Metropolitan Police Friendly Society Limited

Annual Report and Accounts for the year ended 31 December 2023

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Chair's Report

In my report for the 2022 Annual Report & Accounts, I referred to the turmoil we witnessed in 2022. At that time, I hoped we might find a route back to more stable times, but unfortunately, that was not the case in 2023.

We continued to witness economic challenges, with volatile markets, significant and persistent inflation, increasing interest rates being used to battle inflation, and real day -to -day cost of living challenges for our Members and the wider population. On top of these factors, the global challenges arising from Ukraine and the Middle East added even greater uncertainty to the economic and political picture. Through this extremely difficult environment, I am pleased to report that your Society has continued to develop positively.

I believe it is also important to recognise the ongoing challenges faced by policing across the UK. Whether this arises from political perspectives, media comment or, indeed, individual situations, it is clear there has been an ongoing onslaught of criticism. As an organisation, we do not take political positions but rather seek to assist our Members and, where possible, add insight to the debate.

Throughout the organisation, we continue to build our understanding of what life in the Police Family is like today. Most significantly, in 2023, our Police Family Finance Index was used as an input to the Police Remuneration Review Body and provided detailed, robust information on the challenges faced by Police Officers, Police Staff and their families. This is tangible evidence of us being a relentless ally, and we will continue to seek ways to be that ally. We strongly feel that much of the media commentary on policing is too focused on negative stories. Our aim is to promote the fantastic work carried out day in, day out by our Members.

The overall economic and political conditions experienced in 2023 resulted in an environment where market investment performance was disappointing for much of the year, and achieving our new business ambitions was challenging. We continue to believe our model offers good outcomes for Members and it is gratifying that despite these challenges, we have increased member numbers and assets under management. The Chief Executive's report on page 5 provides more detailed commentary on performance in 2023, including the successful completion of our transformation project and our review of investment managers.

I was delighted to have the opportunity to attend the National Police Memorial Day in Cardiff this year. With great pride, I heard from the organisers how important Metfriendly's support was in making the day such a successful event. It is incredibly humbling to hear about those who have lost their lives, and I know the event itself is extremely important to the families of those who have lost a loved one. We will continue to support events such as this and other benevolent activities that are absolutely about recognising the importance of the Police Family to our country.

Again, I want to thank the entire Metfriendly team. As Chair, I have ensured that I spend time in the office trying to engage with our team. From these interactions, from listening to how we deal with Members and from all the reporting we receive as a Board, I know we have a high -quality team focused on genuinely assisting Members.

I am very proud that everyone in Metfriendly cares about doing a good job for our Members. We will not always get it right, but it will not be for the want of trying. Where we do not get it right, we will aim to remedy that as fully and practically as possible.

During 2023, Marcus Barnett stepped down from the Board. Whilst Marcus was not with us for very long, during that time he provided a significant insight into some of the challenges facing policing. Besides Marcus, our Board and Senior Leadership Team remained stable throughout 2023. This overall team includes a wide range of skills and perspectives. This mix is vital in ensuring we never forget who our Members are and that our strategic thinking focuses on delivering better outcomes for them. As Chair, I am provided with great support from my Board colleagues and the Senior Leadership Team and I thank them all for everything they do to make your Society successful.

Graeme McAusland
Graeme McAusland (Mar 28, 2024 12:06 GMT)

Graeme McAusland - BSc BA FFA

Chief Executive's Report

I usually start my report looking back at the way Metfriendly has supported the Police Family since 1893; this year – 130 years after Metfriendly was formed - we have seen the impact of the cost of living increases really begin to affect Police Family finances, especially around the Southeast of England. Our 2023 Police Family Finance Index report showed that the finances of Police and Police Staff across all ages had been impacted, with every age group feeling more concerned.

The war in Ukraine continues to affect financial markets, and the conflict in the Middle East has added to the political and economic uncertainty, with both having a terrible emotional and physical impact on many people who are directly and indirectly affected. Inflation has remained a key challenge, and interest rates increased during 2023, benefiting some savers but causing difficulties for many borrowers; new and renewal mortgage interest rates are higher than across the last decade and are expected to remain high for some time. Stock and bond markets have partially recovered from lows but continue to be volatile, highlighting the benefit of a With Profits Fund like Metfriendly's that smooths the worst of the peaks and troughs.

As well as providing evidence to support submissions to the Police Remuneration Review Body, the Metfriendly Police Family Finance Index report showed us that some Members wanted some certainty of return to sit alongside their With Profits savings. Consequently, we launched a Guaranteed Five Year Bond that does precisely what the name says: the rate offered (which will change from time to time) is fixed and guaranteed for five years once a policy has been taken out. This is in addition to the new Critical Illness Plan we launched early in 2023, which offers market-leading protection to New Recruits without the usual exclusions that mean Officers claiming as a result of being on duty might not be covered. In fact, if an officer's claim under Metfriendly's new plan is as a result of being on duty, we DOUBLE the pay-out. Both these new products continue our proud heritage of providing protection and support to the Police Family.

Our investment in our systems infrastructure has delivered greater efficiency and a more resilient, flexible platform from which we can continue to grow. I am delighted to report that this major transformation was completed on time and within budget – no mean feat for a major infrastructure project, and a testament to the dedication of the team that delivered it. The next phases in our development will look at how we build on the excellent foundations the work of the last two years has given us.

Moving to the annual performance of your Society, Metfriendly withstood the volatility of investment markets and the impact of the squeeze on Police Family finances well. Despite this volatility, which led to fewer people being able to invest as much in their savings with Metfriendly, more Members trusted the Society with their investments and protection. Membership increased to 18,916 (2022: 18,118), new business – as measured by our Annual Premium Equivalent – was £5.0m (2022: £7.4m), and total Premium income and Contributions to Investment Contracts was £32m (2022: £47m).

Assets Under Management have grown in the year to £295m (2022: £277m), reflecting strong Investment income of £9.5m (2022: £6.4m), significant Unrealised investment market value gains of £13.4m (2022: £33.6m loss) and a net cash inflow from Members.

The Market Value Reductions (MVR) that we needed to introduce in 2022 for a small number of Members who wished to withdraw their assets are slowly working out of the book, affecting fewer Members as their money remains in the fund for longer. MVR aim to protect our remaining Members' assets and ensure all Members are treated fairly when there are sharp falls in asset values.

As I mentioned above, it is at times like these that the With-Profits investments model Metfriendly uses shows its worth; we can continue 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, enabling us to deliver substantial final bonuses and maintain 2023 declared annual bonuses in line with 2022 (see Report to Members with With-Profits Policies on pages 29 to 31).

We are not complacent, however. In 2023, we instigated a review of our investments and investment managers. Our strategy remains unchanged: using a medium -risk, long -term strategy, we aim to deliver investment returns above the cash rate for money invested in the Metfriendly With-Profits Fund for ten years or more – something we have been proud to deliver for most of our Members for many years, even when there have been major shocks to the markets.

Our existing Fund Managers (Royal London Asset Management, Columbia Threadneedle Investments and AEW) have served us well, but we completed the investment review in late 2023 and most of our investments will move to Schroders during 2024; some property investments will remain with Columbia Threadneedle and AEW. As well as giving us confidence that they can deliver our target return, we have been able to reduce our total investment fees, further enhancing Members' returns.

At the end of the year, the amount of money we hold above the amount our regulators require us to hold (our Solvency Capital Requirement Coverage Ratio) remains well within our acceptable risk appetite range, meaning we remain strong enough to withstand significant ups and downs in the economy and financial markets – something that has stood us in especially good stead over the last 18 months or so.

Metfriendly's Education and Enrichment programme has continued to support social, sporting and wellbeing initiatives, spanning awards, sponsorship, sporting and leisure activities, education sessions and mental health support.

I reported last year that the Financial Conduct Authority's Consumer Duty Regulations were being implemented. I am delighted to report that Metfriendly's Board were satisfied that our current products all meet the customer outcomes required of the Duty, and that we have made some changes in how we administer certain products and how we report internally. In 2024, we must demonstrate that our legacy products also meet the Consumer Duty outcomes, and we are on track to deliver that. We completely support this new regulatory approach from the FCA as it demands focus on good customer outcomes, and that is exactly the focus we seek to achieve when considering how we best serve our Members.

The Metfriendly team continue to delight me with their commitment to our Members and their desire to serve both our Members and the wider Police Family. In addition to delivering the new infrastructure, embedding a new regulatory regime, carrying out a review of our fund managers and launching two new products in response to Police Family needs, my team have maintained the excellent Member service standards for which Metfriendly is justly known. I am very grateful to them.

We remain tremendously proud of our heritage with the Police and our ongoing close relationships. As a Board, we have committed to some important actions to ensure we remain a relentless ally of the Police Family, like always having the Police Family as a part of our Board, holding us to account.

Metfriendly's approach to environmental, social and governance issues also developed further in 2023.

Environmental

We will be keeping the With-Profits investments approach that has served our Members so well, but our new fund manager will not only seek to improve returns to our Members but also deliver greater transparency of the environmental impacts of our investments.

Metfriendly's understanding of its own carbon footprint is continuing to grow and we expect to identify further areas in which we can reduce our impact on the environment while simultaneously maintaining – or improving – the efficiency of our operations for our Members' benefit. This is a long journey for most businesses and you will see our reporting against this for many years to come.

Social

Metfriendly will continue to provide financial education and engagement activities to support the wellbeing of our Members and the wider Police Family, and recognise and promote their vital role in society.

Our ambition is to continue to increase the impact of our enrichment activities on the UK Police Family and demonstrate our focus on being their relentless ally.

We are also committed to ensuring that our staff work in a diverse and inclusive environment that offers equal opportunities for all. We recruit based on ability without bias to any personal characteristic and recognise the business benefits of having a diverse colleague base that reflects the geographical location of our operation and our chosen markets. We know our staff are at the heart of delivering for our Members; we commit to supporting our staff in their professional development and to providing wellbeing support for our team to help them with the challenges that they sometimes face, whether in their professional or personal lives.

We encourage our staff to understand the lives of the Police Family and the value that Police bring to wider society, and commit to supporting activities for our team to deliver this (e.g., ride-alongs, attendance at seminars and other events).

Governance

We hold ourselves to a high standard for both our conduct and governance procedures, overseen by our regulators, the Financial Conduct Authority and Prudential Regulatory Authority.

Additionally, we are committed to a culture dedicated to ethical business behaviour and responsible activity wherever we operate. We act with integrity and transparency across all our activities and expect the partners we work with to have the same high standards. We actively seek feedback and challenge and, as a result, continually evolve our operations and reporting.

To ensure our governance always links to the Police Family, we commit to having Police Family representation on our Board of Directors. The Board is responsible for overseeing Metfriendly's activities, how we invest Members' money, and how we spend any income over expenses. Two of our current Board members are former Police Officers. One of these directors chairs our Member Committee, and the other chairs our Remuneration, Nominations & Governance Committee. These committees oversee all aspects of how we deal with Members and how the Society meets its governance requirements.

Further, Metfriendly has an Honorary President, who we commit to sourcing from within the Police Family. The Honorary President is currently Sir Mark Rowley, Commissioner of Police of the Metropolis.

Metfriendly is still 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 are very proud to serve you, as you serve us.

Annette Petchey
Annette Petchey (Mar 28, 2024 12:49 GMT)

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 long-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 recognise the strategic importance of recruiting new Members if this is to continue in the long 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 are something that all of us at Metfriendly believe in. 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 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, 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

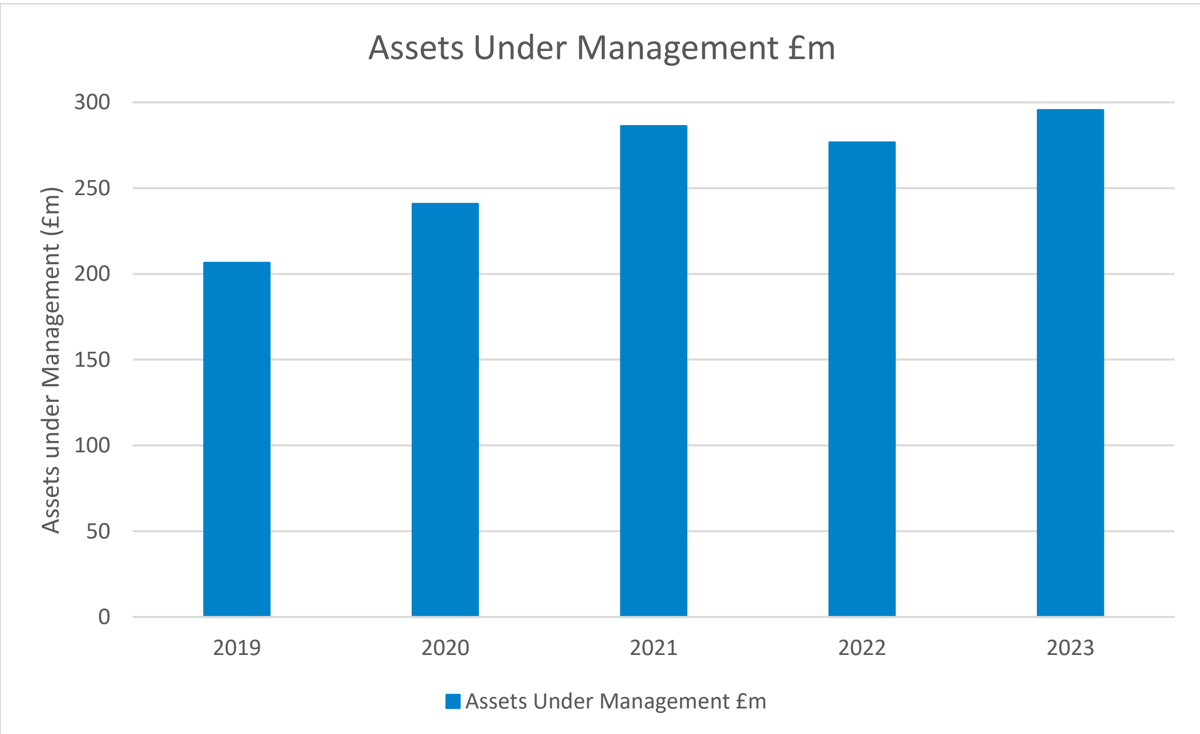
Our strategy for several years has been growth, primarily through increased market penetration. Each year, we set objectives so we can monitor our progress. During 2023, we continued to improve Member access to your Society and deliver greater efficiency. This is good to do in all organisations, but it has stood us in good stead and protected Member assets, particularly in the last 24 months of higher costs and inflation and difficult investment markets.

There remain many opportunities for Metfriendly to expand its business with the Police Family across the UK. This will continue to be a focus for Metfriendly for many years, along with ensuring we position ourselves as a relentless ally of the Police Family.

Review of 2023

2023 was another strong year for Metfriendly, with the Society continuing to grow and improve despite a backdrop of challenging economic conditions.

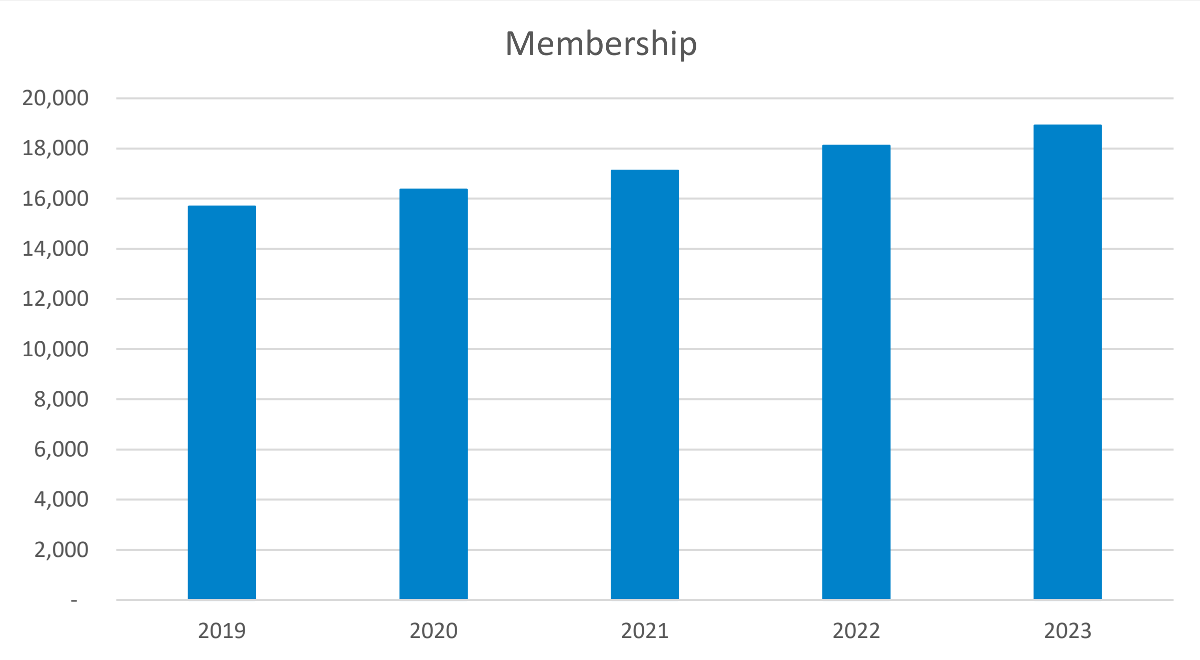
New and existing Members continued to trust the Society with their investments and protection needs and this enabled the Society to grow. Assets Under Management[1] grew to £295m at the end of the year (2022: £277m) as shown in the graph below. Although impacted by the cost-of-living crisis, Metfriendly received significant income from Members in the year, which underpins this growth and is reflected in the £30m of Gross Premiums Written (2022: £47m) and £2m of Contributions to Investment Contracts (2022: £Nil) from Members reported in the financial statements.



[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 18,118 at the end of 2022 to 18,916 at the end of 2023. We have been able to grow our membership through the Met and beyond. The graph below shows how total membership numbers have increased 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, new regular and recurrent savings, and new protection plans as:

- For Lump Sum contributions, including the Guaranteed Fixed Rate Five Year Bond ("G5YB"): 15% of the premium received.
- For Regular and Recurrent savings: 12 times the initial monthly premium received.
- For the Guaranteed Five Year Savings Plan ("G5YSP"): 6 times the monthly premium.
- For Regular Premium Protection: 12 times the contractual monthly premium amount.

New Business APE was £5.0m in 2023 compared to £7.4m in 2022 (£9.0m in 2021), with the reduction mainly due to lower Lump Sum New Business APE of £2.7m in 2023 compared to £5.0m in 2022 (£6.9m in 2021). At the same time, and despite significant cost inflation, the Society has reduced Acquisition expenses incurred to achieve this New Business.

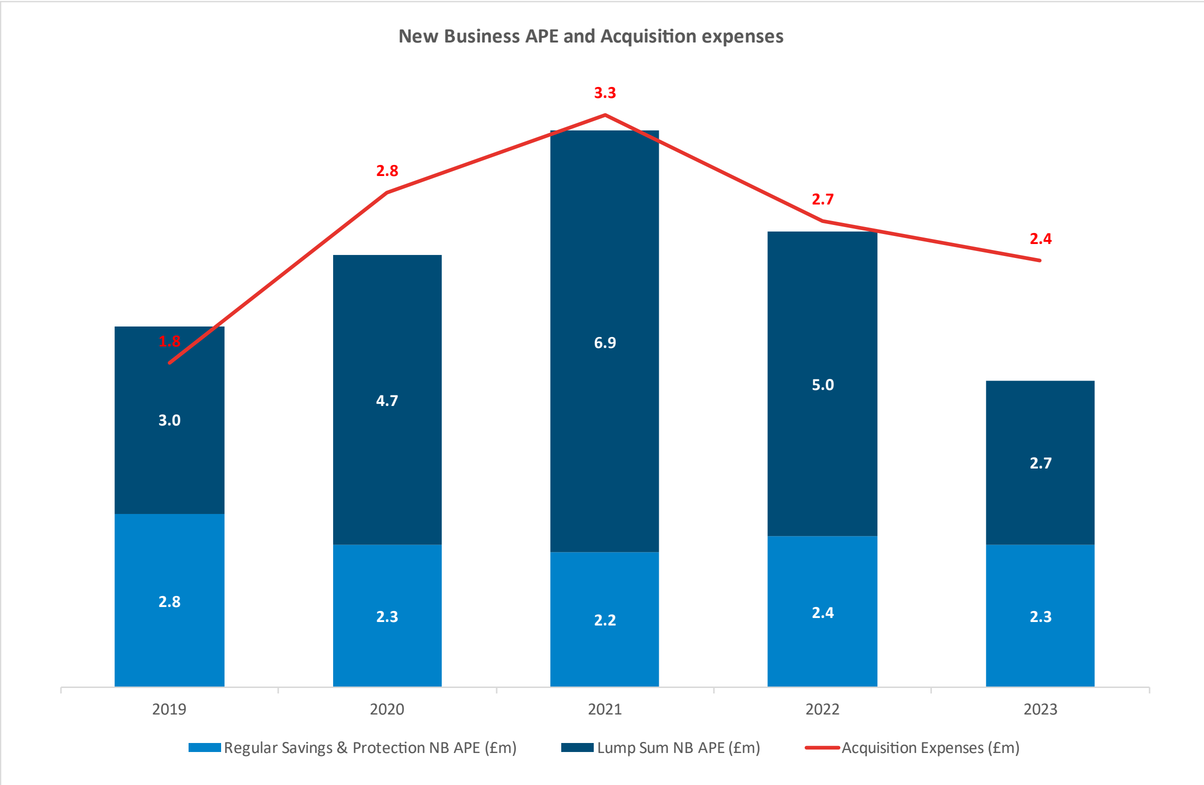
Pandemic-related restrictions in the UK and overseas in 2020 and 2021 meant that significant spending on holidays, weddings, house purchases and extensions, etc. was delayed and this resulted in a significant temporary uplift in UK household savings rates, which enabled the Society to sell more Lump Sum new business during this period.

The unwinding of this pandemic-related effect and the impact of higher costs, higher interest rates on borrowing, and uncertainty over future income from the cost-of-living crisis has impeded some of our Members' ability to invest lump sums. As a result, 2023 Lump Sum New Business APE was lower than in 2022 and 2021. We also continue to see more Members accessing their existing investments to fund significant spend on holidays, weddings, new cars (incl. ULEZ), etc. We anticipate seeing these effects continue in 2024, too.

We have been delighted to see New Business APE from protection business double, from £0.1m in 2022 to £0.2m in 2023, driven by strong take -up of the new Critical Illness product we launched for New Recruits in January. More than 1,300 Members took out a new Critical Illness product in 2023.

We have also been pleased to see New Business APE from Regular Savings remain strong despite the cost of living pressures on family finances - £2.2m in 2023 compared to £2.3m in 2022 (£2.2m in 2021) - as members of the Police Family continue to pursue and develop positive savings habits - one of the key themes of our family finance-based education seminars.

The following graph illustrates the changes in Regular Savings and Protection NB APE, Lump Sum NB APE, and the Acquisition expenses incurred to achieve that new business over 2019-2023.



2. Making the Society easier for Members to access

During 2023, we completed the replacement of our strong-but-inflexible administration system with one of equal strength, enhanced processes and the ability to allow Members and prospective Members to engage with us online, in addition to the ways they have enjoyed for years.

As processes are much quicker, we can spend more time understanding and addressing the needs of our Members and ensuring our products deliver fair value and good outcomes for them. This has included changing one of our products to be even better suited to the needs of the Police Family (our Critical Illness Cover) and launching a new savings product that delivers a guaranteed, fixed return over a number of years (the Guaranteed Five Year Fixed Rate Bond).

We said last year that we had been delighted with the project delivery to date – that delight continued throughout 2023, with the project delivering its promised scope on time and within budget. This is no mean feat for large infrastructure projects, and is testament to the commitment our team have to managing Members' resources with utmost care.

A key Member delivery was the improved ease with which Members can open new accounts and top up their existing accounts. Twenty per cent of the total applications received in 2022 were processed on the new system; by the end of 2023, this was 100%.

Invisible to Members but important nevertheless is the additional resilience and flexibility the new system has delivered for Metfriendly. We will be able to deliver efficient, excellent service to our Members for many years to come.

3. Improving the running of the Society for Members

We continued our efficiency improvements across Metfriendly, never compromising on the excellent service we deliver. When our Members call us, they know they will be able to speak to an informed person. We are pleased to report that we have been able to reduce how much it costs us to run your Society while maintaining the excellent levels of service for which we are known.

We set ourselves high standards for delivering service to our Members, and we met or exceeded all our service standards for the year. This is important for individual Members and also supports our commitment to continually deliver against our Consumer Duty obligations.

During a year when many of our Members faced personal financial challenges, it is important to us to be there when they need information to help them make important decisions. We are proud of our availability for our Members, who know they will not be kept on hold for an age before we answer the phone – you tell us you value this highly. In 2023, we answered 98% of Member enquiry calls within 10 seconds.

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

During 2023, we further defined our sustainability goals, incorporating our Environment, Social and Governance agenda.

In doing so, we have renewed our commitment to deliver education, enrichment and wellbeing activities that deliver support for the Police Family. We keep Members' perspectives at the heart of how we run your Society by having board directors with a policing background and understanding the financial positions of our Members. These board directors sit alongside our other Non-Executive Directors (NEDs), who have a range of financial and investment backgrounds. These NEDs provide a depth of knowledge and experience that we can call on to run the Society, as well as challenge and support for the Executive Committee.

Following a successful exploratory launch in 2022, the Metfriendly Police Family Finance Index now forms part of our long-term commitment to support the Police Family. It was cited by the Police Remuneration Review Body as evidence used to determine that Officers should receive an above public sector average rise in 2023. This insightful research also helps inform our actions so that we can continue to deliver good outcomes for our Members.

We are managing our own carbon footprint by continuing to deliver many of our seminars and one-to-ones with Members online while still being available in person at key events. This will continue into 2024. The salary sacrifice scheme for electric vehicles we introduced for Metfriendly staff has been used by more of our people.

The desire to deliver a responsible investment strategy that avoids unintended exposure to climate risks and supports sustainability without compromising Member returns was a core consideration in the investment review we initiated and completed in 2023. We expect this to result in the appointment of Schroders during 2024.

Returning value to Members

Investment Performance

Throughout 2023, we outsourced management of our investments to three investment managers and across eight pooled funds, and oversight of the performance of these investment managers was governed through the Investment Committee. In addition, the Investment Committee has taken a leading role in the investment strategy and manager review that was initiated in early 2023 and will ultimately conclude with a change in investment managers in 2024.

The Investment Committee met at least quarterly to review the performance of our investments and fund managers, reviewing past and current performance, assessing the positioning, potential risks and the outlook for the portfolio, and considering if any action is required. We are satisfied that the current investment mix and managers remain fit for purpose and are delivering what is expected from them, given their mandates, in a challenging market.

In terms of investment performance, most of 2023 was dominated by increasing interest rates across major markets as central banks sought to bring inflation under control. Investment returns were volatile as markets balanced recession concerns, resilient economic data, and the ramifications of global conflicts. US markets were first to show signs of recovery, with broader improvements seen in late Q4. UK inflation has been slow to fall, but recent progress has enhanced UK gilt, UK corporate bond and UK equity performance. Over the year, global equity markets gained 16% (in GBP), the UK FTSE 100 and FTSE 250 shares gained 8% and UK 7-10 -year gilts gained 6%.

Our investment strategy performed well in these conditions, with the With-Profits Fund delivering strong, positive returns over the year, and its performance was somewhat cushioned from the extremes of volatility by holding a diversified portfolio of assets. The Society's investment income and realised gains for the year increased by a half to £9.5m, and we also achieved net unrealised gains of £13.4m. As a result, the With-Profits Fund's investments returned 8.4% over 2023.

The return to positive investment returns is very welcome, but market volatility remains an expected feature of financial investing. Therefore, the Society continues to maintain sufficient financial resources to withstand significant shocks, declare annual bonuses, and remain invested to benefit from any further uplift in market values.

Returns to Members

Most of our Members hold With-Profits plans. These earn returns in two ways: Annual Bonuses and Final Bonuses.

Annual Bonuses

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

In managing the With-Profits business during 2023, the Society has taken account of its continued financial strength, the investment performance of the With-Profits Fund and the cost of providing guarantees. After careful consideration, the Board has agreed to maintain annual bonus rates for 2023 in line with those declared for 2022 (see Directors' Report to Members with With-Profits Policies on pages 29 to 31).

Final Bonuses

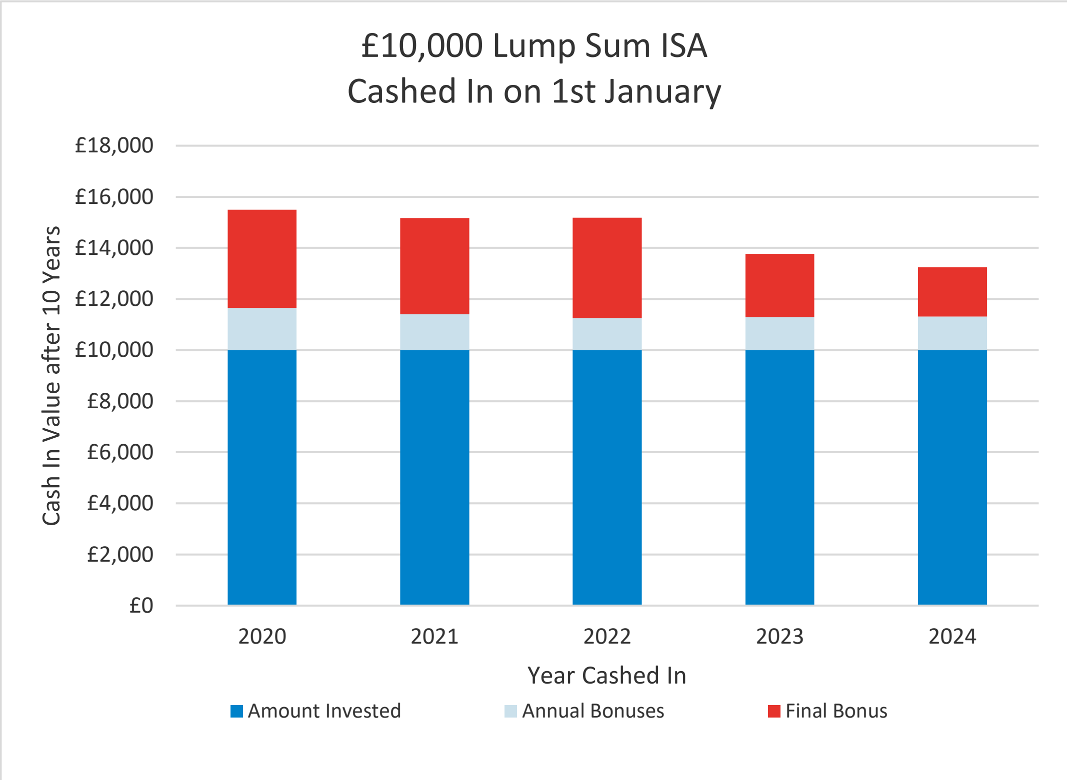
These are usually awarded when a policy is surrendered or cashed in. The actual investment performance of the fund over the lifetime of a policy determines the value of final bonuses paid out in any given year. Final bonus rates on ISA business are normally reviewed and updated at each quarter end to 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 2023 was 1.5%, unchanged from the 1.5% declared for 2022. Interim Annual Bonus rates for 2024 are also 1.5%.

A Lump Sum ISA with £10,000 paid in on 1 January 2014 had a cash-in value of £13,240 on 1 January 2024, which represents an average annual growth rate of 2.8% p.a. Over this 10-year period, money invested in an NS&I Direct Cash ISA would have returned an average of 1.1% p.a.[1]

The graph below shows the amounts that would have been paid out on a Lump Sum ISA cashed in on 1 January in each of the last five years (2020 – 2024) after £10,000 had been invested for 10 years.



The overall return on these Lump Sum ISA plans cashed in on 1 January 2020, 2021, and 2022 remained relatively stable despite market volatility during the COVID-19 pandemic. The overall return on the Lump Sum ISA plans cashed in on 1 January 2023 and 2024 remains well above cash rates, but has reduced following the market volatility and significant interest rate rises experienced in 2022.

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

Business Environment and Future Developments

While 2023 presented fewer political and economic shocks than 2022, it was not without significant challenge. The effects of high inflation and the cost-of-living crisis have continued to impact the Police Family, our Members and Staff.

Although there are some signs of positive progress, we anticipate these economic challenges will continue during 2024. The Society has and will continue to benefit from the investment made in our infrastructure, which allows us to serve Members better and more efficiently while continuing to deliver fair value. It has also made Metfriendly more resilient. I am confident that your Society is well placed to support the Police Family and, with their continued support, will grow and prosper.

Technological

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

The project, 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, grow cost effectively and develop our products and services as the needs and wants of our Members change.

Legal/Regulatory

The Financial Conduct Authority (FCA) published its 2023/24 business plan in April 2023 and there were a number of areas of interest and focus for us.

Among the challenges for the FCA for the year were the cost-of-living crisis and Consumer Duty. These areas have been and continue to be a focus for us. The cost-of-living crisis has deeply affected the Police Family during the year, and we are proud to have developed products and services that help our Members to save for and to protect themselves and their loved ones.

The Consumer Duty Regulations came into force in July 2023, and we have embraced this new approach. We believe that our Members are central to all we do, and we work in partnership with them to ensure they have a great experience and outcome from all engagements with us.

To underpin our planned activity through the year, one of the FCA's key focus areas was *"Setting & testing higher standards"*. This area of focus captures a range of points including putting consumers' needs first, Environmental Social & Governance practices (ESG) and minimising the impact of operational disruptions.

We are continually working on understanding our environmental impact and have partnered with an independent organisation experienced in this area to understand our footprint. We continue to engage with multiple police -associated groups to support their own goals.

Activities

Management confirms that no activities were carried out by the Society during the year that we believe were 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.

Committee of Management

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 45 provide the required disclosures on the activities of the Society.

Annette Petchey
Annette Petchey (Mar 28, 2024 12:49 GMT)

Annette Petchey

Chief Executive Officer

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 directors 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 chief risk officer and the compliance officer. These risks are escalated to the leadership team 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 continues to be an area of focus across the insurance sector and for our regulators.

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 fund managers is committing greater resources to their Environmental Social Governance (ESG) investment decisions and has set targets to achieve net zero carbon emissions. We have supported certain of the funds that we are invested in to adopt ESG objectives to complement their existing investment objectives.

Notwithstanding this progress, we continue working with our fund managers to build suitable metrics to track and report on the carbon intensity and warming potential of our investment assets, and this has been actively considered as part of our investment review. In turn, this will inform the development of future investment strategies that maintain acceptable returns to our Members whilst seeking to limit the climate risk within our portfolio.

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 achieve and maintain sufficient membership and offer attractive products and services that deliver good outcomes for Members on a cost -effective basis and within appropriate 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. These risks arise mainly from changes in interest rates, changes in equity, corporate bond and property investment values, and changes in foreign exchange rates. 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 the Society is unable to meet Members' expectations for returns or has 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, or as a result of actual experience against assumptions that is outside a normal range of expectation. 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 are assigned to the Audit, Risk & Compliance (ARC) Committee. The Board recognises that certain risks are naturally large, and those risks also require due consideration at Board level. These risks are managed operationally by the Executive Team and reviewed by the Board at Board meetings as required 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 relationship with our affinity group, the Police Family, is key to the viability of the Society at both a corporate and individual level.	The Member Committee was set up in 2020 to continue to put the needs of our Members at the heart of what we do. The Society's membership has continued to increase and includes an increasing number of Members from different Police forces. We also continue work alongside Police groups whose purpose is to provide support to the Police Family. We monitor member satisfaction levels and continually review our communication channels to ensure we keep Members informed on both their products and wider areas of interest.
Conduct Risk – Conduct of Sales & Service The risk is that we fail to treat Members fairly by failing to uphold our values or deliver the outcomes our Members or stakeholders would expect. As a result, our reputation is damaged and new business volumes are adversely impacted or we receive regulatory intervention.	The Compliance Officer undertakes "horizon-scanning" for changes to regulation. We are a member 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 2023, we ran a project to ensure we complied with the new Consumer Duty Regulations, which included a review of our current products. Work is progressing well on a review of our legacy products ahead of the regulatory deadline of July 2024. Emma Richards has continued as our Consumer Duty Champion and also chairs our Member Committee, where the Duty is central to discussions and outcomes. The compliance function signs off all communications and produces and manages a Compliance Assurance Plan, which is monitored by the Audit, Risk and Compliance Committee and is overseen by the chief risk officer.
Market Risk – Investment selection The risk is that investment assets are not suited to the nature and duration of the Society's liabilities and the guarantees under Members' contracts, or inconsistent with Members' expectations and regulatory requirements. 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 Society's Investment Policy is reviewed at least annually by the Board and its implementation is overseen by the Investment Committee. The Investment Policy defines what the Society invests in and requires the Society to hold 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 consistent with Members' expectations and within agreed capital constraints. Asset-liability matching and asset mix relative to target levels are monitored by the chief financial officer at least every six months and reported in management information to the Investment Committee.

Market Risk – Investment Performance Risk The risk is that due to market movements, the value of or associated income from the Society's investments fluctuates, and the Society is unable to meet Members' expectations for policy returns or surrender values. There is potential reputational risk if the Society's investments materially underperform our peers. Investment Performance risk includes equity, property, credit, currency and other price risks arising from the Society's investments and primarily relates 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 Insurance risk - 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 Investment Committee. 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 Investment Committee. Asset mix is essentially derived from our Asset-Liability Matching policy and overall investment strategy, with consideration given to regulatory capital requirements and the reasonable expectations of Members holding With-Profits contracts. We use pooled funds operated by external managers to gain exposure to a diversified portfolio of underlying investments that are held predominantly in Sterling-priced funds.
Insurance 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 the total expenses incurred in running the Society.	Annual budgets and strategic plans assessing future business levels and expenses of the Society are prepared by the Executive and approved by the Board. Expense and wider business performance is monitored against the approved Budget in 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 & Data Loss Risk and Business Continuity 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. The business continuity risk would materialise if a material event were to occur that impacts the ability for the Society to continue to operate normally and serve our Members.	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. Our business continuity plan is tested to ensure we can operate in a range of circumstances and to understand how we return to normal operations.

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, education and engagement activities focussed on financial wellbeing, and the provision of products designed to meet our Members' savings, investment and protection needs.

We seek to avoid activity that could have a significant adverse impact on the environment, and to act in the best interests of our Members, Staff, the Police Family and society as a whole.

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 UK Police Family through a range of sponsorships and other initiatives. We strive to be side by side with all members of the UK Police Family throughout their career and beyond. Where possible and practical, we also support initiatives suggested by Officers that will have a positive impact on the wider Police Family.

Some of the areas that we were pleased to support during 2023 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 2023, we maintained our support to the choir and were pleased to see them at many of the events we attended, supporting the Police Family.

The Metropolitan Police Rugby Football Club

Since September 2018, we have been the main shirt sponsor of the Metropolitan Police Rugby Football Club. The Club was established in 1923 and, since its formation, has been made up of serving and former Police Officers and their close relatives.

Team Police

During 2023, 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. These activities aim to deliver improved physical and mental wellbeing outcomes.

Police Federation Regional Awards

The Surrey Federation Recognition Awards, the 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 Police Remembrance Trust

We support this important initiative through a donation linked to the number of online votes we receive at our AGM. This year, Metfriendly also stepped in to provide some additional funds to help the fantastic team behind the event cope with a last -minute change of venue in Cardiff. Metfriendly will continue to support the family, friends, and colleagues of fallen Police Officers and Police Staff wherever we can.

London Retired Police Dogs Trust

Metfriendly continues to sponsor this 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 ESG considerations in their investment decisions.

In 2023, we continued our oversight of our supply chain so that we could understand how our chosen operating partners reflect our values.

Board of Directors 2023

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

Board Chair, Non-Executive Director; member of Remuneration, Nomination & Governance Committee and Investment Committee

Graeme was appointed Chair of the Society from 1 January 2023. He was appointed to the Board in August 2016 and has previously chaired the Society's Audit, Risk & Compliance Committee and acted as the Society's With-Profits Advisory Arrangement. Graeme qualified as an actuary in 1991 and has spent most of his working life in the life assurance industry. He 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 is Chair of the Trustees of a funeral plan trust. In his spare time, Graeme plays the cornet in a brass band, for which he is also the concert secretary, plays golf and watches all sorts of sports, particularly football and cricket.

<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 (resigned July 2023)</u>

Non-Executive Director; Member Committee

Marcus, a detective chief superintendent in the Met with fast approaching 30 years of service, 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 supports the Met and the new commissioner in their 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.

<u>Martin Bellingham - MBA, MSc, BA (Hons), MMR</u>

Executive Director; Membership Support Director, Member Committee

Martin joined Metfriendly in 2019 as sales and marketing director and has moved into the role of membership support director in 2022, 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.

Robert Dagg - FICA, PgDipGRC (appointed to Board on 1 January 2023)

Executive Director; 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.

Paul Grimshare – BSc, FCA

Executive Director; Chief Financial Officer, 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 has 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; With Profits Advisory Arrangement, Member Committee, Audit, Risk & 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 focused 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 focused 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 & 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 an independent member of the Royal London With-Profits Committee. Rebecca is a keen cellist and mother of a young child.

Craig Haslam - DL FGPT

Non-Executive Director; Chair of Remuneration, Nomination & Governance Committee, member of Investment Committee.

Craig was appointed to the Board on 1 January 2019, having retired from the Metropolitan Police Service the previous month. He spent 32 years with the Metropolitan Police Service, joining as a cadet and finishing as the OCU Commander for the Taskforce. He had 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 Investment Committee, member of Remuneration Nomination & Governance 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 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 Sue Ryder charity, where she is chair of the Finance, Investment & Commercial Committee.

Emma Richards

Non-Executive Director; Chair of Member Committee, member of Audit, Risk & Compliance Committee, Consumer Duty Champion

Emma was appointed to the Board in April 2022. Emma retired from the Metropolitan Police in October 2022, having served for 34 years. 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; Senior Independent Director, Chair of Audit, Risk & Compliance Committee, member of Investment 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.

Report of the Board of Directors

The Board of Directors is pleased to present its Report and Accounts for the year ended 31 December 2023, 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 Members to assess the Society's performance, business model and strategy. In determining the technical provisions, the Board has been advised by Chief Actuary and With Profits-Actuary Lindsay Unwin.

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 0fficer, 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 CEO Annette Petchey and comprises Chief Financial Officer Paul Grimshare, Risk & Operations Director and Company Secretary Robert Dagg, and Membership Support Director Martin Bellingham.

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, and 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 18,916 as at 31 December 2023 (2022: 18,118).

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 Investment Committee oversees our investments.

RSM - Risk Assurance LLP acted as our internal auditors under the oversight of the Risk & Operations Director and the ARC Committee. RSM conducted audits on data governance and security, Project Darwin (our transformation programme), key financial controls, Member Services and corporate governance. The ARC Committee reviewed the results and reported them to the Board.

Throughout 2023, the Investment Committee monitored our investments, which are core to 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 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 by the Board and ARC Committee. Controls are tested by the second line compliance team and their findings are reported to the CRO and the 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 and his team.

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 2023, 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
- Team Police
- Metropolitan Police Rugby Football Club
- The Metropolitan Police Choir
- Metropolitan Police Service Greek & Cypriot Association
- Thames Valley Police Federation Bravery Awards
- Essex Police Federation Bravery Awards
- Surrey Federation Recognition Awards
- Sponsorship and production of the London Retired Police Dog Trust's annual calendar

In addition, the major charitable donations paid by the Society during the year were: £11,039 (2022: £9,754) from calendar sales to the London Retired Police Dog Trust; £1,564 (2022: £1,626) to the National Police Memorial in connection with votes at the Society's AGM. £5,000 (2022: £nil) to The Police Remembrance Trust and £5,000 (2022: £nil) to Police Care UK. No political donations were paid by the Society (2022: £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 2023.

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 higher inflation, changing 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 and geo-political impacts. 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 2023. In 2023, 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 2023.

Mazars LLP were first appointed in 2011. The Board was satisfied with the completion of the 2022 year-end audit following Mazars rotation of the existing audit partner and nomination of a new senior statutory auditor for the 2022 year-end. The Board also benchmarked the Society's audit fees compared to those of selected peers and determined to reappoint Mazars as auditors for the 2023 year end.

Robert Dagg

Company Secretary

Directors' Report to Members with With-Profits Policies

The Society manages its With-Profits business in accordance with the Principles and Practices of Financial Management (PPFM), which are published on the Society's website, along with a member guide – "How we manage the With-Profits Fund". These documents are available to Members on request, free of charge.

The Board exercises its discretion in managing the business, taking into account the terms under which business is issued, the constraints of the PPFM, and regulatory requirements. In doing so, the Board is advised by the With-Profits Advisory Arrangement (WPAA) and the With-Profits Actuary (WPA). Rebecca Hall was appointed as WPAA on 1 January 2023 and has served as WPAA throughout 2023. The WPAA terms of reference were reviewed and updated from 1 April 2023 with minor changes.

The PPFM was last updated on 1 January 2023. The Board reviewed the Principles and Practices in the PPFM during 2023 and no changes were made following 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 2023, 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. The return to positive investment returns in 2023 is very welcome. The higher interest rates observed over 2022 and 2023 had a negative impact on the assets backing policies, making the guaranteed benefits more likely to have value. However, they also make it less expensive to add to a policy's guaranteed benefits than in the recent past. Market volatility remains an expected feature of investing and has impacted total returns over recent years. After careful consideration, the Board approved the proposal to maintain annual bonus rates for 2023 at the level declared for 2022.

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 201% at the start of the year to 229% at the end of the year. This includes a 5% increase arising from regulatory changes to the risk margin calculation. Other 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 2023, and those planned for 2024, 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 guarantee charges applied during 2023, or with effect from 1 January 2024. The Society also takes charges from asset shares to cover the costs of running the business. These expense charges have not changed during 2023, or with effect from 1 January 2024.

It is the directors' opinion that the business has been managed throughout 2023 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 the PPFM or Member Guide during 2023. 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 2023 at the rates shown in the tables below. The interim rates for claims to be paid in 2024 were set at the same rates as those for 2023.

Table 1 below shows the declared annual bonus rates for 2023 and the rates for 2022. Annual bonus rates for 2024 will not be decided until the end of the year. Interim annual bonus rates to be paid on claims in 2024 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	2022 Declared Rate	2023 Declared Rate	2024 Interim Rate
Tax -Exempt Fully Paid Plans, Lump Sum ISA, Lump Sum Junior ISA, Regular Premium ISAs prior to 2016	11E, 24, 25, 28	1.50%	1.50%	1.50%
Standard Fully Paid Plans, With-Profit Bonds, With-Profit Income Bonds, and Flexible Savings Plans	12E, 19, 26, 27	1.20%	1.20%	1.20%
Tax-Exempt Savings Plans	8, 10, 11, 21, 22	0.75%	0.75%	0.75%
Standard Savings Plans	12, 15, 16	0.60%	0.60%	0.60%

Table 2 below shows the annual bonus rates for policies where bonus rates are applied on a tax-year basis, which starts on 6 April each year and ends on 5 April the following year. Annual Bonus rates for the 2024/25 tax year will not be decided until the end of 2024 and the rates shown are interim annual bonus rates to be paid on claims in 2024. These apply to Monthly Savings ISA and Lifetime ISA policies.

Monthly Savings ISA policies issued between 6 April 2015 and 5 April 2020 receive only an annual bonus. The annual bonus for these policies is usually expected to be higher than the annual bonus for other ISA policies, but given the market volatility witnessed during 2022 and 2023 and the market value reductions being applied by the Society, the margin has been maintained at 0% for 2023/24.

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

Product	Tables	2022/23 Bonus Rate	2023/24 Bonus Rate*	2024/25 Interim Rate
Lifetime ISAs	31	1.50%	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	1.50%	1.50%	1.50%

** The bonus rate for the 2023/24 tax year will be applied from 6 April 2023 to 5 April 2024. The Society reserves the right to reduce the annual bonus rates prior to 5 April 2024 should market movements mean that this is appropriate to maintain fairness for all policyholders.*

The guaranteed reversionary bonus rate for the Monthly Savings ISA (MSISA) and Lifetime ISA (LISA) for the 2023/24 tax year is 1.5%. This applies to all new MSISA plans starting between 6 April 2023 and 5 April 2024, and to all recurrent premiums and lump sums paid into Lifetime ISA plans between 6 April 2023 and 5 April 2024.

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 2023. Examples are given on the Society's website.

Surrender Values

The Society has maintained its practices for surrender values throughout 2023.

Following significant investment market value falls, from July 2022 the Society imposed a Market Value Reduction (MVR) that was applied throughout 2023 to surrenders from Monthly Savings ISA business written up to 5 April 2020 and from contracts without a fixed duration taken out between 1 January 2020 and 30 June 2022. The MVR is applied to reduce the sum assured and existing annual bonuses (and therefore the amounts payable on surrenders) to reflect asset shares more closely.

Following stronger investment performance over 2023, the Society has been able to reduce the number of policies to which MVRs apply and also to reduce the level of the remaining MVRs. From 1 January 2024, an MVR applies on surrenders from Monthly Savings ISA business written up to 5 April 2018 and surrenders from contracts without a fixed duration taken out between 1 January 2020 and 30 June 2022. The scope and amount of MVRs applied will continue to be monitored regularly and are normally updated each calendar quarter.

Annette Petchey

Annette Petchey (Mar 28, 2024 12:49 GMT)

Annette Petchey

Chief Executive Officer

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 2023 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 2023 has been written on appropriate terms, consistent with the previous generations of comparable products, and the volumes of new business written during 2023 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 1 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.

To the best of the Board's knowledge, the Society has complied with the AFM Corporate Governance Code (2019) throughout the year ended 31 December 2023. 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

As expressed in our "Vision Statement", the purpose of Metfriendly 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 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 to balance these needs over time.

The Board considers that these values are well aligned to the requirements of the Consumer Duty.

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 good levels of response. 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 a range of actions, from the look of the office to understanding our benefits, such as healthcare, in more detail.

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

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

Strategy

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. 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 is to manage the business of the Society, and 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 2023 the Board met seven 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, considered whether its current plans remain appropriate, and explored potential areas of strategic focus for the medium term.

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 Investment 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 directors for 2023 are listed on pages 23 to 25. Metfriendly has a separate chair and chief executive to ensure the balance of responsibilities and accountabilities are effectively maintained. Chair Graeme McAusland had responsibility for the effectiveness of the Board during 2023.

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 six current non-executive directors, all of whom have served less than nine years on the Board and are regarded as independent in both respects.

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

Effectiveness

The chair evaluates all Board directors 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 directors take part in a comprehensive induction programme when joining and all Board directors 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.

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 interest 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, and a new review will take place in 2024.

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 pages 39 to 43 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 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 chief risk officer and his team meet 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 40, 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 align 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 44, 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). The Board has a sub-committee, the Member Committee, the purpose of which is to put the Members and the wider Police Family at the heart of Metfriendly in line with our vision, mission and values.

Two of our non-executive directors are former or serving Police Officers. This enables our Board to have relevant communication and engagement with our Member base. Emma Richards, ex Met Police Officer, chaired our Member Committee during 2023 and also serves as our consumer duty champion.

In addition, our directors and members of our staff 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 2023, 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 31 December 2023 was as follows:

	Male	Female	Total
Executive directors	3	1	4
Non-executive directors	3	3	6
All other staff	12	23	35
Total	**18**	**27**	**45**

We celebrate our diversity and inclusiveness through all strands of our work and this 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 2023, 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 overseeing our material 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. This affinity group is the reason the Society exists, 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 the calendars that we produced with 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 according to their skills and experience to ensure that the committee, 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, relevant committee and With-Profits Working Group meetings in 2023 was as follows:

Director	Board of Directors	Audit, Risk & Compliance Committee	Member Committee	Remuneration, Nomination & Governance Committee	Investment Committee	With-Profits Working Group
G. McAusland	7/7	(1/6)	-	3/3	4/4	(4/4)
L. Schöpp	7/7	6/6	-	-	4/4	-
C. Haslam	7/7	-	-	3/3	3/4	-
N. Hayes	7/7	-	-	3/3	4/4	-
R. Hall	7/7	6/6	4/4	-	(1/4)	(4/4)
E. Richards	7/7	6/6	4/4	-	(1/4)	-
M. Barnett*	3/7	-	2/4	-	(1/4)	-
A. Petchey	7/7	-	(4/4)	3/3	(4/4)	(4/4)
M. Bellingham	7/7	-	4/4	-	(1/4)	(3/4)
P. Grimshare	7/7	(6/6)	-	-	4/4	(4/4)
R. Dagg	7/7	(6/6)	(4/4)	(3/3)	(4/4)	(4/4)

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

*Marcus Barnett resigned in July 2023.

Summaries of the purposes, duties and responsibilities, and key activities of each of the Society's Board committees during 2023, together with membership details during 2023, are set out on the following pages.

Reporting

All committees, through their chair, submit regular reports to the Board on their 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 committees' 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:

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

The committee's members have been appointed according to their skills and experience to ensure 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 has a right to attend meetings. In addition, committee meetings are attended, upon invitation, by the external auditor, its outsourced internal auditor and the chief actuary.

The Society's company 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:

- provide an independent oversight of the Society's systems of risk and compliance management
- oversee the Society's statutory reporting and systems of internal control
- ensure its compliance with legislation, prevailing regulation and best practice
- review quality and effectiveness of the Society's external auditor and internal audit function
- enable the Society's compliance procedures to be reviewed in greater detail than at regular Board meetings.

The Board has delegated authority to the committee in relation to its duties and responsibilities. In respect of these delegated authorities, the committee is authorised to make decisions on behalf of the Board. The committee is able at any time to escalate any issue to the Board for consideration and approval.

Activities during the Year

The committee's key activities during 2023 have included, but were not limited to review of:

- the Society's 2022 Annual Report and Accounts and the external auditor's report upon that document
- the 2022 Solvency & Financial Condition Report (SFCR) and Technical Provisions
- the 2023 External Audit strategy, fee proposal and outcome of the interim audit work undertaken by external auditors
- Internal Audit Plans, Progress Reports and Internal Audit reports received, together with management responses
- Society's Compliance Monitoring Plans, Progress Reports, Complaints and Compliance reports prepared, together with management responses
- Society's Policy documents including those relating to compliance and anti-money laundering
- the Society's risk management processes, risk register and emerging risks
- the resources dedicated to the management and oversight of compliance and control
- and challenge of Consumer Duty project delivery and product reviews
- internal assurance reporting
- money laundering reporting officer's annual report
- whistleblowing annual report
- the gifts and hospitality register
- conflicts of interest
- regulatory updates
- business continuity policy
- outsourced arrangements
- re-insurance arrangements.

Remuneration, Nomination & Governance Committee

Membership

The committee's membership during the year comprised:

- Craig Haslam (Chair)
- Nicola Hayes
- Graeme McAusland
- Annette Petchey

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 function 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

The committee's key activities during 2023 have included, but were not limited to:

- 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:

- Emma Richards (Chair)
- Marcus Barnett (resigned July 2023)
- Martin Bellingham
- Rebecca Hall

Purpose

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

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

The Member Committee continues to build on the proud 130-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

The committee's key activities during 2023 have included, but were not limited to:

- 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
- review and delivery of Consumer Duty requirements
- deep dive review of member engagement and complaints
- strategic project changes and the Member experience.

Investment Committee

Membership

The committee's membership in 2023 was:

- Nicola Hayes (Chair)
- Paul Grimshare
- Craig Haslam
- Graeme McAusland
- Lee Schöpp

The committee first met in February 2023, taking responsibility for investment oversight that was previously held by the Strategic Finance & Investment Committee.

Purpose

The purpose of the Investment Committee is to provide independent oversight of the Society's investment strategy and ongoing management of assets.

Activities during the year

During 2023, the Investment Committee devoted significant time to oversight of and involvement in the review of the Society's investment strategy. This activity was led by the CFO and supported by Barnett Waddingham LLP. It included a full review of the Society's investment aims and appetite, strategic asset allocation, and its investment management operating approach, as well as a review, tender process and presentations from prospective investment managers.

In addition, the committee's key activities included, but were not limited to:

- review and approval of investment strategy, strategic asset allocation, and investment allocation targets and limits
- oversight of asset liability matching process, results and actions
- oversight of investment manager performance, including current and prospective investment manager presentations
- investment performance monitoring and market reviews
- consideration of 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 41. The chief executive officer is a member if the committee, 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, and includes all salary amendments.

The Society offered the same reward scheme throughout 2023 as in 2022. 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 contracts of the executive directors require 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 (NEDs) 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 NEDs, 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 NEDs 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 2023, the remuneration paid to NEDs comprised a fixed amount in accordance with the roles they held. During 2023, Marcus Barnett resigned as NED. As a result of the new Board composition, the roles of each NED were reviewed and appropriate changes to duties made, and are reflected in the 2023 overall reward.

Directors' Pension Benefits

Executive directors are invited to join 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.

NEDs do not receive any pensionable benefits from the Society.

Directors' Remuneration

The following remuneration was payable to directors for their services to the Society during 2023:

Name	Fee/Salary 2023	Bonus 2023[5]	Pension 2023	Benefits 2023	**Total 2023**	Total 2022 (restated)
Executive Directors						
Annette Petchey	£192,236	£29,836	£17,301	£1,001	**£240,374**	£229,727
Martin Bellingham	£136,500	£13,285	£12,285	£850	**£162,920**	£168,786
Robert Dagg[1]	£136,500	£17,380	£12,285	£782	**£166,947**	-
Paul Grimshare	£136,500	£21,475	£12,285	£754	**£171,014**	£95,950
Gerhardt Ekermans[2]	-	-	-	-	**-**	£114,700
Benjamin Grainger[3]	-	-	-	-	**-**	£143,319
Total Executive Directors	**£601,736**	**£81,976**	**£54,156**	**£3,387**	**£741,255**	**£752,482**
Non-Executive Directors						
Graeme McAusland (Chair)	£50,369	-	-	-	**£50,369**	£30,743
Joanna Young (former Chair)	-	-	-	-	**-**	£47,970
Rebecca Hall	£28,825	-	-	-	**£28,825**	£25,254
Craig Haslam	£29,400	-	-	-	**£29,400**	£27,999
Nicola Hayes	£29,400	-	-	-	**£29,400**	£27,999
Emma Richards	£30,900	-	-	-	**£30,900**	£18,528
Lee Schöpp	£32,283	-		-	**£32,283**	£30,743
Marcus Barnett[4]	£13,370	-	-	-	**£13,370**	£18,528
Total Non-Executive Directors	**£214,547**	**-**	**-**	**-**	**£214,547**	**£227,764**
Grand Total	**£816,283**	**£81,976**	**£54,156**	**£3,387**	**£955,802**	**£980,246**

1. Appointed to the Board January 2023. Remuneration as an employee prior to this date not separately disclosed.
2. Resigned from the Board July 2022.
3. Resigned from the Board October 2022.
4. Resigned from the Board in July 2023.
5. Bonus 2023 includes the bonus payable to executive directors in respect of the 2023 financial year, which will be paid in 2024. The 2022 Remuneration has been restated to include the bonus payable to executive directors in respect of the 2022 financial year, which was paid in 2023, instead of the bonus amounts paid in 2022 in respect of the 2021 financial year.

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 that 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 2023.

Annette Petchey

Annette Petchey (Mar 28, 2024 12:49 GMT)

Annette Petchey

Chief Executive Officer

On behalf of the Board

Independent auditor’s report to the Members of Metropolitan Police Friendly Society Limited

Opinion

We have audited the financial statements of Metropolitan Police Friendly Society Limited (the “Society”) for the year ended 31 December 2023, which comprise the Income and Expenditure account, the Balance Sheet and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland” and Financial Reporting Standard 103 “Insurance Contracts” (United Kingdom Generally Accepted Accounting Practice); and the special provisions relating to friendly societies as set out in The Friendly Societies (Accounts and Related Provisions) Regulations 1994, as amended.

In our opinion, the financial statements:

- give a true and fair view of the state of the Society’s affairs as at 31 December 2023 and of the Society’s transfer to the fund for future appropriations for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Friendly Societies Act 1992.

Basis for opinion

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

Conclusions relating to going concern

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

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

- undertaking an initial assessment at the planning stage of the audit to identify events or conditions that may cast significant doubt on the Society’s ability to continue as a going concern;
- obtaining and reviewing the directors’ Going Concern Appropriateness paper covering a period of at least twelve months from the date of approval of the financial statements;
- obtaining a cash flow forecast for the company extending at least twelve months from the date of approval of the financial statements;
- challenging the appropriateness of the directors’ key assumptions in their cash flow forecasts, by reviewing supporting and contradictory evidence in relation to these key assumptions and assessing the directors’ consideration of severe but plausible scenarios;
- assessing the historical accuracy of forecasts prepared by the directors;
- reviewing regulatory correspondence for the Society with the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA);
- obtaining and reviewing a copy of the Society’s ORSA including the Forward-Looking Assessment of Own Risks and the forecast regulatory solvency position. The assessment includes the impact of macro-economic factors (cost of living, inflation, interest rate increases) and environmental factors (climate change);

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

This matter, together with our findings, was communicated to those charged with governance through our Audit Completion Report.

Key Audit Matter	How our scope addressed this matter
Valuation of long-term business provisions Balance (£'000): £262,625 (2022: £249,624) *Refer to the accounting policies (pages 56 to 59) and Note 11 (pages 66 to 68) of the financial statements.* The true and fair presentation of the Society's financial position and operating results depends, to a significant degree, on the reasonableness and consistency of the valuation of long-term business provisions. Long-term business provisions are significant, based on estimates, and are subject to inherent variability. The valuation of long-term business provisions is subjective, particularly in the context of selecting and applying the assumptions (economic and non-economic) and the methods and approaches used to determine the value of these provisions. There is a risk that the long-term business provisions are not valued correctly leading to a material misstatement in the financial statements. This risk is specific to the bonus assumptions in With-Profits Lines of Business	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: • gaining an understanding of the reserving process and assessing the appropriateness of the design and implementation of controls relating to the valuation process; • testing the accuracy of the data reconciliations performed by the Society and the output from the subsequent checks performed over this data by the outsourced actuary; • assessing the current year model by obtaining an understanding of the changes to the model, the model change process and governance around changes to the model and assessing the appropriateness; • testing the appropriateness of the methodology and 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;

and the Expenses assumptions in the Non-Profit Lines of Business.	• evaluating the per policy expense assumption and assessing the appropriateness of the changes made in the year; • 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; and • evaluating whether the long-term business provisions results are in line with expectations. **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	£450k (2022: £498k)
How we determined it	Materiality was set at the audit planning stage by reference to the Society's mid-year reforecast for the 2023 revenue, of which it represented 1.5% (2022: 2% of Fund for Future Appropriations). Materiality has not been revised at completion stage.
Rationale for benchmark applied	The aim of the Society is to provide a good return to its Members. Strategic initiatives include new business growth, which is reflected in the volume of business written (GWP)/revenue. We have thus determined, in our professional judgement, it to be a key benchmark in the financial statements relevant to Members in assessing the Society's financial position and financial performance. The use of revenue represents a change in the benchmark from 2022, where the Fund for Future Appropriations (the "FFA") was used. This was driven by significant movements after the reassessment of the materiality based on the FFA, which is volatile in nature.
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 £315k (2022: £349k), which represents 70% (2022: 70%) of overall materiality. When determining performance materiality, we considered our knowledge of the Society, the overall control environment, as well as the number, nature and size of misstatements identified in previous audits.
Reporting threshold	We agreed with the Audit, Risk & Compliance Committee that we would report to them misstatements identified during our audit above £13k (2022: £15k) (which represents 3% (2022: 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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report 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 directors' report.

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:

- adequate accounting records have not been kept by the Society; or
- the Society's 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 directors' responsibilities statement set out on page 46, 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, management, and, where appropriate, those charged with governance, 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 up to the date of issue of the audit report; 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 tax legislation, pension legislation, the Friendly Societies Act 1992 and UK tax law.

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

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

- making enquiries of the directors and management on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud
- discussing amongst the engagement team the risks of fraud such as opportunities for fraudulent manipulation of financial statements;
- performing the work set out under 'Key audit matters' within this report over the valuation of the long-term business provisions; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

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

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 13 October 2011 to audit the financial statements for the year ending 31 December 2011 and subsequent financial periods. We were reappointed as auditor for the audit of the 31 December 2020 financial statements following a tender process conducted in 2020. The period of total uninterrupted engagement is 13 years, covering the years ended 31 December 2011 to 31 December 2023.

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 additional 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 28, 2024 13:50 GMT)

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

28 March 2024

Income and Expenditure Account

METROPOLITAN POLICE FRIENDLY SOCIEY LIMITED	Notes	2023 (£'000)	2022 (£'000)
INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER			
EARNED PREMIUMS			
- CONTINUING OPERATIONS			
Gross Premiums Written	2a	30,204	47,414
Less: Reinsurance Premiums	2b	(293)	(313)
Earned Premiums, net of Reinsurance		29,911	47,101
Investment Income and Realised Gains	3, 7	9,505	6,440
Unrealised Investment (Losses)/Gains		13,406	(33,638)
TOTAL TECHNICAL INCOME		52,822	19,903
CLAIMS INCURRED			
Claims Paid			
- Gross Amount		31,408	23,348
- Less: Reinsurers' Share	2b	(276)	(259)
Change in the provision for claims			
- Gross Amount		(293)	590
- Reinsurers' Share	2b	(164)	63
Claims incurred, net of reinsurance		30,675	23,742
OTHER CHANGES IN TECHNICAL PROVISIONS			
Long -Term Business Provision			
- Gross Amount	11	13,001	(5,301)
- Reinsurers' Share	2b	7	242
Other Technical Provision	11	75	-
Other changes in Technical Provisions, net of reinsurance		13,083	(5,059)
OTHER CHARGES			
Net Operating Expenses	4	5,860	6,024
Tax Attributable to Long -Term Business	8	-	(186)
		5,860	5,838
TRANSFER TO / (FROM) THE FUND FOR FUTURE APPROPRIATIONS	14	3,204	(4,618)
TOTAL TECHNICAL CHARGES		52,822	19,903
BALANCE ON THE TECHNICAL ACCOUNT – LONG-TERM BUSINESS		-	-

The notes on pages 56 to 71 form part of these financial statements.

Balance Sheet

METROPOLITAN POLICE FRIENDLY SOCIETY LIMITED			
BALANCE SHEET AS AT 31 DECEMBER	**Notes**	**2023 (£'000)**	**2022 (£'000)**
ASSETS:			
INTANGIBLE ASSETS	9	1,792	1,150
INVESTMENTS	10	278,080	263,294
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Long -Term Business Provision – Reinsurers' share	11	1,067	1,074
Claims Outstanding – Reinsurers' share	11	289	125
REINSURERS' SHARE OF TECHNICAL PROVISIONS		1,356	1,199
DEBTORS			
Debtors Arising from Direct Insurance Operations - Policy Holders		454	163
Other Debtors	12	569	372
TOTAL DEBTORS		1,023	535
OTHER ASSETS			
Tangible Assets	13	55	98
Cash At Bank and In Hand		11,922	9,855
TOTAL OTHER ASSETS		11,977	9,953
PREPAYMENTS AND ACCRUED INCOME		2,193	1,809
TOTAL ASSETS		296,421	277,940
LIABILITIES:			
FUND FOR FUTURE APPROPRIATIONS	14	28,125	24,921
TECHNICAL PROVISIONS			
Long -Term Business Provision - Gross Amount	11	262,625	249,624
Other Technical Provision - Gross Amount	11	2,091	-
Claims Outstanding - Gross Amount	11	2,012	2,305
TOTAL TECHNICAL PROVISIONS		266,728	251,929
PROVISION FOR OTHER RISKS AND CHARGES			
Deferred Tax Liability	15	-	-
TOTAL PROVISION FOR OTHER RISKS AND CHARGES		-	-
CREDITORS			
Creditors including Taxation and other Social Security	16	587	327
TOTAL CREDITORS		587	327
ACCRUALS AND DEFERRED INCOME		981	763
TOTAL LIABILITIES		296,421	277,940

Approved by the Board of Management on 28 March 2024 and signed on its behalf by:

Graeme McAusland
Graeme McAusland (Mar 28, 2024 12:06 GMT)

Annette Petchey
Annette Petchey (Mar 28, 2024 12:49 GMT)

Graeme McAusland – Chair

Annette Petchey – Chief Executive Officer

The notes on pages 56 to 71 form part of these financial statements.

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 2022 have been re-presented as detailed below, as this is considered to be a more appropriate classification: £2,967k (2022: £2,766k) of Gross Premiums Written has been reclassified from Periodic Premiums on Non-Participating Contracts to Periodic Premiums on Participating Contracts in note 2, Premium Income and Reinsurance.

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 and 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 was the sole shareholder of the £1 Ordinary share capital of Metfriends Limited from its incorporation on 26 May 2020 until its dissolution on 18 April 2023. Metfriends Limited did not trade. Consolidated accounts have not been prepared as the subsidiary was 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.

The Society’s Guaranteed Fixed Rate Bonds are not considered to transfer significant insurance risk and are classified as Investment Contracts at inception. Investment Contracts create a financial liability that is measured at fair value through profit and loss.

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

Premiums
Premiums are recognised when they become due. Reinsurance premiums are charged when they become payable. Premiums on Insurance Contracts are credited to the Income and Expenditure Account, while premium contributions relating to Investment Contracts are recorded as part of net contributions to Other Technical Provisions in the Statement of Financial Position.

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.

Claims on Insurance Contracts are charged to the Income and Expenditure Account, while claims relating to Investment Contracts are recorded as part of net claims paid from Other Technical Provisions in the Statement of Financial Position. 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 of internally generated software. The economic lives of these assets are determined by considering relevant factors such as usage of the asset, typical lifecycles, 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').

Other Technical Provisions

The Other Technical Provision for Guaranteed Fixed Rate Bonds is initially measured at fair value, being the premium contribution received. Subsequent measurement is at fair value and this is determined, with the assistance of the chief actuary, in accordance with Solvency II as adopted by the PRA and equal to the BEL for the Guaranteed Fixed Rate Bond.

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	**2023 (£'000)**			**Restated 2022 (£'000)**		
	Gross	**Reinsurance**	**Net**	**Gross**	**Reinsurance**	**Net**
Life Assurance Business						
Non-participating Contracts						
- Periodic Premiums	5,390	293	**5,097**	5,534	313	**5,221**
Participating Contracts						
- Periodic Premiums	8,311	-	**8,311**	8,176	-	**8,176**
- Single Premiums	16,503	-	**16,503**	33,704	-	**33,704**
TOTAL PREMIUMS WRITTEN	30,204	293	**29,911**	47,414	313	**47,101**

	2023 (£'000)			**2022 (£'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	1,522	16,503	**18,025**	1,378	33,704	**35,082**

Premium receipts of £2,016k in 2023 (2022: £Nil) – all Gross new premiums relating to single premium, non-participating investment contracts are not recognised in the Technical Account and not included in the tables above, but instead recorded as Contributions to Other Technical Provisions in the Statement of Financial Position and disclosed in note 11 Technical Provisions.

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	**2023 (£'000)**	**2022 (£'000)**
Reinsurance Premiums	293	313
Reinsurers' Share of Claims Incurred	(440)	(196)
	(147)	117
Reinsurers' Share of Change in Long -Term Business Provision	7	242
Net (income) / expenditure on reinsurance	(140)	359

The effect of reinsurance was to increase the transfer to the Fund for Future Appropriations by £140k for the year ended 31 December 2023 (2022: an increase in the transfer from FFA of £359k).

3. INVESTMENT INCOME AND REALISED GAINS

	2023 (£'000)	**2022 (£'000)**
Investment Income	9,500	6,438
Profits on the Realisation of Investments	5	2
Investment Income and Gains	9,505	6,440

Investment income and gains on the realisation of investments include £Nil (2022: £Nil) from listed investments. The income and gains arise from financial assets held at fair value through profit and loss. Details of investment expenses and charges deducted from investment income are disclosed in Note 7.

4. NET OPERATING EXPENSES

	2023 (£'000)	**2022 (£'000)**
Acquisition Costs	2,427	2,650
Administrative Costs	3,433	3,374
Net Operating Expenses	5,860	6,024

External audit fees of £178,200 for the audit of the Society’s 2023 annual accounts are included in 2023 Net Operating Expenses. The 2022 external audit fees were £165,000, with £141,000 included in 2022 Net Operating Expenses and £24,000 in 2023 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 £Nil (2022: £785).

The Society’s chief actuary is 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 £329,000 for 2023 (2022: £284,000).

5. STAFF COSTS

	2023 (£'000)	2022 (£'000)
Wages and Salaries	2,717	2,895
National Insurance Costs	259	309
Other Pension Costs	187	187
	3,163	3,391

All staff costs are included in Net operating expenses.

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

	2023	2022
Executive directors	4	4
Non-executive directors	7	8
All other staff	38	42
	49	54

The Society operates a defined contribution pension scheme and the charge to the Income & Expenditure Account for the scheme was £187k (2022: £187k).

6. BOARD MEMBERS' EMOLUMENTS

During 2023, the chair in the post until 31 December 2023 received emoluments of £50,369 (the chair in the post until 31 December 2022 received emoluments of £47,970 during 2022). Eight other non-executive directors received emoluments totalling £164,178 during 2023 (2022 restated: £179,794). 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 for the year of £741,255 (2022 restated: £752,482), including pension contributions of £54,156 (2022: £48,358). The highest paid director during the year received emoluments of £240,374 (2022 restated: £229,727). Details of the executive directors' emoluments are disclosed in the Remuneration Report on page 45.

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 2023, total investment expenses and charges are estimated to be £1,059k (2022: £926k). This is made up of gross investment management fees of £1,239k (2022: £1,249k) and other investment expenses of £137k (2022: £nil) less rebates on investment management fees of £317k (2022: £324k). Of these amounts, £429k has been charged directly to the Society and £630k (net of rebates) is estimated as reflected in the market value of the Society's investments (2022: £272k and £654k respectively).

8. TAXATION

	2023 (£'000)	2022 (£'000)
Current Corporation Tax at 20% (2022: 20%)	-	(44)
Adjustment in respect of prior year	-	149
Change in Deferred Taxation	-	(291)
Taxation charge / (credit) to the year	-	(186)

The Society is liable to UK Corporation Tax at the rate of 20% on investment income and gains, less allowable expenses and losses, on business other than that relating to tax-exempt policies. This tax is computed in accordance with the legislation applicable to life assurance companies.

There is no tax liability for 2023 due to allowable expenses and investment losses arising in 2022, which are carried forward and offset against taxable income and gains arising in 2023.

The deferred tax position is presented in note 15.

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

9. INTANGIBLE ASSETS

	Intangible Assets £'000
At 1 January 2023	1,150
Additions	736
At 31 December 2023	1,886
Amortisation	
At 1 January 2023	-
Amortisation charge for the year	94
At 31 December 2023	94
Net Book Value:	
At 31 December 2023	**1,792**
At 31 December 2022	1,150

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 31 December 2023 was £94k (2022: £nil).

10.INVESTMENTS

a) Investments	FAIR VALUE 2023 (£'000)	FAIR VALUE 2022 (£'000)	HISTORICAL COST 2023 (£'000)	HISTORICAL COST 2022 (£'000)
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds - UK	278,080	263,294	280,136	278,756
TOTAL INVESTMENTS	**278,080**	**263,294**	**280,136**	**278,756**

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 the amount payable on demand.

b) Fair Value Estimation

The table below provides an analysis of the investments disclosed at fair value in Note 9a. These have been grouped by value level according to the following inputs:

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

Level 2:
Inputs other than quoted prices included within Level 1. The price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse.

Level 3:
Inputs for the asset or liability that are not based on active and recent transactions of an identical asset on their own and are not a good estimate of fair value, resulting in an estimate made of the fair value using a valuation technique.

The Society's investments in Property funds which are priced at the funds' net asset value ("NAV"). The NAV is considered as a Level 2 input and therefore these funds have been classified as Level 2.

Fair value hierarchy at 31 December:

Fair Value at 31 December 2023	Level 1 (£'000)	Level 2 (£'000)	Level 3 (£'000)	TOTAL (£'000)
Variable Yield Securities and units in Unit Trusts and Non-UCITS funds:	259,800	18,280	-	**278,080**

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

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 purchased by the Society only after prior approval has been given by the Board of Management.

Market Risk:

The Society is exposed to market risk and in falling markets the capital available to support the business would reduce. In some circumstances, the long-term business provision would reduce due to the application of a higher rate of interest being used to value the liabilities. The sensitivity of the Society's Fund for Future Appropriations (FFA) to changes in market conditions is indicated by the following estimates as at 31 December 2023:

	2023	**2022**
	Change In FFA	**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	-7%	-8%
1% Increase in Credit Spreads	-12%	-13%

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 £11.4m 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. Therefore, the Society's policy is 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 invests approximately 6% (2022: 7%) 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 £11.1 million and £118.7 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 2023, the proportion was 11% (2022: 8%).

Additionally, some unrated assets may be held within these funds, where the manager has assessed such assets internally to be investment grade. At the end of 2023, the proportion was 0% (2022: 5%).

The Society's liquidity and bond fund holdings had an aggregate value of £129.9 million (2022: £122.3 million) with the following rating profile of the underlying assets as reported by the managers:

Credit Ratings	**2023**	**2022**
AAA	5%	5%
AA	9%	9%
A	22%	21%
BBB	53%	52%
Below Investment Grade	11%	8%
Unrated	-	5%
	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 31 December 2023, 51% (2022: 59%) of the Society's Multi-Asset fund investments of £130 million (2022: £122 million) were invested in fixed income assets and £11.7 million (2022: £11.6 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 £11.9 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 31 December 2023. 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, which 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, the Solvency and Financial Condition Report, published on our website, gives details of our Solvency and Risk Management. Under Solvency II, we have capital available of £26.3 million (2022: £23.8 million) to meet our Solvency Capital Requirement of £11.5 million (2022: £11.8 million), a coverage ratio of 229% (2022: 201%). 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 £22.1 million, and the coverage ratio to 193%. 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 Provision	**Other Technical Provisions**	**Claims Outstanding**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Gross Amounts:				
At 1 January 2023	249,624	-	2,305	251,929
Contributions to Investment Contracts	-	2,016	-	2,016
Claims paid on Investment Contracts	-	-	-	-
Transfers (to)/from Technical Account	13,001	75	(293)	12,783
At 31 December 2023	262,625	2,091	2,012	266,728
Reinsurers' Share:				
At 1 January 2023	1,074	-	125	1,199
Transfers (from)/to Technical Account	(7)	-	164	157
At 31 December 2023	1,067	-	289	1,356

	Non-participating £'000	Participating £'000	**2023 Total £'000**	2022 Total £'000
Analysis of Members' Liabilities (Net of Reinsurance):				
Long -Term Business Provision				
- Participating (With Profits)	-	249,698	**249,698**	235,995
- Non-participating	11,860	-	**11,860**	12,555
	11,860	249,698	**261,558**	248,550
Other Technical Provisions	2,091	-	**2,091**	-
Claims Outstanding	115	1,608	**1,723**	2,180
Total Technical Liabilities	14,066	251,306	**265,372**	250,730

Other Technical Provisions comprises the fair-value liability for Guaranteed Fixed Rate Bonds, which are non-profit life assurance contracts that meet the classification criteria for Investment Contracts. The aggregate amounts payable on Guaranteed Fixed Rate Bonds at maturity would be £2,512k (2022: £nil). The value of the change in Other Technical Provisions attributable to changes in own credit risk is considered material.

All other business issued by the Society is in the form of Insurance Contracts.

The Fund for Future Appropriations of £28.1 million (2022: £24.9 million) – see note 14 - also belongs to Members, including those with only non-participating contracts. It is not possible or appropriate to allocate this amount in the above table because any allocation is subject to future determination. As at balance sheet date, no allocation has been made.

Capital and risk management for life business

For conventional With-Profits business, the key sensitivity is to future investment returns. The mix of 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.

With-Profits Asset Mix at the Valuation Date	**2023**	**2022**
Cash	5%	4%
Fixed Interest	35%	35%
Equities/Multi-assets	53%	53%
Property	7%	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, mortgage protection assurances and Guaranteed Fixed Rate Bonds 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

	2023 (£'000)	2022 (£'000)
Corporation Tax	565	371
Other debtors	4	1
	569	372

13.TANGIBLE ASSETS

	Short Leasehold Improvements	Computer Equipment	Office Fixtures, Fittings, Equipment	TOTAL
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2023	215	146	67	428
Additions	-	4	1	5
Disposals	-	-	-	-
At 31 December 2023	215	150	68	433
Depreciation:				
At 1 January 2023	176	87	67	330
Charge for the year	18	29	1	48
Disposals	-	-	-	-
At 31 December 2023	194	116	68	378
Net Book Value:				
At 31 December 2023	21	34	-	55
At 31 December 2022	39	59	-	98

The depreciation charge for the year ended 31 December 2023 was £48,000 (2022: £51,000). There was a loss on disposal of assets for the year ended 31 December 2023 of £nil (2022: £nil).

14. FUND FOR FUTURE APPROPRIATIONS

	2023 (£'000)	2022 (£'000)
Balance at 1 January	24,921	29,539
Transfer from / (to) Income and Expenditure Account	3,204	(4,618)
Balance at 31 December	28,125	24,921

Movement in Fund for Future Appropriations	**2023 (£'000)**	**2022 (£'000)**
At 1 January	24,921	29,539
Change in the Cost of Guarantees from Asset Share movements	1,500	(4,700)
Investment Return on FFA and Non-Profit investments	2,350	(2,500)
Change in Economic Assumptions	(1,150)	5,400
Strain of Writing New Business	(1,600)	(1,700)
Reduction in Risk Margin (including regulatory change)	1,200	-
Other Surplus movements	904	(1,118)
At 31 December	28,125	24,921

The 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

	2023 (£'000)	**2022 (£'000)**
Balance at 1 January - Liability	-	(291)
Income and Expenditure Account Credit/(Debit)	-	291
Balance at 31 December - Liability	-	-

The deferred tax liability recognised in the balance sheet comprises:

	2023 (£’000)	**2022 (£’000)**
Deferred acquisition expenses	367	493
Excess expenses and other tax losses carried forward	989	1,179
Capital gains on investments	(364)	(119)
Fixed assets timing differences	(120)	(77)
Accrued income	(40)	(34)
	832	1,442
Unrecognised deferred tax asset	(832)	(1,442)
Deferred tax asset / (liability) recognised in the balance sheet	-	-

The Society has the following unused tax losses carried forward: excess expenses £4,844k (2022: £5,896k) and deferred acquisition expenses £1,833k (2022: £2,465k). These losses have no expiry date. No deferred tax asset has been recognised due to uncertainty in the amount of taxable profits expected in the foreseeable future from which excess expenses and losses will be recoverable.

The net deferred tax asset not recognised comprises:

	2023 (£'000)	2022 (£'000)
Expenses and losses deductible in future periods	1,356	1,672
Capital gains on investments	(364)	(119)
Other timing differences	(160)	(111)
Deferred tax asset not recognised	832	1,442

Deferred tax is calculated at 20% (2022: 20%).

16. CREDITORS

	2023 (£'000)	2022 (£'000)
Trade Creditors	515	237
Tax and Social Security	72	90
	587	327

17. OPERATING LEASES

	2023 (£'000)	2022 (£'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	25	122
- In over five years	-	-
	122	219