Metropolitan Police Friendly Society Limited

Annual Report and Accounts for the year ended 31 December 2022

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Chair's Report

I am delighted to be writing this report as the Chair of Metfriendly. Being selected by my fellow directors to take on the role was a moment of great pride for me. I take the Society's links to the Police Family very seriously – it is at the core of what the organisation is about. My commitment as Chair is to ensure that, rather than letting those links decline, we do everything we can to ensure they are enhanced. Our vision for the Society sets this out explicitly, and I will seek to ensure that across all our activities, our Members remain at the heart of what we do.

After the disruption of recent years, we may have hoped that 2022 could be a year of relative calm. Unfortunately, this has not been the case. The combination of the war in Ukraine, political instability in the UK and the ongoing fallout from COVID have all contributed to what can best be described as economic turmoil. Energy prices increasing hugely, spiralling inflation, real wage decreases, and rising interest rates have all resulted in very significant pressures on household finances. We know this is impacting our Members and, as a business, it also impacts us. We continue to assist with our education work, which has a very definite focus not on selling plans but around genuinely helping our Members, as a relentless ally would do in troubled times. We will continue to provide such help.

We know these economic troubles also impact policing on a day-to-day basis. Increased protests, crime related to financial hardship, and breakdowns in support services such as mental health provision, all add to policing pressures. Coupled with what seems like a never-ending attack from the media, we are conscious that policing is a tough place to be at the best of times, particularly at the moment. I find it immensely frustrating that the excellent work carried out by so many gets dismissed so easily because of the failure of the few. Where we can, we will continue to promote the great work that so many of you do every single day. Given that, I will take this opportunity to thank all our Members and your families for the work you do today and have done in the past.

The economic background has of course also caused significant volatility in investment markets. We are not immune from the volatility and must manage your investments in that challenging environment. We are long-term investors who resist the temptation to chop and change based on the latest news. We regularly assess where money is invested, but with that long-term perspective. As for many, returns were challenging in 2022, but the Society's financial strength has remained stable. Whilst less than 2021, sales are at the second highest level ever. There is much more detail on this in the Chief Executive's report.

Amidst this turmoil the Society has also been undertaking a major transformation project to redesign our processes and update our systems to make the Society easier for Members to interact with and more efficient. In all that change, we remain focussed on ensuring we can give Members the service they expect . For example, if you wish, you can still call us, get the phone answered quickly (by a human being) and have your query dealt with - no long waits with repeated background music, or number pressing until your fingers are sore, to speak to someone who can help.

Understanding what members need and want from us is a key focus in the Society. We have a specific Board Committee that considers inputs from surveys, focus groups and other activities such as Vox Pops where we seek direct input on what we do and don't do. This Member Committee also looks in detail at complaints, looking for where it went wrong, what we can do better and ensuring that where we need to change, we do. This sort of work looks at not only the process but also the tone of how we dealt with things including on calls and any written communication. We will not always get it right but we will learn and improve where we don't.

Of course, the team at Metfriendly are not immune to the challenges in Society and have once again risen to the challenges in front of them. In particular, managing through the significant internal change that has been taking place has required an incredible amount of commitment and professionalism. I want to thank every one of them for their efforts. Drawing those efforts together is an absolute commitment to serving members, which is core to what makes us different from so many other organisations.

In 2022 we continued our support for policing. We sponsored, and attended, the National Police Memorial Day in Belfast and the Metropolitan Police Excellence Awards in London. 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 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. Perhaps most significantly our sponsorship of the wellbeing dogs has extended to purchasing a vehicle for them to be readily accessible across the Met. PDs Dexter, Daisy and Hugo are stars and our sponsorship represents a tangible example of us working to help members not only directly through financial products but also through social support.

The end of 2022 saw Joanna Young step down from the Board and her role as Chair. Joanna joined the Board in 2013 and has been a stalwart ever since. In her role as Chair from 2018, she drove forward the need for the Society to grow and modernise but never to lose sight of who we were there for – our Members. We are very sorry to see Joanna move on and thank her for her enormous contribution that leaves the Society in a much stronger place than when she took over as Chair. During 2022, our Chief Financial Officer Gerhardt Ekermans moved on; we thank him for all he did and wish him well in his new role. We also say goodbye to Ben Grainger from the Board. Ben left us at the end of 2022, and it would take too much space to record all the aspects he was involved in over his time with the Society. From Sales to Member Service to Strategic Projects, he has played an important role in moving the Society forward and we wish him well for the future.

Joining the Board as Executive Directors in 2022 were Paul Grimshare and Martin Bellingham, and both are already helping shape our thinking in constructive and challenging ways. In addition, we welcomed Emma Richards and Marcus Barnett to the Board as Non-Executive Directors, strengthening our links to policing even further, and Robert Dagg joined the Board in January 2023. I want to record my thanks to all members of the Board and Executive Committee. As noted above, it has been a challenging year for many reasons and the clarity of thought and drive to move things forward through those challenging times has been great to see and a pleasure to be involved with.

Finally, I want to reiterate my thanks to the team at Metfriendly. It has been a difficult year and the team has responded to that by being even better at what they do. They genuinely want to do the very best for you, our Members and I, with my Board colleagues, will seek to ensure they have the means to do so.

Graeme McAusland

Graeme McAusland (Mar 29, 2023 15:09 GMT+1)

Graeme McAusland - BSc BA FFA

Chief Executive's Report

When I wrote my report last year, I was new in the role of Metfriendly's Chief Executive. I am no longer "the newbie", and I am pleased to report another strong year for Metfriendly despite the many challenges the Police Family continues to experience – I am grateful to the Officers, Staff and their families who have been a part of our year.

While 2021 was still very much in the shadow of COVID, 2022 has been overshadowed by global and national economic difficulties and the war in Europe. Inflation (measured by CPI) was 10.5% at the end of December 2022, the Bank of England interest rate is the highest it has been since 2008 with UK mortgage rates rising above 6%, petrol prices were at times nearly twice what they were in 2020 and the UK stock market (FTSE 250) has lost around 17%. This has affected everyone in the UK, but we would argue that it has particularly impacted the Police Family.

Metfriendly's origins go back to 1893, when Police Officers realised that their colleagues needed more than donations into an upturned helmet to meet the financial challenges that followed a death or serious accident. We are continuing to respond to the financial challenges of the Police Family now. In 2022, the Metfriendly Police Family Finance Report was produced for the first time, and it highlighted some significant financial challenges that the Police Family are experiencing. We will repeat the research in 2023 and share the results then. In the meantime, we have shared the results with the Federations and Police HR departments that we work with, the Superintendents' Association and the National Police Chiefs' Council. It is part of our DNA to be a relentless ally to the Police Family and we will continue to raise the profile of Police Family finances wherever we can.

As well as using the Metfriendly Police Family Finance Report with the forces we work with, we have used the results to shape our education seminars and how we deliver our services to you, our Members.

COVID has not gone away, but 2022 has been less affected by it. We have maintained a hybrid working model at Metfriendly, and it is working well for us; service standards have been maintained at their already high levels or even improved upon, and we have been able to get back to some inperson events. We have kept many of our seminars online as it made them available to so many more people and allowed family members to join the attending Officers and Staff. Hybrid working and online seminars also have the advantage of reducing our carbon footprint.

Investment in our systems infrastructure is progressing well and to plan, delivering greater efficiency and a more resilient, flexible platform from which we can continue to grow. The programme has another year to run, but we are already delivering a smoother, quicker process for members. As well as being much better for our Members, it will allow us to run Metfriendly more efficiently and significantly offset the impact of inflationary increases on our overall costs in 2023.

Moving to the annual performance of your Society, Metfriendly has had another strong year. 2021 was a record year, with many members choosing to save the money they were not able to spend during the pandemic. Members have continued to trust the Society with their investments and protection and new business – as measured by Annual Premium Equivalent – reached its second highest ever level of £7.4m (2021: £9.0m), Membership increased to 18,118 (2021: 17,118) and total premium income was £47m (2021: £60m).

Assets Under Management were affected by the downturn in global financial markets so, despite investment income receipts of £6.4m (2021: £5.5m) and continued net cash inflows from members, Assets Under Management at the end of the year were lower at £277m (2021: £286m).

The downturn in financial markets also meant that in the interests of fairness we needed to introduce a Market Value Reduction (MVR) for a small number of members who wished to withdraw their assets, mainly within the first three years of their investment. The aim of this is to protect the assets of our remaining members and to ensure all members are treated fairly when there are sharp falls in assets.

It is at times like these that the With-Profits investments model Metfriendly uses shows its worth; we are able to smooth the worst of the peaks and troughs of the market by holding back some of the gains in good years to balance tougher investment years such as 2022, allowing us to increase most 2022 declared annual bonuses by half relative to 2021 annual bonuses (see Report to Members with With-Profits Policies on pages 29 to 31).

At the end of the year, our Solvency Capital Requirement Coverage Ratio (the amount of money we hold above the amount our regulators require us to hold) remains in our acceptable risk appetite range. This means we are strong enough to withstand significant ups and downs in the economy and financial markets.

Metfriendly's Education and Enrichment programme has continued to grow, with our support still going to many social, sporting and wellbeing initiatives. We have been delighted to extend our support in recognising excellence in the forces by supporting several of the awards organised by Federations across the UK, as well as sponsoring the Bravery Award at the Met Excellence Awards. I am still hugely humbled by those short-listed for all these awards, both for the actions of those nominated and the ubiquitous modesty of the nominees – I think I have heard the phrase "it's just what you do" more in the last two years than I have in all my preceding years.

Much of the activity in Metfriendly is invisible to members: the back-office functions that keep the Society working well are rarely aired in the CEO report. This year is slightly different; 2023 will see the introduction of a new approach to customer outcomes from one of our regulators. The approach – called Consumer Duty - defines a new Consumer Principle and all financial services firms are required to demonstrate how they meet the new requirements during 2023. A lot of work is being undertaken behind the scenes to ensure we can evidence these outcomes, but I do not anticipate you will see significant changes to how you deal with us - Metfriendly has always been proud of how we operate, with our Members at the heart of what we do.

I am particularly proud of the Metfriendly team, which dealt with so many changes in 2022. While the changes delivered a more member-focussed, efficient Society, any change can be unsettling. The Metfriendly team has risen to the challenges with pragmatism and enthusiasm and constantly suggests further improvements to benefit our Members.

During 2022 we continued to develop our approach to environmental, social and governance issues.

Environmental

Much of how we measure our environmental impact is through our investment reporting. This is a work in progress and we anticipate making improvements as an outcome of our investment strategy review in 2023. We will be keeping the With-Profits investments approach which has served our Members so well, but will be considering how we improve the returns to our Members and the transparency of our environmental impacts.

We have also assessed Metfriendly's carbon footprint. As well as making your Society more efficient, Project Darwin has also delivered environmental benefits. One example is that we have printed more than 10,000 fewer pages than we would have done before implementing the changes. We have made other changes to reduce our carbon footprint and will be looking at additional activity in 2023 and beyond. *Social*

Our support of the Police Family is the beating heart of delivering against our social objectives: Graeme has mentioned many of the activities in his Chair's Report, but we also support many smaller initiatives that Officers and Staff have approached us about when they have not been able to obtain funding through their force.

Governance

We continue to challenge ourselves to ensure that our structures are fit for purpose. In 2022, we made changes to our team structures and the roles within them. This has allowed us to improve the service we deliver for our Members while reducing the cost of doing so. Again, I am very proud of my team for embracing this.

Metfriendly continues to be owned by you, our Members, and we will continue to manage your investments in the same, careful way you have entrusted us to do since 1893.

We remain tremendously proud of our heritage with the Police and our ongoing close relationships. It pains us to hear what must feel like a constant stream of criticism about people who, our experience tells us, are mainly thoroughly committed, with a sense of duty driving their actions – a quality that received appropriate recognition for Her Majesty, the Late Queen Elizabeth, and that we have the privilege in seeing in so many of the people Metfriendly are here to serve.

Annette Petchey (Mar 29, 2023 14:03 GMT+1)

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 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, careful monitoring of our expenses, and by maintaining an appropriate level of capital surplus. This ensures we have sufficient reserves to withstand adverse economic and investment conditions and invest in the Society's continuing success. 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 and is something 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 placing 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 and Opportunities:

Our strategy for several years has been growth, primarily through increased market penetration. Each year we set objectives so we can monitor our progress. For 2022, we also determined to make your Society easier to access and much more efficient. I am delighted that we have been able to achieve both these goals.

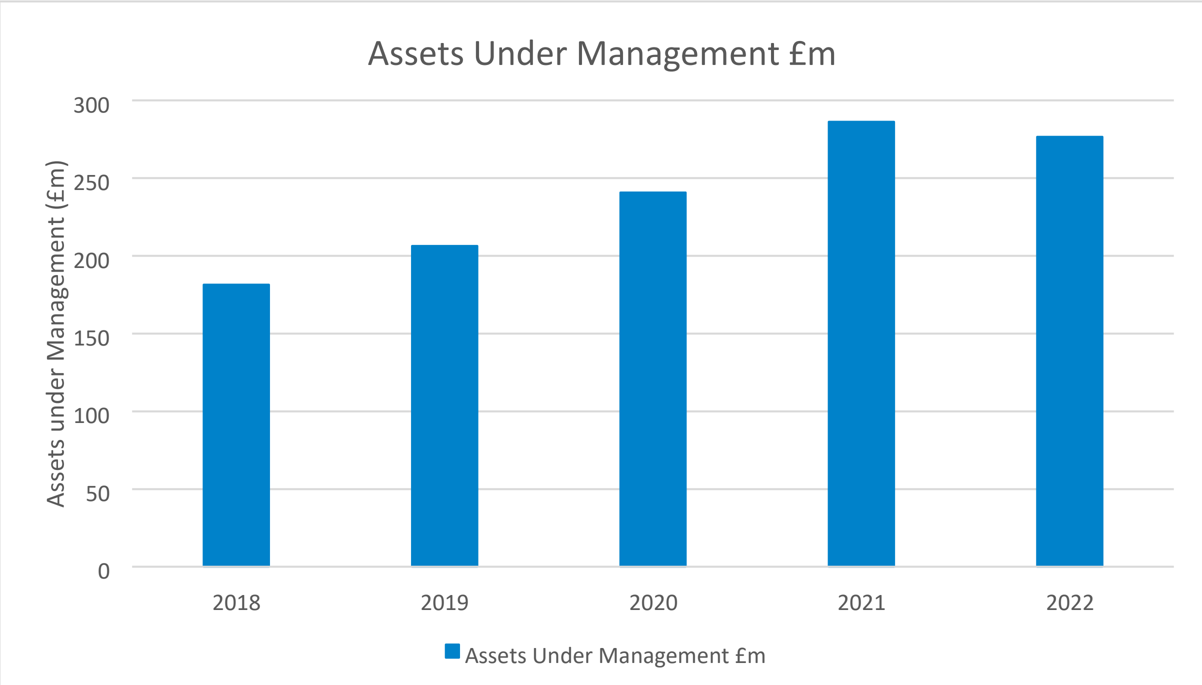
There are still further opportunities for Metfriendly to expand its business with the Police Family across the UK, and to deliver even greater efficiencies through the ability of our new systems to scale. This will continue to be a focus for Metfriendly in 2023.

Review of 2022

2022 was another strong year for Metfriendly, with the Society continuing to grow and improve despite a backdrop of challenging economic conditions.

A growing number of Members are trusting the Society with their investments and protection: Membership reached its highest ever level of 18,118 and a record amount was invested in Metfriendly for the second year running – only 2021 beat 2022 in terms of new business (2022 NB APE £7.4m; 2021: £9.3m) and premiums invested (2022 Gross Premiums Written £47m; 2021: £60m).

Assets Under Management[1] were affected by the downturn in global financial markets - total Assets Under Management at the end of the year were £277m (2021: £286m), as shown in the graph below.



[1] Assets Under Management are calculated as total assets less deferred tax assets and reinsurers' share of technical provisions.

1. Growth of your Society

We grew our membership from 17,118 at the end of 2021 to 18,118 at the end of 2022. We have been able to grow our membership through the Met and beyond. The graph below shows how membership numbers have changed over the last five years.

As well as the number of Members, we measure New Business growth using an internal measure, Annual Premium Equivalent (APE), which reflects the relative value of different product sales.

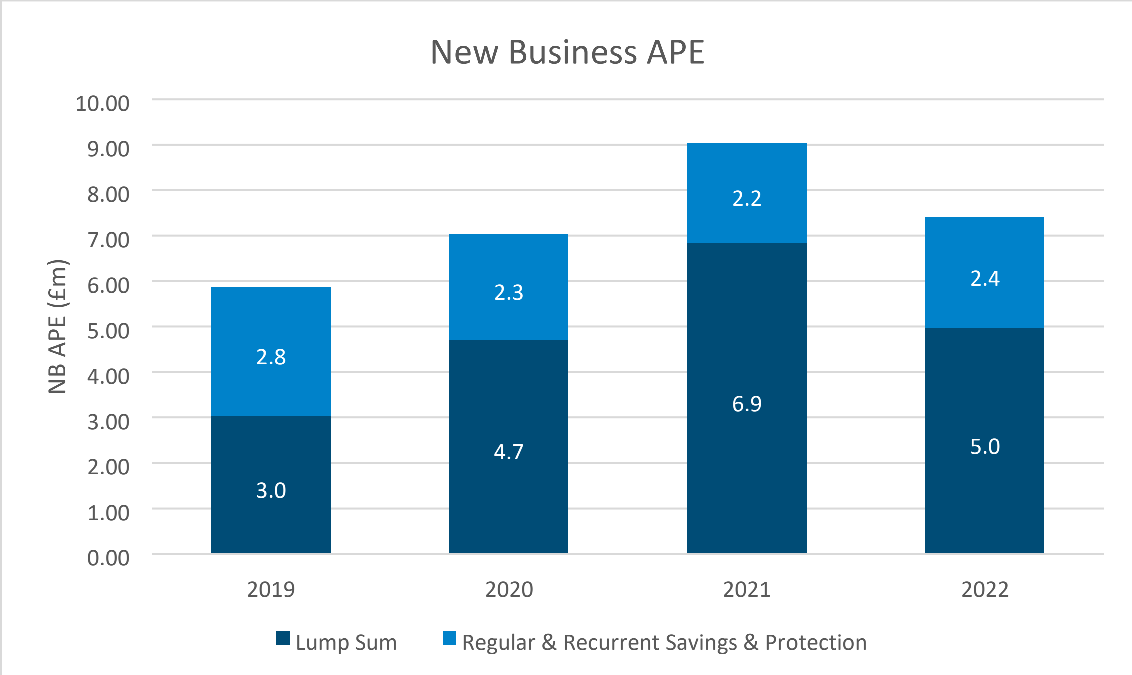
APE is calculated for new lump sum investments and new regular and recurrent savings and protection plans as:

- For lump sum contributions: 15% of the premium received.
- For Regular and Recurrent savings: 12 times the initial monthly premium received.
- For Regular Premium Protection: 12 times the contractual monthly premium amount.
- For the Guaranteed Five Year Savings Plan ("G5YSP"): 6 times the monthly premium.

New Business APE was £7.4m in 2022 compared to £9.0m in 2021 (£7.0m in 2020).

2022 New Business APE from Lump Sum contributions was lower than 2021 as the sudden downturn in the global and national economies impeded some of our Members' ability to invest lump sums, and the (very welcome) lifting of pandemic-related restrictions meant that significant spends on holidays, weddings, etc, that were delayed in 2020 and 2021 were realised in 2022. We anticipate seeing this affect in 2023, too.

We have been delighted to see an increase in New Business APE from regular and recurrent savings, as members of the Police Family begin to develop a savings habit – one of the key themes of our family finance-based education seminars – although we are very aware of the cost-of-living pressures on family finances. The following graph illustrates the increase in regular savings (including regular and recurrent savings, guaranteed five year savings and protection) relative to lump sums in 2022.



2. Making the Society easier for members to access

Project Darwin was instigated to bring our systems up to date and make it much easier for our Members to access their Society in the ways they would like to. It replaces a strong-but-inflexible system with one of equal strength and the ability to allow Members and prospective Members to engage with us online, and in the ways they have enjoyed for years. It is also making the processes much quicker for Members; applications that used to take 40 minutes can now be processed in just a few minutes. This means we can spend more time understanding and addressing the needs of our Members.

I have been delighted with the delivery of Project Darwin to date. We decided to release each phase of the project as we go rather than develop and release everything in one go. Arguably, this may have increased some of the associated work, but it means members benefit from improved and quicker journeys much sooner, and efficiencies flow through to the cost to provide services immediately. The project is well controlled and currently on time and within budget.

Key member deliveries for Project Darwin have been the improved ease with which members can open new accounts and top up their existing accounts. 20% of the total applications received in 2022 were processed through the new system, and all new savings applications were processed on the new system by the end of the year. All savings and protection business should be on the new system by the end of 2023 – a terrific achievement by a small, dedicated team.

Invisible to members but important nevertheless is the additional resilience and flexibility the new system is delivering for Metfriendly.

3 Improving the running of the Society for members

Building on the efficiencies delivered by Project Darwin, in 2022 we reviewed our costs across the Society with a view to ensuring we were running the Society – spending members' money – as efficiently as possible, while maintaining the excellent service for which Metfriendly is known. I am delighted that we have been able to achieve this, too.

This has meant our Member Service Assistants have more time available to help our Members. We set ourselves high standards for delivering service to our Members, and we met or exceeded all our service standards for the year.

One of the things we are proud of is our availability for our Members, who know they will not be kept on hold for an age before we answer the phone.

4. Defining our sustainability and Environment, Social and Governance agenda

We have identified the main sources of our carbon footprint and delivered some initiatives to reduce it, including offering our staff a salary sacrifice scheme for electric vehicles and reducing travel by holding more of our seminars and one-to-ones with members online. We have also proactively engaged our investment managers on actions they can take and initiated a review of our investments. However, we have not yet defined our future state and this work will continue into 2023.

We deliver against our social objectives through our Education and Enrichment programmes, Wellbeing activities and Sponsorships.

With a new Chair of the Board in place, there will be some changes in Board committees and membership. These will all be designed to ensure the governance arrangements continue to be fit for purpose and are focussed on the key success factors for the business and their associated risks,

Metfriendly benefits from excellent Non-Executive Directors (NEDs) with a range of backgrounds and skills: policing, financial and investments. These NEDs provide a depth of knowledge and experience we can call on to run the Society as well as challenge and support for the Executive Committee.

Returning value to Members

Investment Performance

We outsource our investments to three investment managers and across eight pooled funds. During 2022 oversight of the performance of the investment managers was governed through the Strategic Finance and Investment Committee.

The committee met at least quarterly to review the performance of our investments and the fund managers and consider if any action was required. The committee met with each fund manager during the year to discuss past returns, the positioning and potential risks in the portfolio, and the outlook for the future. We are satisfied all managers remain fit for purpose and are delivering what is expected from them given their mandates in a very difficult market.

In terms of investment returns, the year started well with confidence in corporate earnings and the post-COVID recovery balancing concerns over inflation, geopolitical tensions and potential interest rate rises. However, investment conditions quickly deteriorated after Russia invaded Ukraine. Exceptionally high inflation, significant interest rate increases, UK political uncertainty and the continuing war in Ukraine have significantly depressed investment performance over the year: global equity markets fell over 7% (in GBP), UK FTSE 250 shares and UK 7-10-year gilts fell 17% in 2022.

Our investment strategy has performed largely as expected in these conditions and the With-Profits Fund has been somewhat cushioned from the extremes of performance by investing in a diversified portfolio of assets. The Society's investment income and realised gains for the year increased by 17% to £6.4m in 2022. However, the impact of falling investment values resulted in the With-Profits Fund's investments returning -10% for the year.

The increase in interest rates and level of investment fall experienced in 2022 were unusual, but market volatility is an expected feature of financial investing. The Society therefore maintains sufficient financial resources to withstand significant shocks, continues to declare annual bonuses, and remains invested to benefit from higher interest rates and any recovery in market values.

Returns to Members

Most of our Members hold With-Profits plans with us. These earn returns in two ways: Annual Bonuses and Final (or terminal) Bonuses.

Annual Bonuses

Annual bonuses are awarded each year and are guaranteed on death or maturity.

In managing the With-Profits business during 2022, the Society has taken account of its continued financial strength , the investment performance of the With-Profits Fund and the cost of providing guarantees. The significant increase in interest rates during the year has made it less expensive to add to a policy's guaranteed benefits than would otherwise be the case, but has also reduced investment returns in the year as the rise in interest rates reduced market values of fixed income investments. After careful consideration, the Board approved an increase in annual bonus rates for 2022 compared with those in 2021 (see Directors Report to members with With-Profits Policies on pages 29 to 31).

Final (or terminal) Bonuses

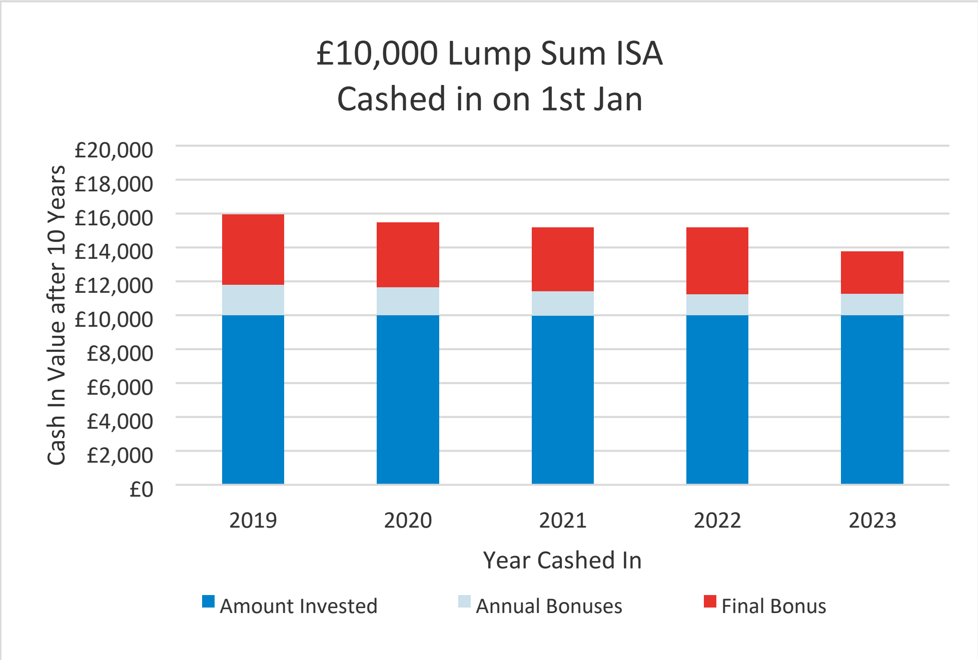
These are usually awarded when the policy is surrendered or cashed in. The actual investment performance of the fund over the lifetime of a policy determines the value of final bonuses paid out in any given year. Final bonus rates on ISA business are normally reviewed and updated at each quarter end to reflect recent changes in investment performance.

Returns to Members may be illustrated by considering the performance under our most popular plan - the Lump Sum ISA.

The Annual Bonus declared on the Lump Sum ISA for 2022 was 1.5%, increased from the 1.0% declared for 2021. Interim Annual Bonus rates for 2023 are also 1.5%.

A Lump Sum ISA with £10,000 paid in on 1st January 2013 had a cash-in value of £13,765 on 1st January 2023, which represents an average annual growth rate of 3.2% p.a. Over this 10-year period, money invested in an NS&I Direct Cash ISA would have returned an average of 1.0% p.a[1].

The graph below shows the amounts that would have been paid out on a Lump Sum ISA cashed in on 1st January in each of the last five years (2019 – 2023) after £10,000 had been invested for 10 years. The overall return on these Lump Sum ISA plans cashed in on 1st January 2019-2022 remained relatively stable despite market volatility during the COVID-19 pandemic. The overall return on the Lump Sum ISA cashed in on 1st January 2023 reflects a reduction in final bonus from the impact of market falls on the With-Profits Fund's investments during 2022.



[1] Calculated using historical rates for NS&I Direct ISA on www.nsandi.com/historical-interest-rates

Business Environment and Future Developments

If I thought 2020 and 2021 were difficult environments for business, 2022 has surpassed these in some ways: a war only a day's drive away; three Prime Ministers, four Chancellors of the Exchequer and – perhaps more importantly for the Police Family – three Home Secretaries; a flat-rate pay rise in policing and cost of living increases not seen for more than a generation have certainly brought their challenges.

We anticipate many of these challenges continuing into 2023. Our decision to invest in our infrastructure and to realise savings throughout 2022 has made Metfriendly more resilient to these challenges and will allow us to offset much of the impact of cost inflation in 2023. I am confident that your Society will continue to grow and prosper.

Technological

Incidences of cyber-attacks continue to increase in volume, scale and complexity with activity increasing alongside the war in Ukraine. Metfriendly achieved Cyber Essentials Plus accreditation in 2022 and I am pleased to report that there has been no breach of our security. However, we remain conscious of the risks we, like other organisations, face and continue to seek to manage these cyber related risks.

Project Darwin, discussed in more detail earlier in this report, is delivering a more flexible technological platform that will allow us to improve our service to members, to grow cost effectively and to develop our products and services as the needs and wants of our Members change.

Legal/Regulatory

The Financial Conduct Authority (FCA) published its 2022/23 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 these areas in 2022 and have made strong progress. We will continue to do so during 2022 and beyond. Our Leadership Team retains 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 under Risk Appetite 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 46 provides the required disclosures on the activities of the Society.

Annette Petchey (Mar 29, 2023 14:03 GMT+1)

Annette Petchey CEO

Principal Risks and Uncertainties

Risk Appetite

Metfriendly has a low risk appetite, which is based on solvency capital requirement 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 range 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 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 again included a Climate Change Scenario in our Forward-Looking Assessment of Own Risk and are satisfied the impact is minimal. Each of our funds are committing greater resources to their ESG investment decisions and have set targets to achieve net zero carbon emissions. Notwithstanding this, 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

The pandemic caused minimal disruption to the Society during 2022. We now operate on a hybrid basis, which our Staff have enjoyed, and Members have seen no reduction in service levels during or after the pandemic. As a result of our learnings through the lockdowns we are now a more agile and resilient organisation.

Risk Categories

The risk categories that the Society considers are shown below.

Risk Category	Description
Strategic Risk	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, the guarantees under members' contracts, or expose the Society to inappropriate levels of risk of loss in adverse market conditions. 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, underwriting assessment 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 Audit, Risk and Compliance Committee (ARC). 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 Executive Team and reviewed by the Board at each Board meeting and are reported in the 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 and retain insufficient profitable business both to cover costs and to deliver value to our 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. As the pandemic restrictions lifted, we welcomed the opportunity for more face-to-face interaction with our members and prospects. The Society's Membership has continued to increase and includes an increasing number of Members from different police forces.
Conduct Risk – Conduct of Sales The risk is that we fail to treat members fairly by failing to uphold our values or deliver the outcomes our Members expect. 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. In 2022 we commenced delivery of our Consumer Duty plan which was approved by the Board in November 2022. To support this, we have appointed Emma Richards as Consumer Duty Champion. The Compliance function signs off all communications and produces and manages a Compliance Assurance Plan, which is agreed and monitored by the Audit, Risk and Compliance Committee and is 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 also result in reputational and regulatory risk.	The investment strategy is reviewed annually by the Board and its implementation is overseen by the Strategic Finance & Investment Committee. The investment strategy requires that the Society holds sufficient fixed income assets of appropriate quality and duration to match its principal liabilities, with the remaining assets invested in line with an agreed target asset mix to provide an appropriate, diversified mix of investments within agreed capital constraints. Asset-Liability Matching and asset mix relative to target levels are monitored by the Chief Finance Officer at least every six months and reported in management information to the committee.

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. 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 Performance risk includes equity, property, credit, currency and other price risks arising from the Society's investments and primarily relate to assets backing With-Profits asset shares. Inflation risk is not considered to be a significant investment performance risk for the Society due to the nature of its mainly With-Profits liabilities and the diversified portfolio of investment assets that it holds. The potential impact of inflation on expenses is considered under market expense risk.	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 Strategic Finance & Investment Committee (SF&I). Limits are placed on cash holdings with any single counterparty, exposure to individual property funds and aggregate exposure to property and other illiquid assets. These limits, and any new funds, are approved by the SF&I 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. We use pooled funds to gain exposure to a range of underlying investments that are held in sterling-priced funds.
Market Risk – Expense Risk The risk is that expenses are not fully recovered from margins charged to Asset Shares on With-Profits business and included in the pricing of Non-Profit business, including if margins or business levels are insufficient to cover the Society's expenses or future expense inflation increases the Society's expenses. There is also a risk that we would not recover all of our expenses if we considered it unfair or counterproductive to levy a higher charge that covers total expenses the whole cost.	Annual budgets and strategic plans assessing future business levels and expenses of the Society are reviewed by the SF&I Committee and approved by the Board. Expense and wider business performance is monitored against the approved Budget in our monthly management information. Future maintenance expenses, inflation, expense risk and the associated solvency capital requirements are considered when determining and reporting on our Own Funds and Solvency Capital Requirements. Expense risk is considered within the Society's Forward-Looking Assessment of Own Risk.
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 received our annual reaccreditation of Cyber Essentials Plus which reflects our continued work in this area.

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 the provision of products designed to meet our Members savings, investment and protection needs. 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 financial products 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 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 2022, we maintained our support to the choir and were pleased to see them at our AGM and 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 return to fixtures during the year and we look forward to their centenary activities next year.

Team Police

During 2022, 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, Essex Police Federation Bravery Awards and the Thames Valley Police Federation Bravery Awards

We were proud to sponsor the bravery awards again and hear the amazing stories of courage and bravery by all the nominees.

The National Police Memorial Day

We support this important initiative through a donation linked to the votes we receive at our AGM. The past few years have been challenging and the service in Belfast 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 continues to sponsor a charity established to support retired police dogs. Police dogs devote around 8-10 years of their life to public service but receive no 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 2023 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. We continue 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 prospective members. Within our Forward-Looking Assessment of Own Risk report we considered the impact of a disorderly transition over the medium term in achieving the global climate goals set in the Paris agreement and concluded that the impact on the Society is minimal. However, we are committed to ensuring that Metfriendly does its part in delivering on our moral and regulatory obligations and will continue to push forward for greater knowledge and delivery in this important area.

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. In 2022 we increased our oversight of our supply chain so that we can understand that our own values are carried across with our chosen operating partners.

Royal London Asset Management (RLAM)

RLAM is committed to being a responsible investor, from being a good steward of assets and promoting responsible investment with other stakeholders to offering a range of sustainable and ethical investment options. RLAM has been a signatory to the United Nations Principles for Responsible Investments (PRI) since 2008 and is an active member of several other relevant organisations, including the UK Sustainable Investment and Finance Association. 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 an ethical framework whereby it identifies ‘best of breed’ companies within permitted sectors and avoids companies 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)

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 of 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, 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 and 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 2022

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

Board Chair (retired 2022); Remuneration, Nomination & Governance Committee; Member Committee

Appointed to the Board in May 2013 and Board Chair from June 2018 until her retirement at the end of 2022. Prior to this, Joanna was a serving Police Officer for over 30 years and 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.

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

Non-Executive Director; Chair of Audit, Risk and Compliance Committee; With-Profits Advisory Arrangement, Strategic Finance & Investment Committee.

Appointed to the Board in August 2016, Graeme is a qualified actuary. 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 is chair of the Audit and Risk Committee of The Medical Defence Union and of the Trustees a Funeral Plan Trust. In his spare time, Graeme plays the cornet in a brass band, for which he is also the concert secretary, hacks around local golf courses and watches all sorts of sports, particularly football and cricket.

From January 2023, Graeme replaced Joanna Young as Board Chair when she retired from the Board.

<u>Annette Petchey</u>

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.

<u>Marcus Barnett</u>

Non-Executive Director; Member Committee

A Detective Chief Superintendent in the Met with fast approaching 30 years of service, Marcus was appointed to the Board in April 2022. Having been the BCU Commander responsible for Hackney and Tower Hamlets Boroughs for the past three years, Marcus has now moved to a role where he is supporting the Met and the new Commissioner in its mission to reform. Marcus is also a lead in the Met for driving gender equality, fairness, and ethics. He has previously worked nationally, internationally and in a range of different areas including specialist crime, covert policing and as Chief of staff to the Commissioner.

Martin Bellingham - MBA, MSc, BA (Hons), MMR

Executive Director; Membership Support Director, Member Committee

Martin joined Metfriendly in 2019 as Sales and Marketing Director and has recently moved into the role of Membership Support Director, reflecting his additional responsibility for the Member Services Team. He has spent most of his working life in financial services, having held senior roles at Nationwide, The Children's Mutual and AXA. Prior to moving into financial services, Martin worked at Boots in various strategic marketing roles. Martin is a member of the Market Research Society and sits on an advisory board for the Office for National Statistics.

Paul Grimshare – BSc, FCA

Executive Director; Chief Financial Officer, Strategic Finance & Investment Committee

Paul joined the Society as CFO in June 2022. He is a qualified Chartered Accountant (Institute of Chartered Accountants in England & Wales) and brings a wealth of experience having worked for over 20 years in the life and pensions, general insurance and asset management sectors, in the UK and internationally. Paul qualified with a Big Four firm and has since focused on delivering effective financial management and providing strategic financial insights to drive business growth and development. Paul is also an experienced non-executive director. He previously served on the Board of a major UK Pension Scheme and is a non-executive director of a business delivering low-carbon energy and sustainable development in his local borough. Away from work, Paul is a husband and father of two boys, with a keen interest in sport, fitness and travel - ideally combining all three.

Rebecca Hall - FIA

Non- Executive Director; 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.

Craig Haslam - DL FGPT

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.

In 2022, Craig was commissioned as one of His Majesty's Deputy Lieutenants, representing the monarch and building bridges in communities across Greater London.

Nicola Hayes - MA(Hons) St.A

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

Nicola has had a wide-ranging career covering everything from pedigree dogs to universities to trade associations, with the majority spent in financial services at two firms: Invesco Perpetual and Baring Asset Management. When she left Barings in 2016, she was Global Head of Client Service & Relationship Management and a non-executive director of eight listed fund management companies in four countries. She is now a corporate governance consultant and sits on the board of the national charity, Sue Ryder, where she is chair of the Finance, Investment & Commercial Committee.

Emma Richards

Non-Executive Director; Member Committee, Audit Risk & Compliance Committee

Emma was appointed to the Board in April 2022. Emma retired from the Metropolitan Police in October 2022, having served 34 years in the Metropolitan Police. She has been a uniformed officer all her career, specialising in firearms, public order and as a Counter Terrorism Security Co-ordinator. Emma retired as a Superintendent on the Taskforce within the MPS and was appointed as the national gender lead for the Police Superintendents Association in 2018. She brought up two children as a single parent and worked part time for many years. Emma is the third generation of Metropolitan and City of London Police Officers; her sister retired as a DCI in 2020 and her niece works for the City of London Police.

Lee Schöpp – CDir, ACA

Non-Executive Director; Chair of Strategic Finance & Investment Committee. Senior Independent Director, Audit Risk & Compliance Committee.

Appointed to the Board in August 2016, Lee is a Chartered Accountant, Chartered Director, and former interim CEO of a mutual insurer, British Friendly Society Limited. Lee brings 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 in Bedfordshire, and acts as a consultant to small and medium-sized businesses, helping owners maximise their potential. Lee is also chair at OAC plc, an actuarial consulting firm.

Robert Dagg - FICA, PgDipGRC

Risk & Operations Director and Company Secretary

Rob joined Metfriendly in 2019 and has 35 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, Technology and HR teams and is our Company Secretary. He is a member of the Executive Leadership Team. He holds the Senior Manager Function of Risk for Metfriendly and joined the Board as an Executive Director on 1 January 2023. In his spare time, he is a keen swimmer and 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 2022, 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 44 members of staff (including executive directors), and Central Court, Orpington remains the main office of the Society.

The Society's Leadership Team is led by Annette Petchey, CEO and comprises Paul Grimshare, Chief Financial Officer, Robert Dagg, Risk & Operations Director and Company Secretary, and Martin Bellingham, Membership Support Director.

The Society is an incorporated friendly society that serves 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 that confines 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 stood at 18,118 as at 31st December 2022 (2021: 17,118).

Risk Management

The management of risks across the Society is overseen by the Board and two committees. The Audit, Risk & Compliance (ARC) Committee takes responsibility for oversight of general risk management . The Strategic Finance & Investment (SF&I) Committee oversees our investments and any significant spend.

Throughout the year, RSM - Risk Assurance LLP acted as our internal auditors under the oversight of Robert Dagg, Chief Risk Officer, and the ARC Committee. They conducted audits on GDPR, vulnerable customers, sales and distribution, Member Services and our internal financial actuarial tool, Prophet. They also undertook a post-implementation review of our transformation project to report on controls and oversight. The results were reported to the ARC Committee and the Board.

Throughout 2022 the SF&I Committee monitored investment and expense management, which are core areas driving the returns to our Members. The ARC Committee 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 July 2022 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 Risk & Operations Director and ARC Committee.

The Board continues to monitor proposed new legislation and assesses its potential impact on the business model. This work is undertaken by the Risk & Operations Director.

The Society did not conduct any activities in 2022 that it believes were outside its powers .

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 2022, the Society provided 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

In addition, charitable donations paid by the Society during the year were: £9,754 from calendar sales to the London Retired Police Dog Trust; £1,626 (2021: £1,310) to the National Police Memorial in connection with votes at the Society's AGM; £930 to the Childhood Trust from the resale of used IT equipment. No political donations were paid by the Society (2021: £Nil).

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 2022.

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 continued financial impact of COVID-19 and the war in Ukraine, higher inflation, rising interest rates and the uncertain economic outlook on the Society’s financial resources and business plans, the impact of further stresses on the Society’s financial resources and whether the Society can continue to manage its business risks despite the ongoing uncertain economic outlook. The directors have a reasonable expectation that the organisation has adequate resources to continue in operational existence for the foreseeable future. The Society therefore continues to adopt the going concern basis in preparing its financial statements.

Viability Statement

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

The Board approved a three-year strategic plan in July 2021 and a 2023 Annual Budget in December 2022. In 2022, the Society also produced a Forward-Looking Assessment of Own Risk (FLAOR) based on a three-year projection of the Society’s business plans. The FLAOR looks at solvency and capital requirements under several new business scenarios, including 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 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 2022.

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. Conditions and competition in the audit market have not substantially changed during 2022 and the Board determined to reappoint Mazars as auditors for the 2022 year end. Mazars determined to rotate the existing audit partner and nominated a new Senior Statutory Auditor for the 2022 year-end audit.

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 chair of the Society's Audit, Risk & Compliance Committee during 2022, which also has a responsibility to consider issues relating to With-Profits business. Graeme McAusland served as With-Profits Advisory Arrangement throughout 2022. His terms of reference were reviewed in July 2021 with no changes.

The Board twice reviewed the Principles and Practices in the PPFM during 2022 and approved only minor changes following each 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 2022, the Society has taken account of the continued financial strength of the Society, the investment performance of the With-Profits Fund and the cost of providing guarantees. An increase in interest rates during the year has made it less expensive to add to a policy's guaranteed benefits than would otherwise be the case, but has reduced investment returns in the year. After careful consideration, the Board approved an increase in annual bonus rates for 2022 compared with those in 2021.

The financial strength of the Society, as measured by the Solvency Capital Requirement (SCR) Coverage Ratio, remained within the Society's acceptable range for risk appetite of between 150% and 300% and moved from 193% at the start of the year to 201% at the end of the year. These movements were in line with expectations based on the movements in interest rates, investment values and new business levels over this period.

The Board considers that the volumes and terms of business written in 2022, and those planned for 2023, 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. There has been no change to the annual charges applied during 2022 and with effect from 1st January 2023.

It is the directors' opinion that the business has been managed throughout 2022 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 2022 and no material changes to the member guide. The Society's website provides details about its With-Profits business at:
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 2022 at the rates shown in the tables below. The interim rates for claims to be paid in 2023 were set at the same rates as those for 2022.

Table 1 below shows the declared annual bonus rates for 2022, along with the rates for 2021. Annual bonus rates for 2023 will not be decided until the end of the year. Interim annual bonus rates to be paid on claims in 2023 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	2021 Declared Rate	2022 Declared Rate	2023 Interim Rate
Tax-Exempt Savings Plans	8, 10, 11, 21, 22	0.50%	0.75%	0.75%
Standard Savings Plans	12, 15, 16	0.40%	0.60%	0.60%
Standard Fully Paid Plans, WithProfit Bonds, With-Profit Income Bonds, and Flexible Savings Plans	12E, 19, 26, 27	0.80%	1.20%	1.20%
Tax Exempt Fully Paid Plans, Lump Sum ISA, Lump Sum Junior ISA, Regular Premium ISAs prior to 2016	11E, 24, 25, 28	1.00%	1.50%	1.50%

Table 2 below shows the annual bonus rates for policies where bonus rates are applied on a tax-year basis, which starts on 6th April each year and ends on 5th April the following year. Annual Bonus rates for the 2023/24 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 2023. These apply to Monthly Savings ISA and Lifetime ISA policies.

Monthly Savings ISA policies issued between 6th April 2015 and 5th 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 but given the market volatility witnessed during 2022 and the market value reductions being applied by the Society, the margin has been reduced to 0% for 2022/23.

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

Product	Tables	2021/22 Declared Rate	2022/23 Bonus Rate*	2023/24 Interim Rate
Lifetime ISAs	31	1.00%	1.50%	1.50%
Monthly Savings ISA and Junior ISA policies issued between 06/04/15 and 05/04/2020	29, 30	1.50%	1.50%	1.50%
Monthly Savings ISA and Junior ISA policies issued from 06/04/20	32, 33	1.00%	1.50%	1.50%

** The bonus rate for the 2022/23 tax year will be applied from 6th April 2022 to 5th April 2023. The Society reserves the right to reduce annual bonus rates in 2023 should market movements mean that this is appropriate to maintain fairness for all policyholders.*

The guaranteed reversionary bonus rate for the Monthly Savings ISA and Lifetime ISA for the 2022/23 tax year is 1.5%. The guaranteed reversionary bonus rate for the Monthly Savings ISA and Lifetime ISA for the 2023/24 tax year will be 1.5%. This will apply to all new MSISA plans starting between 6th April 2023 and 5th April 2024, and to all recurrent premiums and lump sums paid into Lifetime ISA plans for the 2023/24 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 2022. Examples are given on the Society's website. Payouts on endowments in 2023 will generally be lower than in 2022. These changes reflect movements in the underlying asset shares.

Surrender Values

The Society has maintained its practices for surrender values throughout 2022. On contracts without a fixed duration which have been in force for less than three years and all the Monthly Savings ISA business written up to 5th April 2020, the Society imposed a Market Value Reduction (MVR) from July 2022 to reduce the sum assured and existing annual bonuses to reflect asset shares more closely.

Annette Petchey (Mar 29, 2023 14:03 GMT+1)

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 2022 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 2022 has been written on appropriate terms, consistent with the previous generations of comparable products and the volumes of new business written during 2022 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 (the full text 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 2022, 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 placing 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 everything we do.

The Board promotes a clear and collective vision through engagement with employees throughout the year by disseminating 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 largely by past and existing Members. This means we must be very clear about 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 and training. Our staff engagement survey had very good levels of responses. This has provided the CEO and her team with a plan of work to address the areas that really matter to all our colleagues. This included arrange of actions from the look of the office through to understanding our benefits such as healthcare in more detail.

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

We conduct voluntary 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 8.

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 2022 the Board met eight times, which it decided was sufficient to carry out all its tasks effectively. In addition, the Board had a strategy day when it focused on wider issues that affect the business and checked 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, Risk and 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 2022 are listed on pages 23 to 25. Metfriendly operates with a separate Chair and Chief Executive to ensure the balance of responsibilities and accountabilities are effectively maintained. Joanna Young, as Chair, had responsibility for the effectiveness of the Board during 2022.

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 the size of the Board under review to ensure sufficient diversity and expertise and manages this in line with the Rules of our Society.

All non-executive directors must be in a position to effectively challenge the executives; therefore, they must be independent in character and judgement. We have eight current non-executive directors of which seven 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, completed nine years of service in 2022. Following recommendation from the Remuneration, Nomination & Governance Committee it was agreed that Joanna would continue for a further six months to provide continuity during the recruitment of the new chair. Joanna stepped down on 31st December 2022.

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 and chairperson. The Board is evaluated collectively from time to time by an external party to ensure the business is run in an appropriate manner. This was last undertaken in 2020 by BP&E Global.

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 to 44 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 internal auditors.

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 8, sets out the opportunities currently presented to Metfriendly and how Metfriendly is addressing them.

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

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

See the Report of the Audit, Risk & 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 correlate with Metfriendly’s values. 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, starting at page 45 of this report, for further details on remuneration.

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).

Four of our Non-Executive directors (three from 1st January 2023) are former or serving Police Officers. This enables our Board to have relevant communication and engagement with our Member base. Craig Haslam, ex Met Police Officer, chaired our Member Committee during 2022.

In addition, all our directors, together with members of our office staff from Orpington, attend events for New Recruits, award recipients and retirees. We often use virtual technology to meet members and prospects remotely in a way that is more convenient for them.

During 2022, 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 2022 was as follows:

	Male	Female	Total
Executive directors	2	1	3
Non-executive directors	4	4	8
All other staff	20	20	40
Total	**26**	**25**	**51**

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 possible with working arrangements 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 2022, we continued hybrid working where staff have worked partly from home and partly in the office in ways designed to maximise engagement levels while maintaining a high level of member service.

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 Audit, Risk & Compliance Committee is responsible for oversight of our supplier relationships. Our processes incorporate due diligence on third-party suppliers prior to engagement. Throughout the relationship, regular services reviews and standards are discussed and agreed.

Community and the Environment

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

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

Robert Dagg

Company Secretary

Reports of the Committees

Terms of Reference for all Board committees are published within the Your Society/Boards-and-Committees/Committees section of the Society's website, www.metfriendly.org.uk. The Terms of Reference for all committees are regularly reviewed by each committee and the Board. Paper copies of the Terms of Reference are available upon request to the Society Secretary.

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 2022 was as follows:

Director	Board of Directors	Audit, Risk and Compliance Committee	Member Committee	Remuneration, Nomination & Governance Committee	Strategic Finance & Investment Committee
J. Young	7/7	(1/6)	4/4	4/4	-
G. McAusland	7/7	6/6	-	(1/4)	5/5
A. Petchey	7/7	(4/6)	(4/4)	4/4	(5/5)
M. Barnett[1]	4/7	-	2/4	-	-
M. Bellingham[1]	7/7	-	(4/4)	-	(1/5)
G. Ekermans[2]	4/7	(3/6)	-	-	(2/5)
P. Grimshare[3]	4/7	(2/6)	-	-	(2/5)
B. Grainger[4]	7/7	(5/6)	(2/4)	(4/4)	(2/5)
R. Hall	6/7	5/6	3/4	-	-
C. Haslam	7/7	-	4/4	4/4	4/5
N. Hayes	6/7	(1/6)	-	4/4	5/5
Emma Richards[1]	5/7	3/6	2/4	-	-
L. Schöpp	6/7	6/6	-	(1/4)	5/5

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

1 Joined the Board April 2022
2 Stepped down July 2022
3 Appointed as CFO June 2022 and appointed to the Board July 2022
4 Stepped down October 2022

Summaries of the purposes, duties and responsibilities, and key activities of each of the Society's Board committees during 2022, together with membership details during 2022, are set out below.

Reporting

All committees, through their chair, submit regular reports to the Board on its activities after each committee meeting. Minutes of all committee meetings are prepared and, once approved by the committee's chair, are circulated to all members of the Society's Board.

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, Risk & Compliance Committee

Membership

The committee's membership during the year comprised:

- Graeme McAusland (Chair)
- Rebecca Hall
- Emma Richards
- Lee Schöpp

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 CFO, external auditor, its outsourced internal auditor and the chief actuary.

In addition, the chairperson may attend committee meetings and Joanna Young did so on one occasion in 2022.

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
- provide an independent oversight of the Society's statutory reporting and systems of internal control
- 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
- enable the Society's risk management and compliance procedures to be reviewed in greater detail than at regular Board meetings.

Activities during the Year

The committee's key activities during 2022 have included, but were not limited to:

- review of the Society's 2021 Annual Report and Accounts and the External Auditor's report upon that document
- review of the 2021 Solvency & Financial Condition Report (SFCR) and Technical Provisions
- review of the 2022 External Audit strategy and outcome of the interim audit 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 the Society's risk management processes, risk register and emerging risks
- 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.

Remuneration, Nomination & Governance Committee

Membership

The committee's membership during the year comprised:

- Nicola Hayes (Chair)
- Craig Haslam
- Annette Petchey
- Joanna Young

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

Purposes

The committee'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 appointment of the new Board chairperson

- 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
- 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's membership during the year comprised:

- Craig Haslam (Chair)
- Marcus Barnett
- Rebecca Hall
- Emma Richards
- Joanna Young

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

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 well-being 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
- Deep dive review of member engagement and complaints
- strategic project changes and the member experience.

Strategic Finance & Investment Committee

Membership

The committee's membership in 2022 was:

- Lee Schöpp (Chair)
- Gerhardt Ekermans (resigned July 2022)
- Paul Grimshare (appointed July 2022)
- Craig Haslam
- Nicola Hayes
- Graeme McAusland

The committee was established in September 2021.

Purpose

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

Activities during the year

- annual review of investment strategy
- oversight of project Darwin investment and progress reports
- review and challenge of 2023 budget proposals
- investment performance monitoring and market reviews
- fund manager reports and presentations.

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 list of Non-Executive Directors who sit on the Remuneration, Nomination & Governance Committee is shown on page 42. 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 salary level, 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 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.

The Society offered the same reward scheme throughout 2022 as in 2021. In order to ensure appropriate behaviour and good long-term stewardship by executives, the criteria are 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 up to three years by delegates at the Annual General Meeting. This appointment can be extended for two further three-year periods, 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 2022, the remuneration paid to NEDs comprised a fixed amount in accordance with the roles they held. During the reporting period there were no resignations and two new NEDs joined. 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 2022 overall reward.

Directors' Pension Benefits

Executive Directors are invited to become members 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 Directors for their services to the Society during 2022:

Name	Fee/Salary 2022	Bonus 2022	Pension 2022	Benefits 2022	Total 2022	Total 2021
Executive Directors						
Annette Petchey[1]	£176,040	£10,432	£15,844	£1,227	£203,543	£142,084
Martin Bellingham[2]	£130,245	£9,234	£11,508	£1,033	£152,020	-
Paul Grimshare[3]	£74,500	-	£5,850	£433	£80,783	-
Benjamin Grainger[4]	£133,649	£8,879	£9,181	£489	£152,198	£143,370
Gerhardt Ekermans[5]	£108,271	£8,879	£5,975	£454	£123,579	£143,370
Lee Schöpp[6]	-	-	-	-	-	£74,317
Total Executive Directors	**£622,705**	**£37,424**	**£48,358**	**£3,636**	**£712,123**	**£503,141**
Non-Executive Directors						
Joanna Young (Former Chair)	£47,970	-	-	-	£47,970	£46,155
Graeme McAusland (Chair)	£30,743	-	-	-	£30,743	£31,061
Lee Schöpp[6]	£30,743	-		-	£30,743	£17,244
Rebecca Hall[7]	£27,999	-	-	-	£27,999	£24,678
Craig Haslam	£27,999	-	-	-	£27,999	£26,922
Nicola Hayes	£27,999	-	-	-	£27,999	£26,922
Marcus Barnett[2]	£18,528	-	-	-	£18,528	-
Emma Richards[2]	£18,528	-	-	-	£18,528	-
Clive Triance[8]	-	-	-	-	-	£15,704
Total Non-Executive Directors	**£230,509**	**-**	**-**	**-**	**£230,509**	**£188,686**
Grand Total	**£853,214**	**£37,424**	**£48,358**	**£3,636**	**£942,632**	**£691,827**

1. Appointed to the Board May 2021
2. Appointed to the Board April 2022
3. Appointed as CFO June 2022 and appointed to the Board July 2022
4. Resigned from the Board October 2022
5. Resigned from the Board July 2022
6. Resigned as Interim CEO and reverted to being a Non-Executive Director in May 2021
7. Appointed to the Board February 2021
8. Resigned from the Board in July 2021

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 2022.

Annette Petchey (Mar 29, 2023 14:03 GMT+1)

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 (the 'Society') for the year ended 31st December 2022 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 31st December 2022 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 severe but plausible scenarios applied by the Board, and contains severe but plausible Reverse Stress and Scenario Tests;
- 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 directors' disclosures in the financial statements on going concern.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

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

Key Audit Matter	How our scope addressed this matter
Valuation of the long-term business provisions The true and fair presentation of Metropolitan Police Friendly Society Limited's financial position and operating results depends, to a significant degree, on the reasonableness and consistency of the valuation of long-term technical provisions. Technical provisions are significant, based on estimates and are subject to inherent variability. Technical provisions are subjective, particularly in the context of selecting and applying the assumptions (economic and non-economic) and the methods and approaches used to determine the value of these provisions. There is a risk that technical provisions are not valued correctly leading to a material misstatement in 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 and auditing the accounting 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 demographic) used in calculating the long-term business provisions; • reviewing the per policy expense assumptions 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; • auditing the drivers of change in the best estimate liability and the risk margin; • auditing 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; • auditing the 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	£498,500
How we determined it	Materiality was set at the audit planning stage by reference to the Society's 2021 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 completion stage is updated to £498.5k representing 2% of 2022 Fund for Future Appropriations ("FFA").

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. We set performance materiality at £349,000, which represents 70% of overall materiality.
Reporting threshold	We agreed with the Audit Risk and Compliance Committee that we would report to them misstatements identified during our audit above £15,000 (which represents 3% of overall materiality) 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 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 our risk assessment, our understanding of the Society, its environment, controls, and critical business processes, to consider qualitative factors 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 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 47, 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") and we considered the extent to which non-compliance might have a material effect on the financial statements.

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:

- Gaining an understanding of the legal and regulatory framework applicable to the Society and the industry in which it operates, and considering the risk of acts by the Society which were contrary to the applicable laws and regulations, including fraud;
- Inquiring of the directors and management as to whether the Society is in compliance with laws and regulations, and discussing their policies and procedures regarding compliance with laws and regulations;
- Inspecting correspondence with relevant licensing or regulatory authorities including correspondence with the PRA and the FCA;
- Reviewing minutes of directors' meetings in the year; and
- Discussing amongst the engagement team the laws and regulations listed above and remaining alert to any indications of non-compliance.

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.

There are inherent limitations in the audit procedures described above and 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.

The risks of material misstatement that had the greatest effect on our audit are discussed in the "Key audit matters" section of 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 13th October 2011 to audit the financial statements for the year ending 31st December 2011 and subsequent financial periods. We were reappointed as auditor for the audit of the 31st December 2020 financial statements following a tender process conducted in 2020. The period of total uninterrupted engagement is 12 years, covering the years ended 31st December 2011 to 31st December 2022.

No non-audit services prohibited by the FRC's Ethical Standard were provided to the Society and we remain independent of the Society in conducting our audit.

Our audit opinion is consistent with our report to the Audit Risk & 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.

Bill Schiller (Mar 29, 2023 16:38 GMT+1)

Bill Schiller (Senior Statutory Auditor) for and on behalf of Mazars LLP
Chartered Accountants and Statutory Auditor
30 Old Bailey
London
EC4M 7AU

Mar 29, 2023

Income and Expenditure Account

METROPOLITAN POLICE FRIENDLY SOCIEY LIMITED	Notes	2022 (£'000)	Restated 2021 (£'000)
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER			
EARNED PREMIUMS			
- CONTINUING OPERATIONS			
Gross Premiums Written	2a	47,414	59,986
Less: Reinsurance Premiums	2b	(313)	(332)
Earned Premiums, net of Reinsurance		47,101	59,654
Investment Income and Realised Gains	3, 7	6,440	5,504
Unrealised Investment (Losses)/Gains		(33,638)	3,810
TOTAL TECHNICAL INCOME		19,903	68,968
CLAIMS INCURRED			
Claims Paid			
- Gross Amount		23,348	20,471
- Less: Reinsurers' Share	2b	(259)	(293)
Change in the provision for claims			
- Gross Amount		590	740
- Reinsurers' Share	2b	63	(173)
Claims incurred, net of reinsurance		23,742	20,745
CHANGE IN OTHER TECHNICAL PROVISIONS			
Long Term Business Provision			
- Gross Amount		(5,301)	42,768
- Reinsurers' Share	2b	242	87
Change in other technical provisions, net of reinsurance		(5,059)	42,855
OTHER CHARGES			
Net Operating Expenses	4	6,024	5,745
Tax Attributable to Long Term Business	8	(186)	(76)
		5,838	5,669
TRANSFER FROM THE FUND FOR FUTURE APPROPRIATIONS	14	(4,618)	(301)
TOTAL TECHNICAL CHARGES		19,903	68,968
BALANCE ON THE TECHNICAL ACCOUNT – LONG-TERM BUSINESS		-	-

The notes on pages 57 to 72 form part of these financial statements. The amounts restated in 2021 are explained in Note 1 on page 57.

Balance Sheet

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED			
BALANCE SHEET AS AT 31ST DECEMBER	**Notes**	**2022 (£'000)**	**Restated 2021 (£'000)**
ASSETS:			
INTANGIBLE ASSETS	9	1,150	354
INVESTMENTS	10	263,294	274,983
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long Term Business Provision – Reinsurers' share	11	1,074	1,316
Claims Outstanding – Reinsurers' share	11	125	188
REINSURERS' SHARE OF TECHNICAL PROVISIONS		1,199	1,504
DEBTORS			
Debtors Arising from Direct Insurance Operations - Policy Holders		163	95
Other Debtors	12	372	296
TOTAL DEBTORS		535	391
OTHER ASSETS			
Tangible Assets	13	98	138
Cash At Bank and In Hand		9,855	8,790
TOTAL OTHER ASSETS		9,953	8,928
PREPAYMENTS AND ACCRUED INCOME		1,809	1,482
TOTAL ASSETS		277,940	287,641
LIABILITIES:			
FUND FOR FUTURE APPROPRIATIONS	14	24,921	29,539
TECHNICAL PROVISIONS			
Long Term Business Provision - Gross Amount	11	249,624	254,925
Claims Outstanding - Gross Amount	11	2,305	1,715
TOTAL TECHNICAL PROVISIONS		251,929	256,640
PROVISION FOR OTHER RISKS AND CHARGES			
Deferred Tax Liability	15	-	291
TOTAL PROVISION FOR OTHER RISKS AND CHARGES		-	291
CREDITORS			
Creditors including Taxation and other Social Security	16	327	381
TOTAL CREDITORS		327	381
ACCRUALS AND DEFERRED INCOME		763	790
TOTAL LIABILITIES		277,940	287,641

Approved by the Board of Management on 29 March 2023 and signed on its behalf by:

Graeme McAusland

Graeme McAusland (Mar 29, 2023 15:09 GMT+1)

Graeme McAusland – Chair

Annette Petchey (Mar 29, 2023 14:03 GMT+1)

Annette Petchey – Chief Executive Officer

The notes on pages 57 to 72 form part of these financial statements. The amounts restated in 2021 are explained in Note 1 on page 57.

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. The Society's functional currency and presentational currency is GBP, rounded to the nearest £000's.

Comparative figures for 2021 have been re-presented as detailed below as this is considered to be a more appropriate classification: Interest payable on claims paid of £12,566 (2021: £7,282) has been reclassified from 'Net Operating Expenses' to 'Gross claims paid'; 2021 employee pension contributions of £122,877 have been reclassified from 'Other Pension Costs' to 'Wages and Salaries'; Accrued income of £1,637,141 (2021: £1,316,718) has been reclassified from 'Other Debtors' to 'Prepayments and Accrued income'; and Trade creditors of £240,887 (2021: £304,222) have been reclassified from 'Accruals and deferred income' to 'Creditors'. These changes have no impact on Total Technical Income, or Total Technical Charges in the Income and Expenditure Account, and no impact on Total Assets, or Total Liabilities in the Balance Sheet.

After making enquiries and considering the Society's financial resources and business plans, the directors have assessed whether they have a reasonable expectation that the organisation has adequate resources to continue in operational existence for the foreseeable future.

The directors' assessment included consideration of the continued financial impact of COVID-19 and the war in Ukraine, higher inflation, higher interest rates and the uncertain economic outlook on the Society's financial resources and business plans, the impact of further stresses on the Society's financial resources and whether the Society can continue to manage its business risks despite the ongoing uncertain economic outlook.

The directors have concluded that they 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.

The Society has been the sole shareholder of the £1 Ordinary share capital of Metfriends Limited, since its incorporation on 26th May 2020. Metfriends Limited has not traded since its incorporation. 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 based on notifications received and include the value of interest that accrues on outstanding claims between the date of notification and date of payment. 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 claims 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 are 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 that 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 and expenses invoiced directly to the Society are accounted for on an accruals basis and deducted from investment income.

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.
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 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 software assets are amortised over 15 years using the straight-line method from the date the asset is available for use. Intangible assets are reviewed for impairment if any factors indicate that the carrying amount may be impaired and, in this case, the recoverable amount will be assessed and the fixed asset written down to this value.

Long-Term Business Provision

The long-term business provision is determined by the Board of Directors, with the assistance of the Chief Actuary, adopting the mathematical reserves following her annual investigation of the long-term business. The provision is determined in accordance with Solvency II as adopted by the PRA and is equal to the sum of the best estimate liabilities (‘BEL’) and the risk margin (‘RM’).

Fund for Future Appropriations

The fund for future appropriations represents all funds, the allocation of which to policyholders had not yet been determined by the end of the financial year. Any surplus or deficit on the technical account is transferred to or from the fund on an annual basis.

Critical Judgements and Estimates

The Society considers that critical judgements and estimates 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 1,000 possible economic scenarios.

2. PREMIUM INCOME AND REINSURANCE

a) Premiums Written		**2022 (£'000)**			**2021 (£'000)**	
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Life Assurance Business						
Non-participating Contracts						
- Periodic Premiums	8,300	313	**7,987**	8,443	332	**8,111**
Participating Contracts						
- Periodic Premiums	5,410	-	**5,410**	5,234	-	**5,234**
- Single Premiums	33,704	-	**33,704**	46,309	-	**46,309**
TOTAL PREMIUMS WRITTEN	47,414	313	**47,101**	59,986	332	**59,654**

	2022 (£'000)			**2021 (£'000)**		
Gross New Premiums	Regular Premium	Single Premium	**Total**	Regular Premium	Single Premium	**Total**
Total Gross New Premiums resulting from contracts concluded by the Society	1,378	33,704	**35,082**	1,335	46,309	**47,644**

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	**2022 (£'000)**	**2021 (£'000)**
Reinsurance Premiums	313	332
Reinsurers' Share of Claims Incurred	(196)	(466)
	117	(134)
Reinsurers' Share of Change in Long Term Business Provision	242	87
	359	(47)

The effect of reinsurance was to increase the transfer from the Fund for Future Appropriations by £359,000 for the year ended 31st December 2022 (2021: a decrease in the transfer from FFA of £47,000).

3. INVESTMENT INCOME AND REALISED GAINS

	2022 (£'000)	2021 (£'000)
Investment Income	6,438	5,490
Profits on the Realisation of Investments	2	14
Investment Income and Gains	6,440	5,504

Investment income and gains on the realisation of investments include £Nil (2021: £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. Details of investment expenses and charges deducted from investment income are disclosed in Note 7.

4. NET OPERATING EXPENSES

	2022 (£'000)	2021 (£'000)
Acquisition Costs	2,650	2,495
Administrative Costs	3,374	3,250
	6,024	5,745

External Audit fees of £165,000 for the audit of the Society's 2022 annual accounts are included in 2022 Net Operating Expenses. 2021 External Audit fees were £143,000, with £125,000 included in 2021 Net Operating Expenses and £18,000 in 2022 Net Operating Expenses. The Solvency & Financial Condition Report was exempt from audit and there were no other audit-related services. Fees payable to the External Auditors for other services, pursuant to legislation, amounted to £785 (2021: £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, apart from fees payable to Milliman LLP, which amounted to £284,000 for 2022 (2021: £290,000).

5. STAFF COSTS

	2022 (£'000)	2021 (£'000)
Wages and Salaries	2,895	2,651
National Insurance Costs	309	271
Other Pension Costs	187	176
	3,391	3,098

All staff costs are included in operational expenses.

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

	2022	2021
Executive directors	4	4
Non-Executive directors	8	6
All other staff	42	42
	54	52

The Society operates a defined contribution pension scheme and the charge to the Income & Expenditure Account for the scheme was £187,000 (2021: £176,000).

6. BOARD MEMBERS' EMOLUMENTS

During 2022, the Chair in the post until 31st December 2022 received emoluments of £47,970 (2021: £46,155). Eight other Non-Executive directors received emoluments totalling £182,539 during 2022 (2021: £188,686). No compensation for loss of office was paid to Non-Executive directors who resigned during the year.

Executive Directors are considered to be the Society's key management personnel and they received total emoluments of £712,123 (2021: £503,141), including pension contributions of £48,358 (2021: £38,967). The highest paid Director during the year received emoluments of £203,543 (2021: £143,370). Details of the Executive Directors respective emoluments are disclosed in the Remuneration Report on page 46.

7. INVESTMENT EXPENSES AND 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 2022, total investment expenses and charges are estimated to be £926k (2021: £859k). This is made up of gross investment management fees of £1,249k (2021: £1,142k) less rebates on investment management fees of £324k (2021: £283k). Of the investment management fees (net of rebates) £272k has been charged directly to the Society and £654k is estimated as reflected in the market value of the Society's investments (2021: £277k and £582k respectively).

8. TAXATION

	2022 (£'000)	2021 (£'000)
Current Corporation Tax at 20% (2021: 20%)	(44)	(158)
Adjustment in respect of prior year	149	-
Change in Deferred Taxation	(291)	82
	(186)	(76)

The Society does not have a liability in respect of UK Corporation Tax for 2022 due to allowable expenses that exceed income, and investment losses that give rise to a tax loss for the year. The UK Corporation Tax credit for 2022 reflects current year tax losses recoverable from prior year tax paid.

The remaining 2022 excess expenses and tax losses are carried forward and will be available to offset against future taxable profits. The associated change in Deferred Taxation is presented in note 15.

The adjustment in respect of prior year reflects an overstatement of withholding tax recoverable as at 31st December 2021 that was reversed in 2022.

The taxation rate for the current and previous year was 20%.

9. INTANGIBLE ASSETS

	Intangible Assets £'000
At 1st January 2022	354
Additions	796
At 31st December 2022	1,150
Amortisation	
At 1st January 2022	-
At 31st December 2022	-
Net Book Value:	
At 31st December 2022	**1,150**
At 31st December 2021	354

Additions to intangible assets relate to internally generated software that enables us to provide an improved service to members, will facilitate future development and generates operational process efficiencies. The amortisation charge for the year ended 31st December 2022 was £nil (2021: £nil) as the intangible assets were not fully in use and independent of all testing and measurements until closer to the end of the year, where amortisation was not considered material.

10. INVESTMENTS

a) Investments	**FAIR VALUE 2022 (£'000)**	**FAIR VALUE 2021 (£'000)**	**HISTORICAL COST 2022 (£'000)**	**HISTORICAL COST 2021 (£'000)**
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:				
- UK	263,294	274,983	278,756	256,807
TOTAL INVESTMENTS	263,294	274,983	278,756	256,807

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 on the following page 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 2022:

	Level 1 (£'000)	**Level 2 (£'000)**	**Level 3 (£'000)**	**TOTAL (£'000)**
Fair Value at 31st December 2022				
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:	244,348	18,946	-	263,294

	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	20,844	-	274,983

c) Financial Risk Management

Objectives and Policies:

The Society aims to diversify its investment classes 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. 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 2022:

	2022 Change In FFA	2021 Change In FFA
20% Fall in Equity Markets	-6%	-6%
3% Absolute Increase in Implied Equity Investment Volatility	-1%	-1%
1% Increase in Interest Rates	-8%	-1%
1% Increase in Credit Spreads	-13%	-10%

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 has been investigated. An increase in risk-free rates of 1% resulted in a decrease of £10.5m in the technical provisions, and a decrease of £1.9m 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. The Society's 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 7% (2021: 8%) of its assets in property funds and unlisted equity instruments (non-UCITs funds) that require notice of redemption or reserve the right to suspend redemptions. As a result, the Society may not be able to liquidate these investments quickly at an amount close to fair value.

As part of the calculation of technical provisions, the model produces cash payments expected over the period of 25 years to the conclusion of policies in force at the Balance Sheet date. No funding deficit is anticipated at any point over that future period, as approximately 90% of Balance Sheet assets are invested in highly liquid UCITs funds. There is no intention to change this liquidity profile. The average duration of the long-term business provisions is estimated at eight 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 £111.3 million respectively. The associated credit risk is well diversified, with no material exposure to any one counterparty.

These liquidity and bond funds include elements that are rated below investment grade as defined by the investment managers in accordance with standard market practice. The Society has selected bond funds with the aim of limiting the proportion of aggregate holdings below investment grade. At the end of 2022, the proportion was 8% (2021: 8%).

Additionally, some unrated assets are held within these funds, where the manager has assessed such assets internally to be investment grade. At the end of 2022, the proportion was 5% (2021: 6%).

The Society's liquidity and bond fund holdings had an aggregate value of £122.3 million (2021: £120.4 million) with the following rating profile of the underlying assets as reported by the managers:

Rating	**2022**	**2021**
AAA	5%	4%
AA	9%	7%
A	21%	20%
BBB	52%	56%
Below Investment Grade	8%	8%
Unrated	5%	6%
	100%	100%

Credit exposure may also arise from the Society's Multi-Asset fund investments, where the investment managers have discretion to invest in a range of assets including corporate and government bonds. At 31st December 2022, 59% (2021: 44%) of the Society's Multi-Asset fund investments of £122.0 million (2021: £133.8 million) were invested in fixed income assets and £11.6 million (2021: £12.5 million) was classified as High Yield or Emerging Market debt.

Credit exposure also arises from the Society's reinsurance assets (total £1.4 million) and cash balances including deposits (total £9.9 million), all of which are investment grade. Other credit risk arises in respect of the reinsurers' share of technical provisions and debtors. Debtors are very short term and bear minimal credit risk. Cash balances are held with UK banks and building societies with credit ratings of A. Reinsurance is with companies with credit risk ratings of AA.

Solvency Capital Coverage 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 2022. 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, 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 onshored insurance solvency regulations as adopted by the PRA that specify the minimum level and type of capital that must be held in addition to insurance liabilities. The Society manages its capital having regard to Solvency II's capital requirements as adopted by the PRA and the Society is required to have a Solvency Capital Requirement ("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 adopted by the PRA, 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 £23.8 million (2021: £29.2 million) to meet our Solvency Capital Requirement of £11.8 million (2021: £15.1million), a coverage ratio of 201% (2021: 193%). 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 £21.0 million, and the coverage ratio to 177%. Other factors tested on previous occasions, including variations in new business levels, have had a much smaller impact on capital coverage.

11. TECHNICAL PROVISIONS

	Long Term Business £'000	Claims £'000	Total £'000
Gross Amounts:			
At 1st January 2022	254,925	1,715	256,640
Transfers (to)/from Technical Account	(5,301)	590	(4,711)
At 31st December 2022	249,624	2,305	251,929
Reinsurers' Share:			
At 1st January 2022	1,316	188	1,504
Transfers (from)/to Technical Account	(242)	(63)	(305)
At 31st December 2022	1,074	125	1,199

	Non-participating £'000	Participating £'000	**2022 Total £'000**	2021 Total £'000
Analysis of Members' Liabilities (Net of Reinsurance)				
- Participating (With Profits)	-	235,995	**235,995**	239,947
- Non-participating	12,555	-	**12,555**	13,662
	12,555	235,995	**248,550**	253,609
Claims Outstanding	91	2,089	**2,180**	1,527
Total Technical Liabilities	12,646	238,084	**250,730**	255,136

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

The Fund for Future Appropriations of £24.9 million (2021: £29.5 million) also belongs to members, including members with only non-participating contracts – see note 14. 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 With-Profits Fund assets is kept under review, considering 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	**2022**	**2021**
Cash	4%	4%
Fixed Interest	35%	32%
Equities/Multi-assets	53%	56%
Property	8%	8%
	100%	100%

Principal assumptions

In line with the Solvency II rules, all business is valued using the risk-free interest rate term structure as specified by the PRA at the valuation date to calculate the Best Estimate Liability; 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, updated to reflect cost inflation and implemented product or process change.

Options and guarantees

The sum assured, as increased by annual bonuses, is guaranteed to be paid on death or, where applicable, on maturity. On surrender, the only material option or guarantee within the Society's contracts relates to Single Premium participating business, where there is a guaranteed surrender value on the tenth and subsequent anniversaries or tenth and subsequent fifth anniversaries for business written before April 2013. Under this business, the surrender value cannot then be lower than the sum assured as increased by annual bonuses. The Society cannot at these points in time, nor on death, impose any "Market Value Reduction" in adverse market conditions.

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

Insurance Risk

The Society considers that it has low aggregate exposure to insurance risk including concentration risk, given its product range. The Society is most exposed to insurance risk arising from claims under its protection contracts. These risks are usually the subject of reinsurance contracts, with separate treaties covering term assurances and income protection. Reinsurance contracts are placed with reinsurers with high credit ratings. Fluctuations in claims would be unlikely to have a material impact on the capital available to support the business. Moreover, an adverse trend in income protection claims would be mitigated by an increase in the premiums charged, as the Society is able to review these for existing contracts. The critical illness business is not reinsured.

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 £0.7m in the Technical Provisions, and a decrease of £0.4m in Own Funds.

12. OTHER DEBTORS

	2022 (£'000)	2021 (£'000)
Corporation Tax	371	209
Other debtors	1	87
	372	296

13. TANGIBLE ASSETS

	Short Leasehold Improvements	Computer Equipment	Office Fixtures, Fittings, Equipment	TOTAL
	£'000	£'000	£'000	£'000
Cost				
At 1st January 2022	215	137	65	417
Additions	-	9	2	11
Disposals	-	-	-	-
At 31st December 2022	215	146	67	428
Depreciation:				
At 1st January 2022	144	71	64	279
Additions	32	16	3	51
Disposals	-	-	-	-
At 31st December 2022	176	87	67	330
Net Book Value:				
At 31st December 2022	39	59	-	98
At 31st December 2021	71	66	1	138

The depreciation charge for the year ended 31st December 2022 was £51,000 (2021: £58,000). There was a loss on disposal of assets for the year ended 31st December 2022 of £nil (2021: £6,684).

14. FUND FOR FUTURE APPROPRIATIONS

	2022 (£'000)	2021 (£'000)
Balance at 1st January	29,539	29,840
Transfer to Income and Expenditure Account	(4,618)	(301)
Balance at 31st December	24,921	29,539

Movement in Fund for Future Appropriations	**2022 (£'000)**	**2021 (£'000)**
At 1st January	29,539	29,840
Change in the Cost of Guarantees from Asset Share movements	(4,700)	1,300
Investment Return on FFA and Non-Profit investments	(2,500)	-
Strain of Writing New Business	(1,700)	(1,300)
Change in Economic Assumptions	5,400	1,200
Other Surplus movements	(1,118)	(1,501)
At 31st December	24,921	29,539

Strain of Writing New Business includes the cost of promotional bonuses and acquisition costs in excess of current year expenses margins from that business.

15. DEFERRED INCOME TAX

	2022 (£'000)	**2021 (£'000)**
Balance at 1st January - Liability	(291)	(209)
Income and Expenditure Account Credit/(Debit)	291	(82)
Balance at 31st December - Liability	-	(291)

The deferred tax liability recognised in the balance sheet comprises:

	2022 (£'000)	**2021 (£'000)**
Deferred acquisition expenses	493	502
Excess expenses and other tax losses carried forward	1,179	-
Capital gains on investments	(119)	(752)
Fixed assets timing differences	(77)	(13)
Accrued income	(34)	(28)
	1,442	(291)
Unrecognised deferred tax asset	(1,442)	-
Deferred tax asset / (liability) recognised in the balance sheet	-	(291)

No net deferred tax asset has been recognised due to uncertainty in the amount of future taxable profits expected in the foreseeable future from which excess expenses and losses will be recoverable.

The Society has the following unused tax losses carried forward for which no deferred tax asset has been recognised in 2022: excess management expenses and other tax losses of £5,895,737 and deferred acquisition expenses of £2,464,992. These losses have no expiry date.

The net deferred tax asset not recognised comprises:

	2022 (£'000)	2021 (£'000)
Expenses and losses deductible in future periods	1,672	-
Capital gains on investments	(119)	-
Other timing differences	(111)	-
Deferred tax asset not recognised	1,442	-

Deferred tax is calculated at 20% (2021: 20%).

16. CREDITORS

	2022 (£'000)	2021 (£'000)
Trade Creditors	237	304
Tax and Social Security	90	77
	327	381

17. OPERATING LEASES

	2022 (£'000)	2021 (£'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	122	219
- In Over Five Years	-	-
	219	316