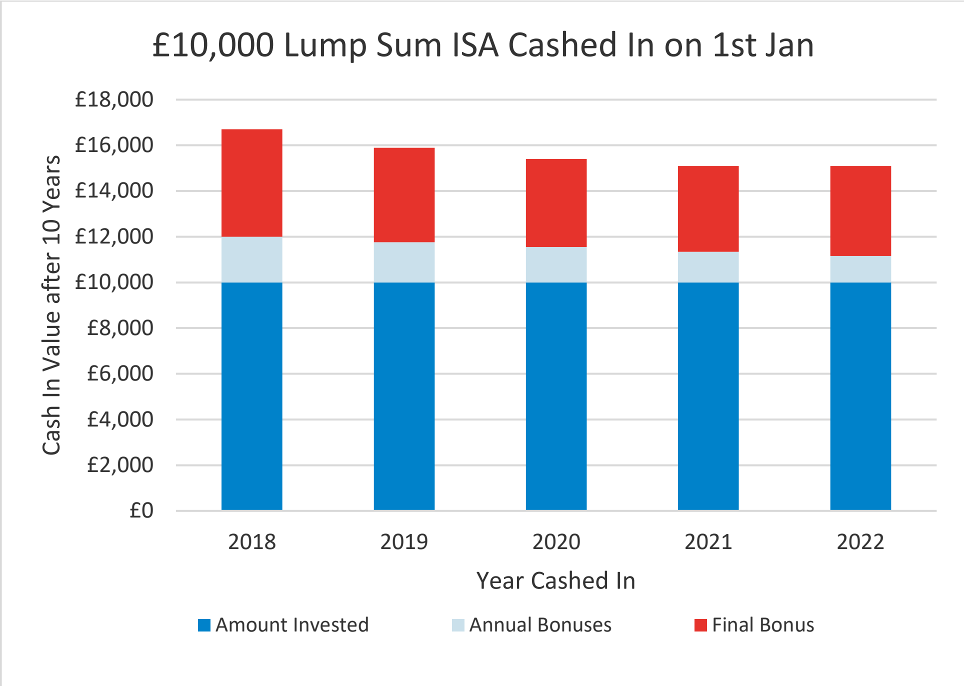
In managing the With-Profits business during 2021, the Society has taken account of the financial strength of the Society, the investment performance of the With-Profits Fund and the cost of providing guarantees. An increase in interest rates and stronger investment returns during the year made it less expensive to add to a policy's guaranteed benefits that would otherwise be the case. Consequently, annual bonus rates for 2021 have increased compared with those in 2020.

Final (or terminal) Bonuses

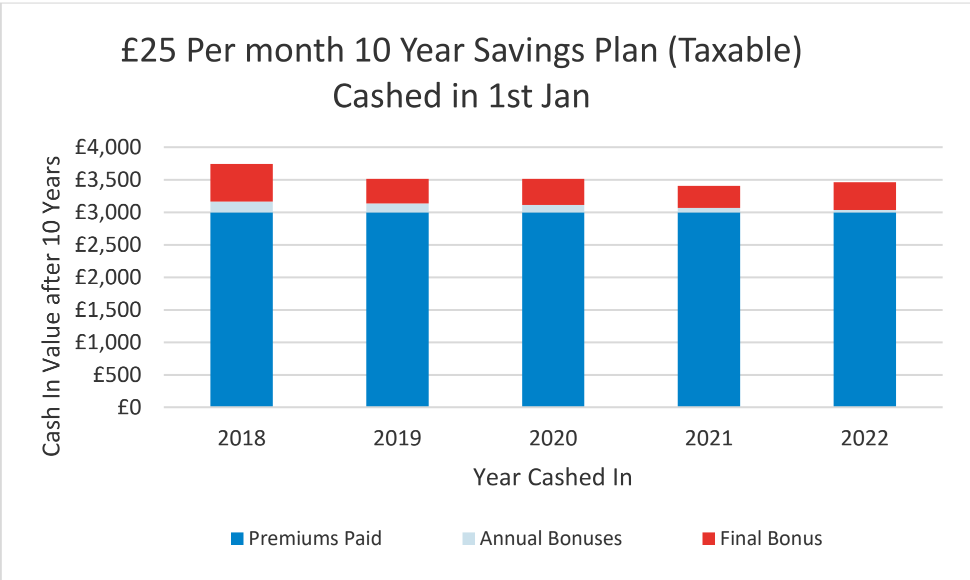
These are awarded when the policy is surrendered or cashed in. The actual investment performance of the fund over the lifetime of a policy determines the value of final bonuses paid out in any given year.

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 2022 after being invested for 10 years.

A Lump Sum ISA with £10,000 paid in on 1st January 2012 had a cash in value of £15,100 on 1st January 2022, which represents an average annual growth rate of 4.2% p.a.



A £25 per month 10 Year Savings Plan (taxable) taken out on 1st January 2012 had a cash in value of £3,461 on 1st January 2022, which represents an average annual growth rate of 2.8% p.a. A similar tax-exempt plan for £25 per month has a cash in value of £3,519 on 1st January 2022, which represents an average annual growth rate of 3.1% p.a.



Business Environment and Future Developments

2021 saw a number of phrases entering common parlance; looking back now, one of those that strikes us as enduring is “new normal”. For many of us, it is now commonplace for our homes to be our place work for some of the time, and for technology to play an even larger part in how we communicate with each other. This new normal has allowed us to engage with more members of the Police Services thinking about their future financial security and made it easier for their families to join in the same calls. We will continue this in 2022.

We saw several members take advantage of the Stamp Duty holiday and use their Lifetime ISAs and other savings to buy a home. This remains a huge driver for the people Metfriendly serves, and so we will replicate our popular pre-retirement webinar format to help those wanting to buy a home in the future; we will also be looking at family savings to help all family members develop an all-important savings habit.

We took an important decision to invest in our infrastructure. The project to deliver a flexible system that will support our continued growth is well underway and will continue throughout 2022. Once the project is completed, our already-robust system will have more flexibility for members to be able to access their savings and protection as they want to, whether that is to continue to call us or by going online.

COP26 in Glasgow in autumn provided sharp focus for many people about our need to live and work in a way that considers the impacts we have around us. Our own Environmental, Social and Governance (ESG) reporting was given a very clean bill of health by our internal auditors, but we want to do more. In 2022, we will be asking our members what they expect of us and defining what our responsibility to our current and future members, their families, our Staff, and society as a whole is. We are glad that the days of needing to choose between “being green” and delivering a good return on investments seem to be firmly behind us; our review will look further than our investments by considering how we approach all elements of our service to our members.

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 cybercriminals taking advantage of the pandemic. The growing use of technology, particularly electronic and digital services, increases cyber security risks. Technology also has the potential to support innovation and efficiency, transform business processes and create new products and services.

Our staff have been adopting a hybrid working model. working from home and from the office, 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 one-to-ones
and webinars and generally making it easier to do business with us.

Legal/Regulatory

The Financial Conduct Authority (FCA) published its 2021/22 business plan which highlighted some key areas that relate to us at Metfriendly:

- consumer duty
- financial resilience
- operational resilience
- diversity and inclusion
- A more sustainable financial future

These, along with other topics, have continued to be central to Metfriendly's strategic plan. We have continually worked to further enhance all of these areas in 2021 and have made strong progress. We will continue to do so during 2022 and beyond. Our Leadership Team retain individual and collective objectives to deliver against for the benefit of our current and future members and our colleagues.

Activities

Management confirm that no activities were carried out by the Society during the year that we believe have been carried out outside the Society's powers.

Margin of Solvency

Details of the Society's margin of solvency can be found in the section "Principal Risks and Uncertainties" on page 17.

The Friendly Societies Act 1992 requires every Friendly Society to have a committee of management and that the committee of management reports on the activities of the society. For MetFriendly, the Board of Directors acts as the committee of management and the narrative reports in the front half of the Annual Report and Accounts through to page 48 provides the required disclosures on the activities of the Society.

Annette Petchey 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 continued focus this year. We have included a Climate Change Scenario in our Forward-Looking Assessment of Own Risk again this year. As the knowledge of this risk grows, we are working with our fund managers to build suitable metrics to track and report on the carbon intensity and warming potential of our investment assets. In turn this will inform the development of future investment strategies that limit the climate risk within our portfolio and maintain acceptable returns to our members.

COVID-19

We considered the impact of the ongoing Covid-19 pandemic on the Society during the year. In response to the current economic conditions, management have carefully considered the Society's financial and operational business plans, including new business opportunities and solvency forecasts for the going concern assessment period. The Society has reviewed its risk management, solvency and liquidity positions to ensure that we remain within our risk appetite.

We have been able to adapt our working practices and we are proud how our colleagues have worked during the restrictions, maintained high levels of service to members and delivered on business volumes. We have taken many valuable lessons from the restrictions and our new practices have enabled us to serve via differing mediums which has been well received by our member base.

We remain well placed to adapt to future waves and restrictions that we may be presented with, and the core of our focus remains our serving members and keeping our staff safe.

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 or 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 we are unable to meet members' expectations for returns or have materially reduced solvency capital.
Insurance Risk	The risk of loss or of adverse change in the value of insurance liabilities, due to inadequate pricing and provisioning assumptions. Such assumptions may include sales volumes, expenses, mortality, morbidity and persistency.
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 were assigned to the Risk and Investment Committee (R&I Committee) during 2021 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 in the table overleaf.

Risk	Controls
Strategic Risk – Membership The risk is that our membership declines and we generate insufficient profitable business both to cover costs and to deliver value to our members. 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. Throughout 2021 the membership levels have not increased as significantly as planned before the pandemic. However, the Board is comfortable that the approach taken to flex to members needs to have virtual and hybrid engagement have still enabled us to hit delivery of key financial measures.
Conduct Risk – Conduct of Sales The risk is that we fail to treat members fairly by failing to uphold our values. As a result, our reputation is damaged and new business volumes are adversely impacted or we receive regulatory intervention. 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 Association of Financial Mutuals Regulation and Governance Committee. When major regulatory projects need to be managed, a cross-department project team is established. The Compliance function signs off all communications and produces and manages a Compliance Assurance Plan, which is agreed and monitored by the Audit and Compliance Committee and overseen by the Chief Risk & Compliance Officer.
Market Risk – Asset Liability Matching The risk is that assets are not suited to the nature and duration of the Society's liabilities and the guarantees under members' contracts. Unsuitable assets could lead to our Own Funds falling too much in adverse market conditions. Such losses could additionally result in reputational and regulatory risk.	 The investment strategy is reviewed annually by the Board and its implementation is overseen by the Risk and Investment Committee. The investment strategy includes target ranges for the asset mix that reflect matching requirements. A review of the Matching Methodology was undertaken in 2020 by our Chief Actuary and a new matching process was introduced in 2021 to reflect the new methodology considering 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. 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.
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. We continually work to enhance our cyber defences and have gained accreditation of Cyber Essentials Plus which reflects our continued work in this area. 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 and we provide education and engagement activities focussed on financial wellbeing for the Police Family.

Providing Support for the Police Service

Along with the competitive financial products that we offer, Metfriendly is committed to providing practical help and support to the broader Police Family through a range of sponsorships and other initiatives. We strive to be side by side with all members of the Police Family throughout their career and beyond. Where possible and practical, we also help to support initiatives suggested by individual Officers that will have a positive impact on the wider Police Family. Some of the areas we were pleased to support during 2021 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 Choir

During 2021, we maintained our support to the choir and were pleased to see them at many of the events we attended, supporting the Police Family.

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 recent years, it was wonderful to see the whole club able to start to return to fixtures during the year.

Team Police

During 2021, 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 Excellence Awards

We were proud to sponsor the bravery award again. PCs Ben Shaylor, Ali Khan and James Whittaker, from the Territorial Support Group, were announced as the winners of the Bravery Award, for their tremendous courage saving two young people suffering medical emergencies at an unlicensed music event in Brent in 2020.

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. The past few months have been a challenging time and the service in Lincoln 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 continued to sponsor a charity established to support retired police dogs. Police dogs usually devote around 8-10 years of their life to public service but receive no additional funding on their retirement. The Trust provides 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 2022 calendar reflects our commitment to police dogs across London.

Responsible Investment

Metfriendly continues to take the issues of long-term environmental and social sustainability seriously and during the year has enhanced its governance and data sets in this area. We are continuing to grow our understanding of the carbon intensity and warming potential of our investments and as this evolves, it will help inform the direction of future investment policies for our current and future members.

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 continue to 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.

RLAM has committed to:

- achieving Net Zero across their investment portfolios by 2050
- reducing carbon emissions within investment portfolios by 50% by 2030.

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. CTI shares engagement case studies with our Risk & Investment activity, evidencing the continued progress they make in active stewardship of ESG.

AEW – AEW believes that socially responsible investment can positively impact long-term investment performance, well-being for occupiers of space and the community at large. AEW seeks to identify ESG factors that are most relevant to real estate and that can be appropriately incorporated into the investment and asset management process.

Board of Directors 2021

Joanna Young - MSt (Cantab), MBA CertEd

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.

Annette Petchey

Chief Executive Officer, Remuneration, Nomination & Governance Committee

Appointed as CEO in May 2021, Annette has a proven track record of effective leadership and a commitment to making a positive difference for Metfriendly members.

Annette trained as a life and disability underwriter and has worked in many different areas of financial services in her career. Annette has deep board experience across financial services and other organisations, both as an executive and non-executive director. She also has experience in delivering transformation across several commercial and not-for-profit businesses, including social enterprises that invest all profits into member and user services. Delivering through successful partnerships has underpinned Annette's career, making her well-placed to understand the importance of Metfriendly's partnerships with the Police Family.

Finally, on a personal note, she is the daughter of a former Met Police Officer and was a JP for a number of years, so has some first-hand knowledge of the important role the Police have in our society. She is married and has two school-aged children.

Lee Schopp - CDir ACA

Chair of Strategic Finance & Investment (formed September 2021). Senior Independent Director, Audit Risk & Compliance Committee. From 30th November 2020 until May 2021, he was appointed Interim CEO following the resignation of Kathy Byrne. He resumed his Non-Executive role on appointment of Annette Petchey as CEO.

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 a 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 chair at OAC plc, an actuarial consulting firm.

Lee served as the chair of the Audit & Compliance Committee and serves as the chair of the Strategic Finance and Investment Committee and was a member of the Audit & Compliance Committee.

Graeme McAusland - BSc FFA

Non-Executive Director; chair of Audit & Compliance Committee; With-Profits Advisory Arrangement, Strategic Finance & Investment Committee

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 another non-executive role with The Medical Defence Union. In his spare time, Graeme plays the cornet in a brass band and studies with the Open University.

Nicola Hayes MA(Hons) St.A

Non-Executive Director; Joined the Board June 2020; chair of the Remuneration, Nomination & Governance Committee; Strategic Finance & 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 corporate governance consultant and sits on several boards including a national charity, where she is chair of the Finance, Investment & Commercial Committee.

Craig Haslam

Non-Executive Director; Chair of the Member Committee; Remuneration, Nomination & Governance Committee, Strategic Finance & Investment 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.

Rebecca Hall

Member Committee, Audit & Compliance Committee

Rebecca has been an actuarial consultant for much of her career, initially with Deloitte and more recently working independently through her own company. Rebecca has focussed on supporting companies going through strategic change, including transfers to a third party and re-structuring of with-profits business. Rebecca has a focus on member outcomes. She applies her actuarial knowledge to development of solutions focussed on member needs, spending time to ensure communications are accurate, clear and make sense to members. Her work as a consultant, together with a role in the executive team at Marine and General Mutual, has given her a breadth of experience across the life insurance industry. She specialises in annuity and with-profits business and has worked with many other mutual firms.

Rebecca is also a non-executive director of Hodge Life Limited and an independent member of the Royal London With Profits Committee.

Clive Triance

Non-Executive Director, Joined the Board June 2020; served as 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.

Clive stepped down from his position on the Board in July 2021 to focus on personal commitments. The Board recognised the valuable input he provided during his tenure and wish him well for the future.

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. He 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. 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 & member of the Strategic Finance & Investment Committee. In his spare time, Gerhardt is a private pilot and owner/operator of a vintage aircraft.

Company Secretary:

Robert Dagg

Chief Risk & Compliance Officer and Company Secretary

Rob joined Metfriendly in 2019 and has 34 years' experience in financial services having held a number of senior roles in both customer-facing and support functions at major financial institutions. He brings a wealth of risk knowledge and is a Fellow of the International Compliance Association. He leads the Risk, Compliance, and Company Secretarial teams within Metfriendly and is a member of the Executive Leadership Team. He holds the Senior Manager Function of Risk for Metfriendly. In his spare time is a keen swimmer and is a volunteer Rescue Officer with HM Coastguard.

Report of the Board of Directors

The Board of Directors is pleased to present its Report and Accounts for the year ended 31st December 2021, 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 45 members of staff, and Central Court, Orpington remains the main office of the Society.

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

The Society is an incorporated friendly society and exists to serve members of the Police Service within The Metropolitan Police, City Police and all other regional forces during and after their service, as well as their families. 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 2021, stood at 17,118 (2020: 16,359).

Risk Management

During the year we updated our governance structure to enhance the oversight of the Society. The Risk & Investment Committee and Audit & Compliance Committee were updated to become two new committees of Audit, Risk & Compliance, and the Strategic Finance & Investment Committee. The Audit, Risk & Compliance Committee takes responsibility for oversight of the risk management of the Society in addition to the matters previously covered by the Audit & Compliance Committee

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, Complaints, Investment & Liquidity Management, Assurance Framework & Environmental Risk. They also undertook an advisory review of Social & Governance at the request of the Audit & Compliance Committee. The results were reported to the Audit & Compliance Committee and the Board.

The Risk & Investment Committee also monitored business risks, including investment, underwriting and expense management, which are core areas driving the returns to our members. The committee also had 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 risk register was subject to comprehensive review in 2021 to further mature the risk, controls, and reporting.

The Board maintained its risk policy. The policy elaborates on the basis of risk measurement, and risk appetite is addressed in a quantitative manner. The principal risks are reviewed periodically via a control attestation to the chief risk officer and Audit, Risk & Compliance Committee.

The Board continues to monitor proposed new legislation (including that emanating from the EU) and assesses its potential impact on the business model. This work is undertaken by the chief risk officer.

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 2021, the Society provided donations, sponsorship, or support to the following:

- Memorial Flame at Hendon
- Baton of Honour presented to the best new student at each intake at the Hendon Training Centre
- Met Excellence Awards
- Passing-Out Parade refreshments
- Long Service Awards refreshments
- London Police Football Club
- Team Police
- Metropolitan Police Rugby Football Club
- The Metropolitan Police Choir
- City of London Police New Recruits Award
- Metropolitan Police Service Greek & Cypriot Association
- Thames Valley Police Federation Bravery awards
- Essex Police Federation Bravery awards
- Sponsorship and production of the London Retired Police Dog Trust's annual calendar
- National Police Memorial Day

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 2021.

The Society did not conduct any activities in 2021 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 continued uncertain economic outlook. Further details of the potential impact of COVID-19 may be found in the Strategic Report on page 17. 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.

During February 2022, Russia instigated military action in Ukraine. This event is still developing as at the date of the Financial Statements but has been assessed by the directors of the Society as an event that will increase risk and uncertainty globally in the foreseeable future. Refer to Note 18 of the Notes to the Financial Statements for further information.

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.

The Board approved the three-year strategic plan in July 2021. 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 2021.

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 2022.

Robert Dagg
Robert Dagg (Apr 1, 2022 17:53 GMT+1)

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 was a member of the Society's Risk & Investment Committee during 2021, which also has a responsibility to consider issues relating to With-Profits business. Graeme McAusland served as With-Profits Advisory Arrangement throughout 2021. His terms of reference were reviewed in July with no changes.

The Board reviewed the Principles and Practices in the PPFM during 2021 and concluded that there were no changes following the annual review.

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 2021, 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. An increase in interest rates and stronger investment returns during the year made it less expensive to add to a policy's guaranteed benefits than would otherwise be the case. In light of this the Board approved an increase to annual bonus rates when compared to 2020.

The financial strength of the Society, as measured by the Solvency Capital Requirement (SCR) Coverage Ratio, moved from 221% at the start of the year to 193% 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.

As the Society continues to grow, the Board considered it prudent to review the SCR appetite to ensure it remains appropriate to meet members' needs, both now and in the future. During the year, a detailed review was undertaken by the chief risk officer, chief finance officer supported by the chief actuary and the Milliman team.

The review considered the capital position the Society would need to be at to withstand various market shocks and continue to be able to serve members and write new business for a period of 12 months while the market recovers. The Board considered the capital required to cover both 1 in 20 year and 1 in 30 year events.

As a result of the review, the Board approved a new SCR coverage ratio risk appetite which better reflects the current and future needs of the Society. The green risk appetite zone is set between 170% and 300%, (2020: 200% - 300%) and the Society's SCR coverage ratio remained in its green risk appetite zone during 2021, thus demonstrating continued financial strength despite ongoing market volatility and uncertainty relating to the COVID-19 pandemic.

The Board considers that the volumes and terms of business written in 2021, and those planned for 2022, 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. Following an increase in interest rates and a return to more stable market conditions, the annual charge for business written since 1 January 2020 that does not benefit from the Market Value Reduction Subsidy was reduced from 0.25% of asset shares to 0.15% with effect from 1st January 2021, commensurate with the cost of providing guarantees to that business.

It is the directors' opinion that the business has been managed throughout 2021 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 material changes to PPFM during 2021.

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 2021 at the rates shown in the tables below, which are higher than the rates set in 2020. An increase in interest rates and stronger investment returns during 2021 has made it less expensive to add to a policy's guaranteed benefits than would otherwise be the case. In the light of this, the annual bonus rates increased during 2021. The interim rates for claims to be paid in 2022 were set at the same rates as those for 2021.

Table 1 below shows the declared annual bonus rates for 2021, along with the rates for 2020. Annual bonus rates for 2022 will not be decided until the end of the year. Interim annual bonus rates to be paid on claims in 2022 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**	**2020 Declared Rate**	**2021 Declared Rate**	**2022 Interim Rate**
Tax-Exempt Savings Plans	8, 10, 11, 21, 22	0.10%	0.50%	0.50%
Standard Savings Plans	12, 15, 16	0.08%	0.40%	0.40%
With-Profit Bonds, With-Profit Income Bonds and Flexible Savings Plans	19, 26, 27	0.20%	0.80%	0.80%
Fully Paid Tax-Exempt Option Plans	11	0.25%	1.00%	1.00%
Fully Paid Standard Option Plans	12	0.20%	0.80%	0.80%
Lump Sum ISA, Lump Sum Junior ISA & Regular Premium ISAs prior to 2016	24, 25, 28	0.25%	1.00%	1.00%

Monthly Savings ISA policies issued between 6 April 2015 and 5 April 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.

Table 2 below shows the annual bonus rates for policies where bonus rates are applied on a tax-year basis, which starts on 6 April each year and ends on 5 April the following year. Annual Bonus rates for the 2022/23 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 2022. 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**	**2020/21 Declared Rate**	**2021/22 Bonus Rate***	**2022/23 Interim Rate**

Lifetime ISAs	31	0.25%	1.00%	1.00%
Monthly Savings ISA & Junior ISA policies issued between 06/04/15 and 05/04/020	29, 30	1.00%	1.50%	1.50%
Monthly Savings ISA & Junior ISA policies issued from 06/04/20**	32, 33		1.00%	1.00%

** The bonus rate for the 2021/22 tax year will be applied from 6th April 2021 to 5th April 2022. The Society reserves the right to reduce annual bonus rates in 2022 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 to 5th April 2021 there is no 2020/21 rate, as these policies received 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 2021/22 tax year is 1.0%. The guaranteed reversionary bonus rate for the Monthly Savings ISA and Lifetime ISA for the 2022/23 tax year will be 1.5%. This will apply to all new MSISA plans starting between 6th April 2022 and 5th April 2023, and to all recurrent premiums and lump sums paid into Lifetime ISA plans for the 2022/23 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 for contracts without a fixed duration continued to be reviewed and updated quarterly during 2021. Examples are given on the Society's website. Pay-outs on endowments in 2022 will generally be higher than in 2021. These changes reflect movements in the underlying asset shares.

Surrender Values

The Society has maintained its practices for surrender values throughout 2021. 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.

There were no MVRs applied during 2021.

Annette Petchey

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 2021 may be regarded as having taken the interests of all With-Profits policyholders into account in a reasonable and proportionate manner

- The new business written during 2021 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2021 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 has continued to use the 2019 edition of the Association of Financial Mutual'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 adopted 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 2021, 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

"An effective board promotes the purpose of an organisation, and ensures that its values, strategy and culture align with that purpose" – AFM Corporate Governance Code

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.

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.

The Board continues to monitor indicators of a healthy culture throughout the year, including staff turnover. The CEO held an all-staff engagement session where all staff were invited to openly discuss the values of the Society and how we achieve them. The session had great levels of engagement across the teams and the output forms the basis of additional work being undertaken in 2022.

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 7.

Principle Two - Board Composition

"Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the organisation." – AFM Corporate Governance Code

The function of our 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 2021 the Board met nine 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 Strategic Finance 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 2021 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, will have completed nine years' service in 2022. Following recommendation from the Remuneration, Nomination & Governance Committee it was agreed that Joanna will continue for a further six months to provide continuity during the recruitment of the new chair.

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 with input taken from all Board directors.

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 their membership 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

"The board and individual directors should have a clear understanding of their accountability and responsibilities. The board's policies and procedures should support effective decision-making and independent challenge." – AFM Corporate Governance Code

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 by the company secretary & chairperson

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 completed and the Board satisfied.

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 40 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

"A board should promote the long-term sustainable success of the organisation by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks" – AFM Corporate Governance Code

Opportunity and Risk

The Strategic Report, starting on page 7, 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 Audit & Compliance Committee[1], 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.

See the Report of the Audit & Compliance Committee, starting at page 41 of this report, for more information on risks and risk management and control.

Principle Five – Remuneration

"A board should promote executive remuneration structures aligned to the long-term sustainable success of an organisation, taking into account pay and conditions elsewhere in the organisation." – AFM Corporate Governance Code

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 correlates 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 46 for further details on remuneration.

[1] Audit & Compliance Committee in 2021, replaced by the Audit, Risk & Compliance Committee in 2022.

Principle Six - Stakeholder Relationships and Engagement

"Directors should foster effective stakeholder relationships aligned to the organisation's purpose. The board is responsible for overseeing meaningful engagement with stakeholders, including the workforce, and having regard to their views when taking decisions." – AFM Corporate Governance Code

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. Craig also chairs our Member Committee.

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 2021, we continued to arrange 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 December 2021 was as follows:

	Male	Female	Total
Board	3	3	6
Leadership Team	4	1	5
All Other Staff	16	25	41
Total	**23**	**29**	**52**

We celebrate our diversity and inclusiveness through all strands of our work and our diversity is reflected 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 2021, we embraced a hybrid working model where staff have continued to work partly from home, and partly in the office in ways designed to minimise risk and comply with prevailing lockdown guidelines that were in force during the year.

Suppliers

Metfriendly engages with a variety of third-party suppliers in the course of its normal business activity to ensure that we continue to serve members and provide resilience to our operational functions.

Our relationship with suppliers is governed by the contracts we hold with them. The Risk & Investment Committee[1] 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
Robert Dagg (Apr 1, 2022 17:53 GMT+1)

Robert Dagg Company Secretary

[1] Risk & Investment Committee in 2021, replaced by the Audit, Risk & Compliance Committee in 2022.

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.

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 2021 was as follows:

Director	Board of Directors	Audit & Compliance Committee	Risk & Investment Committee	Member Committee	Remuneration, Nomination & Governance Committee	Strategic Finance Committee[1]
B. Grainger	9/9	(4/5)	(2/5)	(5/5)	(4/4)	(2/2)
G. McAusland	9/9	5/5	5/5	-	-	2/2
L. Schopp[2]	9/9	5/5	5/5	(3/3)	(2/2)	2/2
C. Haslam	8/9	5/5	-	5/5	5/5	-
J. Young	9/9	(1/1)	-	5/5	5/5	-
A. Petchey[3]	6/6	(1/1)	(1/1)	(3/3)	(3/3)	(2/2)
R. Hall	9/9	5/5	4/4	(1/1)	-	-
N. Hayes	9/9	3/3[4]	5/5	-	5/5	2/2
C. Triance[5]	4/4	-	1/2	3/3	-	-
G. Ekermans	9/9	(5/5)	3/5	-	(3/3)	2/2

Brackets indicate where a director, who is not a member of the Committee, attended a meeting.

Summaries of the purposes, duties and responsibilities, and key activities of each of the Society's Board committees during 2021, together with membership details during 2021, are set out below.

[1] Formed September 2021 and will become the Strategic Finance & Investment Committee in 2022. Risk will move to form an Audit, Risk & Compliance Committee
[2] Whilst interim CEO (January – April) he was not a member of A&C, he resumed as a member in May
[3] Joined the Board May 2021
[4] Rotated out of A&C July 2021
[5] Stepped down June 2021

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.

Duties and Responsibilities

All of 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.

Audit & Compliance Committee

Membership

The Committee's membership during the year comprised:

- Graeme McAusland (chair)
- Lee Schopp (from May 2021)
- Rebecca Hall (from February 2021)
- Craig Haslam
- Nicola Hayes (until May 2021)

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. Lee was replaced by Graeme McAusland as committee chair.

In addition, the chairperson may attend committee meetings and Joanna Young did so on one occasion in 2021.

The Society's secretary and chief risk 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.

Activities during the Year

The committee's key activities during 2021 have included, but were not limited to:-

- review of the Society's 2020 Annual Report and Accounts and the External Auditor's report upon that document
- review the Solvency & Financial Condition Report (SFCR) and Technical Provisions
- 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 internal assurance reporting
- review of Money Laundering Reporting Officer's annual report
- review of whistleblowing annual report
- review of the gifts and hospitality register
- review of the conflicts of interest
- review of regulatory updates
- review of business continuity policy
- review of outsourced arrangements.

Subsequent to the end of the year, the Audit Risk and Compliance Committee, which has taken on the responsibilities of the Audit and Compliance Committee and the Risk element of the Risk & Investment Committee, received and reviewed a copy of the Financial Reporting Council's ("FRC") Audit Quality Review team's inspection report on the audit of the Society's financial statements for the year ended 31 December 2020. No significant matters came out of the inspection.

Risk & Investment Committee

Membership

The committee's membership during the year comprised:

- Rebecca Hall (Chair from April 2021)
- Graeme McAusland (Chair until April 2021)
- Gerhardt Ekermans
- Lee Schopp
- Clive Triance (until June 2021)
- Nicola Hayes

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's main purposes are:

- Review of the investment strategy
- independent oversight of the Society's systems of risk management, internal control, financial issues, and investment control
- review of fund manager performance, appointment and termination
- 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
    - prudential regulatory returns including the Society's Own Risk and Solvency Assessment (ORSA).

The committee structure was updated in late 2021 and the activities below represent those undertaken by the Risk & Investment Committee. The activities are now split between the Strategic Finance Committee and the Audit, Risk & Compliance Committee.

Activities during the Year

The Committee's activities during 2021 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 adequacy of the Society's 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 the ORSA
- review of the ORSA policy
- review and overhaul of the Risk Register
- consideration of the Society's Forward-Looking Assessment of Own Risk (FLAOR)
- review and approval of revised approach to risk management including the Risk Policy and framework

Remuneration, Nomination & Governance Committee

Membership

The committee's membership during 2021 comprised:

- Nicola Hayes (chair)
- 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 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.

Activities during the Year

- oversight of the recruitment of the new chief executive officer
- periodic review of Society's Governance Map/Responsibilities Map required by the regulatory 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
- review of the Board appraisal process
- review and approve the process for the 2021 Board Skills Audit
- board training schedule
- 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:

- Craig Haslam (Chair from June 2021)
- Clive Triance (Chair until 2021)
- Joanna Young

The Member Committee was established in July 2020 to continue the Society's focus on its members. The Committee met on five occasions during 2021.

Purpose

The purpose of the Member Committee is to put the members and the wider Police Family at the heart of Metfriendly in line with our vision, mission and values.

The committee has a strong focus on listening to our members through a variety of means to ensure our activities are driven by Officers, Staff and their families. The committee takes every opportunity to improve the trust members have in our Society and make it easier for them to do business with us. The financial health and wider wellbeing of our members is paramount, and the committee supports work to deliver tangible support to those who protect our communities.

The Member Committee continues to build on the proud 125-year history and heritage of the society by supporting the Police Family and this remains at the core of the committee's activities.

Activities during the Year

- review of focus group findings and surveys
- review of the Society PPFM from a member perspective
- review of sponsorship and support for Police groups
- action tracker to capture and monitor voice of the Member and Member panel feedback and ideas
- stakeholder engagement
- strategic project changes and the member experience

Strategic Finance Committee

This committee was established in 2021 to oversee the financial aspects of the Society and make recommendations to the Board. In 2022 it will become the Strategic Finance and Investment Committee as the Risk & Investment Committee will cease and risk will be joined with Audit & Compliance to form the Audit Risk & Compliance Committee.

Membership

The Committees membership in 2021 was:

- Lee Schopp (Chair)
- Graeme McAusland
- Gerhard Ekermans
- Nicola Hayes

Purpose

The purpose of the Strategic Finance and Committee (the "Committee") is to provide independent oversight of the Society's strategic financial management.

Activities during the year

- oversight of project progress reports
- profitability reports
- review and challenges of 2022 budget proposals

Remuneration Report

This report is provided to give members a full explanation of the remuneration policy and explains how the Society has applied 'The AFM Corporate Governance Code' as published in January 2019 with respect to directors' remuneration.

Remuneration, Nomination & Governance Committee

The role and list of Non-Executive Directors who sit on the Remuneration, Nomination and Governance Committee is shown on page 43. The chief executive officer is invited to attend the meetings to participate in discussions on remuneration policy but is excluded from detailed discussions relating to their own remuneration.

Remuneration Policy

The Society's approach to remuneration is an integral part of the Society's strategy. The policy aims to attract, motivate, support and retain high quality diverse talent with the necessary skills to achieve the Society's strategic objectives, meet regulatory requirements and support the short, medium and long-term interests of members. Remuneration is considered within the financial services sector for the geographical location the Society occupies and business affordability. The policy is to provide an industry competitive level of salary which is achieved through regular salary benchmarking exercises and a good working environment. Salaries are reviewed annually, and all staff are entitled to join a defined contribution pension scheme.

Remuneration Policy for Executive Directors

The Remuneration Policy of the executive directors comprises of basic salary, a contributory pension, and other benefits. The remuneration is approved by the Board based upon recommendation by the Remuneration, Nomination & Governance Committee, which includes all salary amendments.

In 2019, a bonus scheme for all staff, including the Leadership Team, was introduced and this continued through 2021. 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 employment contract of the executive directors requires a contractual notice period of six months by either party. The Remuneration, Nomination & Governance Committee will carefully consider what compensation commitments (including pension contributions and all other elements) their directors' terms of appointment would entail in the event of their early termination.

Remuneration Policy for Non-Executive Directors

Non-Executive Directors are elected for a period up to three years by delegates at the Annual General Meeting. This appointment can be extended for two further periods of three years at which point the Non-Executive Director has to stand down in accordance with the Society's Rules. The Board will determine any notice period that is convenient to both the Society and the director under other circumstances. The initial term may be shortened to align with rotation of the Board.

The remuneration of all non-executive directors, including the chair, is reviewed on an annual basis by the Remuneration, Nomination & Governance Committee using advice and guidance from both internal and external sources, and supplemented as required with expert advice. A recommendation is made to the Board which then puts a proposition to the delegates at the Annual General Meeting to receive any remuneration changes. The non-executive directors are only entitled to fees and expenses, and do not participate in any performance related pay schemes or receive any pension arrangements or other benefits.

During 2021, the remuneration paid to NEDs comprised a fixed amount in accordance with the roles held by the NEDs. During the reporting period there was one resignation and one new NED 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 2021 overall reward.

Directors' Pension Benefits

Executive Directors are invited to become a member of the Society's Group Personal Pension Scheme, a defined contribution stakeholder pension scheme. The Society makes enhanced contributions. The Society's contributions to this scheme are shown in the remuneration table below.

Non-executive directors do not receive any pensionable benefits from the Society.

Directors' Remuneration

The following remuneration was paid to Executive and Non-Executive Directors for their services to the Society during 2021:

Name	Fee/Salary 2021	Bonus 2021	Pension 2021	Benefits 2021	Total 2021	Total 2020
Executive Directors						
Annette Petchey [1]	£119,359	£10,432	£11,739	£553	£142,084	-
Ben Grainger	£116,900	£11,010	£13,614	£1,845	£143,370	£135,701
Gerhardt Ekermans	£118,388	£11,010	£13,614	£357	£143,370	£135,701
Lee Schopp [2]	£74,000	-	-	£317	£74,317	£13,012
Kathy Byrne [5]	-	-	-	-	-	£198,811
Total - Executive Directors	**£428,647**	**£32,452**	**£38,967**	**£3,072**	**£503,141**	**£483,225**
Non-executive Directors						
Joanna Young (Chair)	£46,155	-	-	-	£46,155	£45,000
Craig Haslam	£26,922	-	-	-	£26,922	£26,265
Graeme McAusland	£31,061	-	-	-	£31,061	£28,840
Lee Schopp [2]	£17,244	-	-	-	£17,244	£25,148
Nicola Hayes	£26,922	-	-	-	£26,922	£17,285
Clive Triance [3]	£15,704	-	-	-	£15,704	£17,285
Rebecca Hall [4]	£24,678	-	-	-	£24,678	-
Fiona Gregory [5]	-	-	-	-	-	£14,420
Janet Cassettari [5]	-	-	-	-	-	£11,587
Total - Non-executive Directors	**£188,686**	-	-	-	**£188,686**	**£185,830**
Grand Total	**£617,333**	**£32,452**	**£38,967**	**£3,072**	**£691,827**	**£669,055**

Note - individual figures rounded to nearest whole pound

1. Appointed as CEO 1st May 2021 and appointed to the Board 7th July 2021
2. Stepped down as NED, appointed as Interim CEO, 30th November 2020, stepped down as Interim CEO and was reappointed as NED, 1st June 2021
3. Resigned from the Board 31st July 2021
4. Appointed to the Board 8th February 2021
5. These were not directors in 2021 but included for disclosure consistency purposes of the 2020 fees

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 2021.

Annette Petchey - 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 31 December 2021 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" and Financial Reporting Standard 103 "Insurance Contracts" (United Kingdom Generally Accepted Accounting Practice); and the special provisions relating to friendly societies as set out in The Friendly Societies (Accounts and Related Provisions) Regulations 1994, as amended.

In our opinion, the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 December 2021 and of the Society's transfer from the fund for future appropriations for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been 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 Appropriateness 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 'base', 'better than expected' and 'worst case' 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; 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 matter in forming our opinion above, together with an overview of the principal audit procedures performed to address it and our key observations arising from those procedures.

This matter, 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 The true and fair presentation of the Society's financial position and operating results depends, to a significant degree, on the reasonableness and consistency of the valuation of long-term business provisions. Long-term business provisions are significant, based on estimates and are subject to inherent variability. Long-term business 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 long-term business provisions are not valued appropriately and hence lead to material misstatements in the financial statements.	In conjunction with our actuarial and IT specialist team members, 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 and the output from the subsequent checks performed over this data by the outsourced actuary. • reviewing changes to the model, the model change process and governance around changes to the model. • reviewing the methodology employed by the Society and the outsourced actuary in setting bonus rates. • applying our industry knowledge and experience to assess the methodology, models and assumptions (both economic and non-economic) used in calculating the long-term business provisions. • reviewing the per policy expense assumption and the appropriateness of the changes made in the year. • reviewing the asset volatility assumptions used in the economic scenario generators

	for equity, interest rate and property volatility and equity-interest rate correlation and comparing these to a third-party pricing provider. • reviewing the application of prescribed EIOPA risk-free rates. • validating the asset mix used in calculating the long-term business provisions. • reviewing the change in Cost of Guarantee charges and the underlying methodology; • reviewing drivers of change in the best estimate liability and the risk margin. • reviewing the asset allocation and investment mix including a detailed review of the asset share methodology, asset share reconciliations at product level and the allocation of assets to With-Profits and Non-Profits portfolios. • reviewing drivers of change in the reinsurers' share of the long-term business provision. • 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 modelling the long-term business provisions. **Our observations** Based on the work performed and the audit evidence obtained, we consider that the valuation of the long-term business provisions is reasonable.

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	£597,000
How we determined it	Materiality was set at the audit planning stage by reference to the Society's 2020 Fund for Future Appropriations ("FFA") (of which it represented 2.00%). Materiality was recalculated on receipt of the draft financial statements and reviewed as the audit progressed. The overall materiality set at the audit planning stage represents 2.02% of the final 2021 FFA, so we elected to leave materiality unchanged.
Rationale for benchmark applied	FFA 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 £448,000 was applied in the audit.
Reporting threshold	We agreed with the Audit Risk and Compliance Committee that we would report to them misstatements identified during our audit above £18,000 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.

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 the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 49, 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.

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

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.

Based on our understanding of the Society and its industry, we considered that non-compliance with the following laws and regulations might have a material effect on the financial statements: non-compliance with the regulatory requirements of the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA").

To help us identify instances of non-compliance with these laws and regulations, and in identifying and assessing the risks of material misstatement in respect to non-compliance, 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 laws and regulations that have a direct effect on the preparation of the financial statements, such as the Friendly Societies Act 1992 and UK tax law.

In addition, we evaluated the directors' and management's incentives and opportunities for fraudulent manipulation of the financial statements, including the risk of management override of controls, and determined that the principal risks related to management bias through judgements and assumptions applied in valuing the long-term business provision and the posting of manual journal entries to manipulate financial performance.

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.
- Performing the work set out under 'Key audit matters' within this report over the valuation of the long-term business provisions; 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. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit & Compliance Committee, we were appointed by the Board of Directors on 13 October 2011 to audit the financial statements for the year ending 31 December 2011 and subsequent financial periods. We were reappointed as auditor for the audit of the 31 December 2020 financial statements following a tender process conducted in 2020. The period of total uninterrupted engagement is 11 years, covering the years ended 31 December 2011 to 31 December 2021.

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 Risk and 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 (Apr 1, 2022 18:29 GMT+1)

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
01 April 2022

METROPOLITAN POLICE FRIENDLY SOCIEY	Notes	2021 (£'000)	2020 (£'000)
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR 31 DECEMBER			
EARNED PREMIUMS			
- CONTINUING OPERATIONS			
Gross Premiums Written	2a	59,986	45,317
Less: Reinsurance Premiums	2b	(332)	(352)
Earned Premiums, net of Reinsurance		59,654	44,965
Investment Income and Realised Gains/(Losses)	3	5,504	4,857
Unrealised Investment Gains		3,810	8,017
TOTAL TECHNICAL INCOME		68,968	57,839
CLAIMS PAID			
Claims Paid			
- Gross Claims Paid		21,204	17,580
- Less: Reinsurers' Share	2b	(466)	(297)
Claims paid, net of reinsurance		20,738	17,283
CHANGE IN OTHER TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		42,768	34,898
- Reinsurers' Share	2b	87	(91)
Net of Reinsurance		42,855	34,807
OTHER CHARGES			
Net Operating Expenses	4	5,752	4,925
Tax Attributable to Long Term Business	8	(76)	313
		5,676	5,238
TRANSFER (FROM)/TO THE FUND FOR FUTURE APPROPRIATIONS	12	(301)	511
TOTAL TECHNICAL CHARGES		68,968	57,839
BALANCE ON THE TECHNICAL ACCOUNT - LONG TERM BUSINESS		-	-

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED

BALANCE SHEET AS AT 31 DECEMBER

	Notes	2021 (£'000)	2020 (£'000)
ASSETS			
INVESTMENTS	9	274,983	229,119
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long Term Business Provision	13	1,316	1,403
On Claims Outstanding		188	15
REINSURERS' SHARE OF TECHNICAL PROVISIONS		1,504	1,418
DEBTORS			
Debtors Arising From Direct Insurance Operations - Policy Holders		95	93
Other Debtors		1,613	1,344
TOTAL DEBTORS		1,708	1,437
OTHER ASSETS			
Tangible Assets	10	138	171
Intangible Assets	11	354	-
Cash At Bank and In Hand		8,790	11,918
TOTAL OTHER ASSETS		9,282	12,089
PREPAYMENTS AND ACCRUED INCOME		165	187
TOTAL ASSETS		287,641	244,250
LIABILITIES			
FUND FOR FUTURE APPROPRIATIONS	12	29,539	29,840
TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		254,925	212,157
Claims Outstanding			
- Gross Amount		1,715	975
TOTAL TECHNICAL PROVISIONS	13	256,640	213,132
Deferred Tax Liability	14	291	209
PROVISION FOR OTHER RISKS AND CHARGES		291	209
CREDITORS			
Creditors Including Taxation and Other Social Security	15	77	307
TOTAL OTHER CREDITORS		77	307
ACCRUALS AND DEFERRED INCOME		1,094	762
TOTAL LIABILITIES		287,641	244,250

Approved by the Board of Management 31 March 2022 and signed on its behalf by:

Joanna Young
Joanna Young (Apr 1, 2022 16:38 GMT+1)

Joanna Young – Chair **Annette Petchey – 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.

Contract Classification

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

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

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

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

Insurance Contracts

Premiums

Premiums are credited when they become due. Reinsurance premiums are charged when they become payable.

In classifying new business premiums, the following bases of recognition have been adopted:

- Incremental increases are included in new business premiums
- Single premiums constitute all those contracts for which there is no expectation of continuing premiums being paid, including any additional single premiums paid, in respect of individual contracts. All other contracts are included in regular premiums
- When regular premiums are received other than annually, the regular new business premiums are on an annualised basis.

Claims

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

Investment Income and Realised Gains/(Losses)

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

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. Acquisition costs are expensed as incurred.

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

Intangible Assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged when the intangible asset is available for use.

Intangible assets consist primarily of internally generated software. The economic lives of these assets are determined by considering relevant factors such as usage of the asset, typical life cycles, potential obsolescence, maintenance costs and the period of control of assets. Intangible assets are amortised over 10 years using the straight-line method. Intangible assets are reviewed for impairment if any factors indicate that the carrying amount may be impaired.

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[1] 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.

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[1] The calculation methodology of the technical provisions and capital requirements under the Solvency II Standard Formula are set out in the PRA Rulebook and in Commission Delegated Regulation (EU) 2015/35 (published in the Official Journal of the European Union).

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 and the charges for guarantees. These are dependent on a number of items, such as investment returns on asset shares over the year, the level of underlying market volatility, the mix of assets backing With Profits assets shares (and, in particular, the volatility of future returns on those assets), the expected investment returns on assets backing asset shares (as informed by the prevailing risk-free interest rates), and the modelled management actions that will be used to determine future guarantee charges. The cost of guarantees is calculated using a stochastic model based on a 1,000 possible economic scenarios.

2. PREMIUM INCOME & REINSURANCE

a) Premiums Written		**2021 (£'000)**			**2020 (£'000)**	
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Life Assurance Business						
Non-participating Contracts						
- Periodic Premiums	8,443	332	8,111	6,088	352	5,736
Participating Contracts						
- Periodic Premiums	1,188	-	1,188	1,119	-	1,119
- Single Premiums	50,355	-	50,355	38,109	-	38,109
TOTAL PREMIUMS WRITTEN	59,986	332	59,654	45,317	352	44,965

		2021 (£'000)			**2020 (£'000)**	
	Regular Premium	Single Premium	Total	Regular Premium	Single Premium	Total
Total Gross New Premiums Resulting From Contracts Concluded by the Society	1,335	50,355	51,690	1,426	38,109	39,535

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	2021 (£'000)	2020 (£'000)
Reinsurance Premiums	332	352
Reinsurers' Share of Claims Paid	(466)	(297)
	(134)	56
Reinsurers' Share of Change in Long Term Business Provision	87	(91)
	(47)	(35)

The effect of reinsurance was to decrease the transfer to the Fund for Future Appropriations by £47,000 for the year ended 31st December 2021 (2020: a decrease of £35,000).

3. INVESTMENT INCOME AND REALISED GAINS/(LOSSES)

	2021 (£'000)	2020 (£'000)
Investment Income	5,490	4,874
Profits/(losses) on the Realisation of Investments	14	(16)
Investment Income and Gains	5,504	4,857

Investment income and gains on the realisation of investments include £Nil (2020: £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 of £283k (2020: £233k) deducted within pooled funds and investment management fees charged directly to the Society.

4. NET OPERATING EXPENSES

	2021 (£'000)	2020 (£'000)
Acquisition Costs	2,495	2,111
Administrative Costs	3,256	2,814
	5,752	4,925

Fees payable in respect of the audit of the Society’s annual accounts amounted to £143,000 (2020: £125,040).

The Solvency & Financial Condition Report (SFCR) was exempted from audit for 2021 and there were no other audit-related services. Fees for other services, pursuant to legislation, amounted to £900.

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 £346,963 for 2021 (2020: £314,960).

5. STAFF COSTS

	2021 (£'000)	2020 (£'000)
Wages and Salaries	2,528	2,174
National Insurance Costs	271	237
Other Pension Costs	299	273
	3,099	2,684

All staff costs are included in operational expenses.

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

	2021	2020
Management	6	5
Sales, Marketing and other Support Staff	46	39
	52	44

6. BOARD MEMBERS' EMOLUMENTS

During 2021, the Chair in the post at year-end received emoluments of £46,155 (2020: £45,000). Seven other non-executive Board members received emoluments totalling £188,686 during 2021 (2020: £185,830). 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 £503,141 (2020: £483,225), including pension contributions of £38,967 (2020: £36,762). Details of their respective emoluments are disclosed in the Remuneration Report on page 48.

7. INVESTMENT EXPENSES & CHARGES

Investment expenses and charges are not included in net operating expenses but are either reflected in the market value of the Society's investments or, for those fees charged directly to the Society, deducted from investment income (see Note 3).

For 2021, total investment expenses and charges are estimated to be £859,000 (2020: £681,000). This is made up of gross investment management fees of £1,142k (2020: £914k) less rebates on investment management fees of £283k (2020: £233k). Of the investment management fees (net of rebates) £277k has been charged to directly to the Society and £582k is estimated as reflected in the market value of the Society's investments (2020: £228k and £453k respectively).

8. TAXATION

	2021 (£'000)	2020 (£'000)
Current Corporation Tax at Applicable Rates	(158)	241
Adjustment in respect of prior year	-	19
Change in Deferred Taxation	82	52
	(76)	313

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	
	2021 (£'000)	2020 (£'000)	2021 (£'000)	2020 (£'000)
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:				
- UK	274,983	229,119	256,807	214,753
TOTAL INVESTMENTS	274,983	229,119	256,807	214,753

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's 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.

Fair value hierarchy at 31st December 2021:

	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	TOTAL (£'000)
Fair Value at 31st December 2021				
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:	254,139	20,843	-	274,983

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

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 31st December 2021:

	2021 Change In FFA	2020 Change In FFA
20% Fall in Equity Markets	-6%	-5%
3% Absolute Increase in Implied Volatility of Investments	-1%	-1%
1% Increase in Investment Rates	-1%	0%
1% Increase in Credit Spreads	-10%	-9%

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.

The impact of a number of sensitivity tests on Own Funds have been investigated. An increase in risk free rates of 1% resulted in a decrease of £8.8m in the technical provisions, and a decrease of £0.1m in Own Funds.

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 8% (2020: 6%) 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 average duration of the long-term business provisions is estimated at 9 years.

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

Credit risk:

The Society invests a large part of its assets in fixed income assets, mainly liquidity and bond funds totalling £11.0 million and £109.0 million respectively. The associated credit risk is well diversified, with no material exposure to any one counterparty. Credit exposure also arises from the Society's reinsurance assets (total £1.3 million) and cash balances including deposits (total £8.8 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 2021, the proportion was 8% (2020: 7%).

Additionally, some unrated assets are held within bond funds, where the manager has assessed such assets internally to be investment grade. None of the fixed income assets were past their due date or considered to be impaired. The bond funds had an aggregate value of £109.3 million (2020: £91.7 million) with the following rating profile of the underlying assets as reported by the managers:

Rating	2021	2020

AAA	4%	6%
AA	7%	8%
A	20%	21%
BBB	56%	53%
Below Investment Grade	8%	7%
Unrated	6%	5%
	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 2021 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 31st December 2021. 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 £29.2 million (2020: £29.8 million) to meet our Solvency Capital Requirement of £15.1 million (2020: £13.5 million), a coverage ratio of 193% (2020: 221%). 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 £23.7 million, and the coverage ratio to 157%. 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 1st January 2021	215	154	65	434
Additions	-	33		33
Disposals	-	(50)	-	(50)
At 31st December 2021	215	137	65	417
Depreciation:				
At 1st January 2021	120	81	62	263
Additions	24	33	2	59
Disposals	-	(43)	-	(43)
At 31st December 2021	144	71	64	279
Net Book Value:				
At 31st December 2021	71	66	1	138
At 31st December 2020	95	73	3	171

The depreciation charge for the year ended 31st December 2021 was £58,414 (2020: £49,869). There was a loss on disposal of assets for the year-ended 31st December 2021 of £6,684 (2020: £nil).

11. INTANGIBLE ASSETS

	Internally Generated Intangible Assets £'000
Cost	
At 1st January 2021	-
Additions	354
At 31st December 2021	354
Amortisation	
At 1st January 2021	-
At 31st December 2021	-
Net Book Value:	
At 31st December 2021	354
At 31st December 2020	-

Additions to intangible assets relate to the internally generated software generating operational process efficiencies. The amortisation charge for the year ended 31st December 2021 was £nil (2020: £nil) as the intangible assets were not completed as at 31 December 2021.

12. FUND FOR FUTURE APPROPRIATIONS

	2021 (£'000)	2020 (£'000)
Balance at 1st January	29,840	29,329
Transfer (to)/from Income and Expenditure Account	(301)	511
Balance at 31st December	29,539	29,840

13. TECHNICAL PROVISIONS

	Long Term Business £'000	Claims £'000	Total £'000
Gross Amounts:			
At 1st January 2021	212,157	975	213,132
Transfers from Technical Account	42,768	740	43,508
At 31st December 2021	254,925	1,715	256,640
Reinsurers' Share:			
At 1st January 2021	1,403	15	1,418
Transfers (from)/to Technical Account	(87)	173	86
At 31st December 2021	1,316	188	1,504

	Non-participating £'000	Participating £'000	2021 Total £'000	2020 Total £'000
Analysis of members' Liabilities (Net of Reinsurance)				
- Participating (With Profits)	-	239,947	239,947	196,313
- Non-participating	13,662	-	13,662	14,441
	13,662	239,947	253,609	210,754
Claims Outstanding	(148)	1,675	1,527	960
Total Technical Liabilities	13,514	241,622	255,136	211,714

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

The Fund for Future Appropriations of £29.5 million (2020: £29.8 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 because any allocation is subject to future determination. As at balance sheet date no allocation has been made.

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	2021	2020
Cash	4%	6%
Fixed Interest	32%	33%
Equities/Multi-assets	56%	55%
Property	8%	6%
	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	2021 (£'000)	2020 (£'000)
At 1 January	29,840	29,329
Change in the Cost of Guarantees	1,300	1,200
Investment Return on FFA	-	900
Strain of Writing New Business	(1,300)	(500)
Change in Economic Assumptions	1,200	(1,600)
Other Surplus	(1,501)	511
At 31 December	29,539	29,840

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 impact of a number of sensitivity tests on Own Funds have been investigated. A 10% deterioration in the demographic assumptions underlying the valuation of the Best Estimate Liability for the non-profit business resulted in an increase of £0.8m in the Technical Provisions, and a decrease of £0.5m in Own Funds.

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.

14. DEFERRED INCOME TAX

	2021 (£'000)	2020 (£'000)
Balance at 1st January - Asset/(Liability)	(209)	(157)
Income and Expenditure Account Credit	(82)	(52)
Balance at 31st December - Asset/(Liability)	(291)	(209)

The movement in Deferred Income Tax is as follows:

Deferred Tax Assets	Deferred Acquisition Expenses £'000	Other £'000	Total £'000
Balance at 1st January 2021	464	-	464
Income and Expenditure Account Credit	37	-	37
Balance at 31st December 2021	501	-	501

Deferred Tax Liabilities	Deemed Disposals of AIFs* £'000	Other £'000	Total £'000
Balance at 1st January 2021	641	32	673
Income and Expenditure Account Debit	111	9	119
Balance at 31st December 2021	752	41	793

** - Authorised Investment Funds*

During 2022 the Society expects £170,000 of the deferred tax liability to reverse and comprises:

	£'000
Deemed Disposals	215
Deferred Acquisition Expenses	(385)
Balance at 31st December 2021	(170)

Deferred tax is provided at a rate of 20%.

15. CREDITORS INCLUDING TAXATION AND OTHER SOCIAL SECURITY

	2021 (£'000)	2020 (£'000)
Other Taxes and Social Security Costs	77	307

16. OPERATING LEASES

	2021 (£'000)	2020 (£'000)
Future Minimum Lease Payments under Non-Cancellable Leases in respect of Land and Buildings are as follows:		
- Within one year	97	97
- In Two to Five Years	219	317
- In Over Five Years	-	-
	317	414

17. PENSION CHARGES

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

	2021 (£'000)	2020 (£'000)
Defined Contribution Scheme	299	273

18. POST BALANCE SHEET EVENTS

During February 2022, Russia instigated military action in Ukraine. This event is still developing as at the date of the Financial Statements but has been assessed by the Directors of the Society as an event that will increase risk and uncertainty globally in the foreseeable future.

The military action was instigated subsequent to 31 December 2021 and has therefore been treated as a non-adjusting post-balance sheet event. The most significant impact on the Society is expected to be investment market volatility but a precise estimate of the financial effect cannot be made.