Solvency and Financial Condition Report 2023 – Metfriendly

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Abbreviations used in this Report

AFH	Actuarial Function Holder
AWP	Accumulating With-Profits
ARC	Audit, Risk and Compliance Committee
BEL	Best Estimate Liabilities
CA	Chief Actuary
CEO	Chief Executive Officer
CFO	Chief Finance Officer
CNP	Conventional Non-Profit
CMI	Continuous Mortality Investigation
CWP	Conventional With-Profits
DTA	Deferred Tax Assets
FCA	Financial Conduct Authority
FLAOR	Forward Looking Assessment of Own Risks
G5YB	Guaranteed Five Year Fixed Rate Bond
G5YSP	Guaranteed Five Year Savings Plan
HRG	Homogeneous Risk Group
IBNR	Incurred But Not Reported
ICOP	In Course of Payment
INSPRU	Prudential Sourcebook for Insurers (contains the regulations under Solvency I)
LOB	Line of Business
MCR	Minimum Capital Requirement
Metfriendly	Metropolitan Police Friendly Society Ltd
NED	Non-Executive Director
ORSA	Own Risk and Solvency Assessment
PPFM	Principles and Practices of Financial Management
PRA	Prudential Regulation Authority
PV	Present Value
R&A	Report and Accounts
RM	Risk Margin
RSR	Regulatory Supervisory Report
RST	Reverse Stress Test
QMI	Quarterly Management Information
SCR	Solvency Capital Requirement
SFCR	Solvency and Financial Condition Report
SF&I	Strategic Finance and Investment Committee
SIMF	Senior Insurance Management Function
TAS	Technical Actuarial Standard
TP	Technical Provisions
WPA	With-Profits Actuary
WPNED	With-Profits NED (the Advisory Arrangement adopted by Metfriendly)

SUMMARY

1. Background

Metropolitan Police Friendly Society Limited (also referred to as 'Metfriendly', 'the Society', "we" or "our" in this document) is a mutual organisation, owned by its Members, and established as a friendly society. We are regulated by the Prudential Regulation Authority and the Financial Conduct Authority and are not part of a regulated group of companies and have no active subsidiaries.

All serving and former members of the police services and their families are eligible to join the Society, however the majority of Members and New business sales remain focused on those in the London area - reflecting our close and longstanding links with police services in the capital.

Our core products are with-profits savings and investment products which are intended to be held for the medium to long term. These include stocks and shares ISAs, which can be used for regular savings or lump sum investments. Our guaranteed five-year savings plan and new guaranteed five-year bond are popular and provide a fixed return at the end of the term. Protection products, which include life and health insurance, complement our savings products. Health products, comprising Income Protection and Critical Illness, are tailored to the benefits provided to police officers through their employment. Our distribution model is to provide information, not advice, about our products, and we do not sell through intermediaries or pay commission to our field officers. We provide this information by running seminars to educate and support Members' financial needs.

As at 31 December 2023, Metfriendly had 18,916 Members and total assets of approximately £295m.

The current regulatory solvency framework for the European Economic Area ("EEA") insurance and reinsurance industry came into effect on 1 January 2016; this regime is known as Solvency II. The Solvency II regime applied to UK insurers until 31 December 2020, which was the end of the transition period agreed following the UK's exit from the EU (and the EEA). Since 1 January 2021, the UK has been free to determine an appropriate regulatory regime for insurance companies.

A few changes have been made to date to the Solvency II regime as it is applied to the UK, including changes to the methodology and parameters used to calculate the Solvency II Risk Margin, effective from 31 December 2023 and a change to the Solvency II Technical Information used to value the Technical Provisions and in the calculation of the Solvency Capital Requirement. Otherwise references in this document to articles and guidance of the Onshored Solvency II Directive are equally applicable to the UK Solvency II regime.

2. Business Review

Our long-term strategy is defined by our Vision, Mission, Objectives and Strategy, which are underpinned by our values. Our Vision, Mission and Values really mean something to all our stakeholders and is something that all of us at Metfriendly believe in. 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

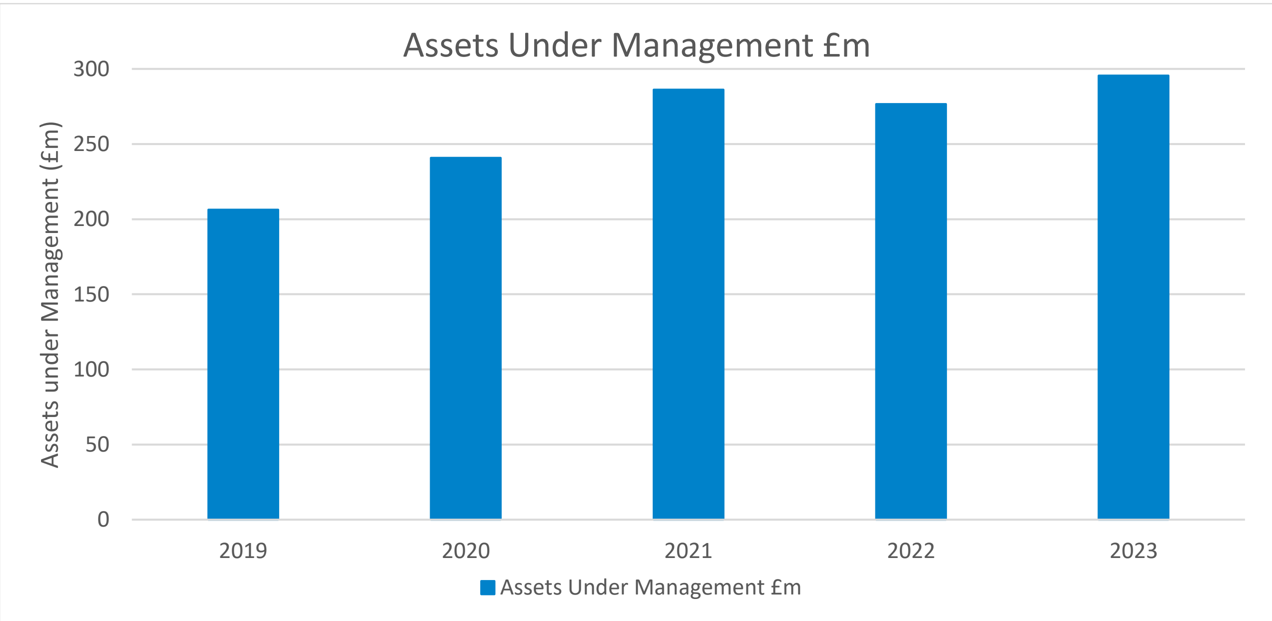
Our strategy for several years has been growth, primarily through increased market penetration, and each year, we set objectives so we can monitor our progress. During 2023, we continued to improve Member access to the Society and deliver greater efficiency. This is good to do in all organisations, but 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.

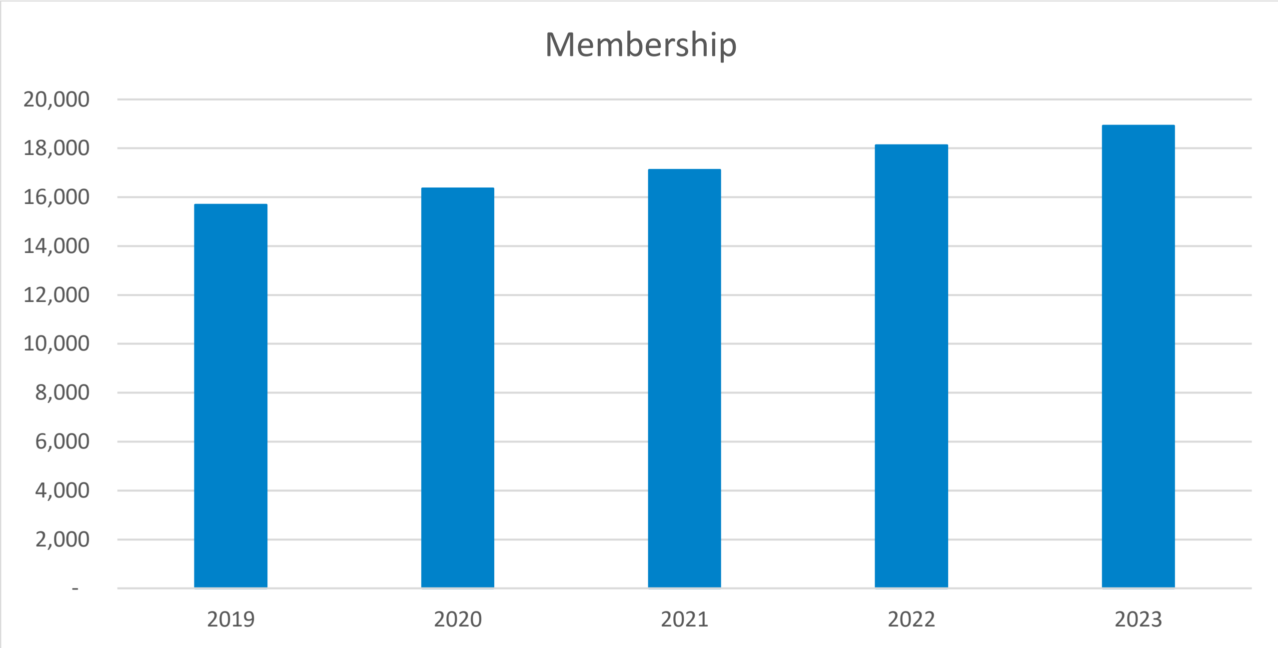
New and existing Members continued to trust the Society with their investments and protection needs and this enabled the Society to grow - Assets Under Management[1] grew to £295m at the end of the year (2022: £277m) as shown in the graph below. Although impacted by the cost-of-living crisis, Metfriendly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

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 our sustainability goals, but does not compromise on Member returns, has underpinned the investment review we initiated and completed in 2023. We expect this to result in the appointment of Schroders during 2024.

3. System of Governance

The Society's Board of Management ('the Board') is responsible for oversight of the organisation and setting its strategy. The Board is supported by four Board committees and the With Profits Working Group.

The Society has a clear reporting structure and requires all Senior Managers and Certified Employees under the Senior Managers and Certification Regime to have the requisite skills and experience to fulfil their roles and responsibilities. It has robust procedures for ensuring their fitness and propriety on appointment and whilst in office. This is supported by a pre-agreed training schedule for all.

The governance structure supports the Society's approach to risk management by ensuring that risks are managed prudently and in line with the Society's conservative risk appetite. This is based on ensuring that financial strength should not be compromised, but that this should be balanced against the requirement to achieve good investment returns for Members and to avoid holding excessive levels of Own Funds.

Risk management is overseen by the Board, with detailed review carried out on its behalf by the Audit Risk and Compliance (ARC) Committee. The ARC Committee has responsibility for our risk register, which provides information about the main risks facing the Society, and the controls we have put in place to reduce their likely frequency or impact. This Committee also oversees the annual Own Risk and Solvency Assessment (ORSA) process that takes place throughout the year, ensuring that it is fully integrated with the decision-making process.

An ORSA Report is approved by the Board in the fourth quarter of the year. This report summarises the key points of each ORSA process and is provided to the regulator along with the component reports. The ORSA report is available to all members of staff.

The Society's actuarial function is outsourced to Milliman LLP and this includes the roles of With Profits Actuary and Chief Actuary. Oversight of this arrangement is provided by the Chief Executive Officer, supported by the Chief Financial Officer and the Board. The activity of the With Profits Actuary is overseen through the With Profits Advisory Arrangement, a role held by a suitably qualified Non-Executive Director.

4. Risk Profile

The Society uses the Standard Formula to calculate its Solvency Capital Requirement (SCR) under the Solvency II regime, as this represents appropriate capital for an organisation with the Society's risks. The most material financial risk faced by the Society is market risk. We do not avoid market risk, recognising that we need to generate acceptable returns for Members. However, we seek to mitigate it by holding a well-diversified investment portfolio and matching our fixed liabilities with fixed income investment assets of appropriate duration.

We also consider reputational risk to be significant and therefore adopt a highly risk averse approach to safeguarding Member's data.

The Appropriateness of using the standard formula to assess the Society's capital requirements is reviewed on at least an annual basis by the Board.

5. Valuation for Solvency Purposes Summary

The Society has aligned its report and accounts with technical provisions required for reporting under Solvency II. The Society's total assets as determined for solvency purposes increased during 2023 to £294.6m as at 31 December 2023, from £276.8m as at 31 December 2022, primarily as investment income and net unrealised gains, premiums and contributions received, more than offset claims and expenses.

Global investment markets remained volatile for most of 2023 as investors balanced recession concerns, resilient economic data, and the ramifications of global conflicts. US markets were first to show signs of recovery, with broader improvements including on UK markets in late Q4. Our diversified investment strategy performed well in these conditions, with the Society's total investments delivering a return of 8.3%.

The Society's liabilities comprise primarily technical provisions for benefits and guarantees accrued to Members, being the sum of the best estimate of liabilities and the risk margin. The total liabilities have increased to £268.3m as at 31 December 2023, from £253.0m as at 31 December 2022, mainly due to the effect of favourable returns on With-Profits investments and new business written during the year, which exceeded the impact of claims paid and other experience.

The Society does not use adjustments (volatility, matching or transitional) in calculating its solvency ratio.

6. Capital Management Summary

The Society's Own Funds (capital) arise entirely from historical surpluses that have not been distributed to Members and so Own Funds are all Tier 1 capital.

The Society's solvency capital coverage ratio as at 31 December 2023 was 229% (2022: 201%) with Own Funds of £26.3m (2022: £23.8m) and a Solvency Capital Requirement (SCR) of £11.5m (2022: £11.8m). The reduction in the SCR during 2023 primarily relates to lower capital requirements in relation to a mass lapse risk event as a result of higher investment returns increasing asset shares and reducing the potential impact, changes to the with-profits demographic assumptions with respect to lapse rates, and lower capital requirements for new business due to lower volumes of new business written during 2023 than 2022.

Under Solvency II the SCR is subject to a minimum level, known as the Minimum Capital Requirement ("MCR"). The MCR is calculated using a linear formula. Having derived the MCR using the prescribed formula, it is then subject to a cap and floor of 45% and 25% of the SCR respectively, and finally, an absolute minimum level, which is currently set at €4.0m; £3.5m in GBP (2022: €4.0m; £3.4m).

The absolute floor (£3.5m) continues to be the biting constraint for the Society's MCR as at the 31 December 2023. The amount of the Minimum Capital Requirement (MCR) is £3.5m at 31 December 2023 (2022: £3.4m). The eligible amount of Own Funds available to cover the MCR is £26.3m (2022: £23.8m), which gives an MCR coverage ratio of 754% (2022: 690%). The Society continues to be financially strong and has complied with both the MCR and the SCR throughout 2023 by a large margin.

At all times during the period to the date of submission / signing of this report the Society has been able to meet its capital requirements as measured by the SCR and MCR by a significant margin, and coverage against the key SCR measure has remained comfortably within the Society's risk appetite target range of 150%-300% of SCR. Our ORSA, and in particular the Forward Looking Assessment of Own Risks and Reverse Stress Tests, supports the Board's expectation that the Society will be able to continue to do so and has the necessary management actions available to mitigate significant further risks that may emerge.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the SFCR in accordance with the Prudential Regulation Authority ('PRA') rules and SII regulation.

The PRA Rulebook for SII firms in Rule 6.1 (2) and Rule 6.2 (1) of the Reporting Part requires that the Society must have in place a written policy ensuring the ongoing appropriateness of any information disclosed and that the Society must ensure that its SFCR is subject to approval by the Directors.

Each of the Directors, whose names and functions are listed in the Board of Directors section of the Report and Accounts, confirm that, to the best of their knowledge:

(a) Throughout the financial year in question, the Society has complied in all material respects with the requirements of the PRA rules and SII Regulations as applicable; and

(b) It is reasonable to believe that, at the date of the publication of the SFCR, the Society continues so to comply, and will continue so to comply in the future.

Graeme McAusland

Graeme McAusland (Mar 28, 2024 09:38 GMT)

By Order of the Board

Name	Graeme McAusland
Title	Chair
Date	28 March 2024

Consideration for requesting a REPORT OF THE EXTERNAL INDEPENDENT AUDITOR to the Directors of Metropolitan Police Friendly Society Limited ('the Society') pursuant to Rule 4.1 (2) of the External Audit Chapter of the PRA Rulebook applicable to Solvency II firms

The Society is classified as a "small insurer" for SFCR external audit purposes as defined in PRA Policy Statement PS25/18. Its score based on the results for the year-ended 31 December 2023 was, at 13.14, below the limit for audit, set by the PRA at 100.

Following consideration of the costs associated and the potential benefits, the Society's Board made the decision not to request an external audit of its Solvency and Financial Condition Report 2023.

A. BUSINESS AND PERFORMANCE

A.1 Description of the Business

A.1.1 Legal Structure

Metropolitan Police Friendly Society Limited ('Metfriendly' or 'the Society') is a friendly society, incorporated under the Friendly Societies Act 1992 and registered in the United Kingdom (registered number 496F). The Society's registered office is at Central Court, 1B Knoll Rise, Orpington BR6 0JA.

The Society is dual regulated under registered number 110026 by both the Financial Conduct Authority ('FCA') and the Prudential Regulation Authority ('PRA'). As an FCA designated flexible portfolio firm and a PRA designated P5 firm, the Society does not have individually named supervisors. Contact details for each regulator are as follows:

FCA: 12 Endeavour Square, London, E20 1JN firm.queries@fca.org.uk Freephone 0800 111 6768

PRA: Bank of England, Threadneedle Street, London EC2R 8AH firmenquiries@bankofengland.co.uk Phone 020 7601 4444

The Society's auditor is Mazars LLP, 30 Old Bailey, London, EC4M 7AU.

The Society is a mutual organisation, owned by its Members (i.e. its policyholders) and has no shareholders. At General Meetings, each member over the age of 18 has one vote, irrespective of the number of policies they hold, and all votes count equally. The Society is not part of a group and has no trading subsidiaries.

A.1.2 Description of the Business

Metfriendly operates solely in the UK and individuals living outside the UK are not eligible to take out policies with the Society. Members with policies who move abroad may not take out additional policies.

Membership of the Society is restricted to current and former police personnel and their family members providing a well-defined affinity group. Metfriendly's sales and marketing activities included physical events focussed in the Greater London area, alongside virtual events and direct marketing that enable access to a much wider geographical audience on a cost-effective basis.

The Society provides medium to long-term savings and investment products as well as protection policies, each of which is outlined in turn below. It does not provide cash savings accounts in any format. All savings and investment products are with-profits with the exception of the guaranteed 5 year savings plan and guaranteed 5 year bond. Employees and pensioners of the police service in London and certain other forces are able to make payments to the Society by salary deduction, as well as by direct payment to the Society.

As at 31 December 2023 the Society had UK GAAP total assets of £296m, 18,916 Members and 39 employees (plus 6 non-executive directors).

Savings plans include 'stocks and shares' ISAs for adults and Junior ISAs for children to facilitate monthly savings and also include an annual payment escalator option. Both are subject to minimum and maximum monthly amounts, and the annual limits imposed by statute.

The Society also offers a Lifetime ISA ("LISA") (minimum amount £50pm / £1,200 lump sum / £400 top-ups), available to members aged between 18 and 39. The LISA is designed to help save for a deposit on a first home or to supplement pension savings. Contributions are supplemented by a 25% government bonus. The LISA is subject to both the ISA and specific Lifetime ISA rules.

Longer-term savings plans are also available. A ten year savings plan allows monthly payments between £25 per month and £300 per month, with the first £25 per month being tax exempt (subject to a maximum of one such tax exempt policy per person – whether with the Society or another organisation). Longer term plans of 11 to 25 years can no longer be taken out, but some older plans of this duration are still active.

Returns earned on the above plans depend on the performance of the With-Profits Fund (see below).

Metfriendly also offers five year regular savings plans with guaranteed returns, which depend on the regular fixed monthly savings amount (at least £20 per month) chosen at the start of the five year period. Members can select a Rolling Plan option that starts a new 5 year regular savings plan every calendar year.

Investment plans include a lump sum stocks and shares ISA (minimum amount £2,000) that is subject to the annual maximum ISA limits imposed by statute. The Society also offers a With Profit Bond that is subject to a minimum amount of £2,000. These lump sum products have no fixed term, but are intended for the longer-term, with annual bonuses and eligibility for a final bonus after at least three years. Returns earned depend on the performance of the With-Profits Fund.

Since September 2023, Metfriendly has also offered a Guaranteed Five Year Fixed Rate Bond that provides a guaranteed return at maturity on an initial contribution of between £10,000 and £250,000 per Member. Funds cannot be withdrawn during the five-year holding period other than in exceptional circumstances, or on the diagnosis of a terminal illness or on death.

Protection plans are designed to provide financial protection for Members in the event of sickness, critical illness, or injury. The Society offers income protection to police officers and police staff to provide an income if they are unable to work due to incapacity or medically retired on physical grounds. We also offer a lump sum critical illness plan to new recruits aged between 18 and 35. Life insurance protection is available to Members up to the age of 70, on a single or joint lives basis, either as a fixed sum or a reducing amount (for instance to cover the diminishing balance on a repayment mortgage).

The Society's **With Profits Fund** is invested in a range of assets spread across several pooled investment funds, with diversified allocations in cash, bond funds, a multi asset fund (holding equities, bonds, commodities and other assets) and property funds. The investment strategy aims to provide returns that are significantly better than those available on government bonds. Surplus funds in excess of asset shares and investment backing non-profit policies (guaranteed savings and protection plans) are invested in cash, liquidity funds and bond funds.

A.1.3 Significant External Events in 2024

The outlook for the economy and investment markets remains uncertain and, although headline UK inflation has reduced, the economic uncertainty and the effects of the cost-of-living crisis remains key factors for the Society and its Members in 2024.

In response, management and the Board have carefully considered the Society's financial and operational business plans, including the outlook for new business, expense and solvency for the going concern assessment period. The Society's performance against these plans and any actions required are actively monitored.

The Society has reviewed its risk management, solvency and liquidity positions to ensure that we remain within our risk appetite. We also subjected the solvency position to stress testing based on several scenarios, including scenarios considering the unfavorable impact in business volumes and further investment value falls, and the Society envisages that it will remain solvent based on these projections.

A.2 Underwriting Performance

The underwriting result encompasses premiums plus allocated investment returns, less claims, expenses, taxation and the change in technical provisions, as reported in the UK GAAP accounts. Technical provisions are reported in the accounts on a Solvency II basis. Table A1 shows how 2023 result analysed by line of business, with Best Estimate Liabilities allocated to each line of business and the Risk Margin and Project Darwin (the Society's infrastructure upgrade project) expense reserve attributed to capital.

The 2023 result was an underwriting profit of £3.2m (2022: loss of £4.6m) and arose primarily as a consequence of investment gains on Non-Profit and Own Funds investments, changes in the Cost of Guarantees from With Profits Asset Share movements and the benefit of the reduction in the Risk Margin and Darwin expense reserves, partly offset by new business strain (including the cost of promotional bonuses and acquisition costs in excess of current year expense margins from new business), and movements in best estimate liabilities due to changes in valuation interest rates and in relation to carried forward tax losses.

Premiums from AWP business decreased by £17.2m compared to 2022 (2022: decreased by £12.7m), as the cost-of-living crisis impeded some of our Members' ability to invest in Lump Sum premiums. 2023 investment returns were higher due to a £3.1m increase in investment income in the current interest rate environment and £13.4m of net unrealised investment gains from our multi-asset and bond holdings. Best Estimate Liabilities increased as the impact of favourable returns on With-Profits investments and new business written during the year more than offset net reductions from claims and other changes.

Table A.1 2023 Results by Line of Business*

Underwriting Performance by Line of Business	Accumulating With Profits £m	Conventional With Profits £m	Other Savings £m	Protection £m	Attributed to Capital £m	**Total 2023 £m**	Total 2022 £m
Premiums	23.4	1.4	4.6	0.5	-	**29.9**	47.1
Investment Return	19.2	0.7	0.9	0.2	1.9	**22.9**	(27.2)
Claims	(24.4)	(1.1)	(5.0)	(0.2)	-	**(30.7)**	(23.7)
Expenses	(4.6)	(0.2)	(0.6)	(0.4)	(0.1)	**(5.9)**	(6.0)
Taxation	-	-	-	-	-	-	0.2
Decrease/(Increase) in Technical Provisions	(15.2)	(0.4)	0.2	0.4	1.9	**(13.1)**	5.3
Increase/(Decrease) in Reinsurance Asset	-	-	-	(0.0)	-	**(0.0)**	(0.2)
Total UW Performance	**(1.5)**	**0.4**	**0.1**	**0.5**	**3.7**	**3.2**	(4.6)

*

The table might contain differences due to rounding. Premiums and claims are shown net of reinsurance.

UW Results are presented on a UK GAAP basis aligned to the Annual Report & Accounts, meaning that Premiums – Other Savings excludes £2.0m of single premiums written on the Guaranteed Five Year Fixed Rate Bond, which is accounted for as an Investment Contract under UK GAAP. This has no net impact on UW Performance as there is an offsetting £2.0m reduction in the Increase in Technical Provisions.

All business was written in the UK. Accumulating With-Profits (AWP) business is written as single premium business with no fixed term and includes recurrent premiums initiated by the member in prior years where the member retains the right to vary or suspend premiums without penalty. Conventional With-Profits (CWP) business is written as regular premium business with a fixed payment term.

A.3 Investment Performance

The Society invests through pooled funds, with investment management expenses mainly charged directly to those funds. Where the Society receives a rebate of fees from the investment manager, this is recorded as investment income. Investments are selected for long term performance and returns are expected to fluctuate from year to year. A breakdown of the 2023 investment return is given in the Table A.2 below.

Table A.2 Breakdown of 2023 Investment Return*

Investment Income	Investment Income & Net Realised Gains	Net Unrealised Gains & Losses	Total 2023 Investment Return		Total 2022 Investment Return	
	£m	£m	£m	%	£m	%
Residual Assets	1.6	1.3	**3.0**	**7.5%**	(2.5)	(6.0%)
Bond Funds	4.1	4.8	**8.9**	**10.7%**	(13.8)	(17.5%)
Multi Asset Funds	2.9	8.0	**10.8**	**8.7%**	(10.0)	(7.9%)
Property Funds	0.7	(0.7)	**0.1**	**0.4%**	(0.9)	(5.0%)
Insurance Linked Security Funds	-	0.0	**0.0**	**24.2%**	0.0	63.8%
Deposits and Cash	0.1	-	**0.1**	**1.0%**	0.0	0.2%
Total	**9.5**	**13.4**	**22.9**	**8.3%**	(27.2)	(9.6%)

** - The table might contain differences due to rounding*

The Society separately identifies investments to meet Asset Shares of its With Profits business. These returned an income of £19.9m (i.e. investment income, realised gains and unrealised net gains less investment expenses) in 2023, equivalent to an investment return of 8.4% (2021: loss of £24.7m, -10.2%).

The residual assets, comprising liquidity and bond funds backing Non-Profit business and Capital, returned an income of £3.0m in 2023 equivalent to an investment return of 7.5% (2022: loss of £2.5m, -6.0%).

A.4 Other Factors Affecting Performance

2023 acquisition expenses exceeded expense allowances received from new business written in the year and required a call on capital of £1.4m, although total margins from this new business over its life are expected to exceed total expenses from that business (2022: call on capital of £0.6m). The increase in the call on capital reflects a reduction in the level of Lump Sum premiums, partly offset by a £0.2m reduction in acquisition expenses. Other expenditure of £0.7m (2022: £0.8m) on Project Darwin is under UK GAAP capitalised as an intangible asset with a cost of £1.9m (2022: £1.15m) and amortised over 15 years with a charge of £0.1m in the year (2022: £Nil). The intangible asset is valued at nil for Solvency II purposes.

Taxable investment income exceeded allowable expenses during 2023, but was more than offset by tax losses and deferred expenses brought forward, such that Society continues to have unused tax losses and expenses carried forward and available to offset against future taxable profits. No net deferred tax asset was recognised in 2022 or has been recognised in 2023, so there is no tax charge for the year (2022: tax charge related to prior years of £0.2m).

Technical Provisions attributed to capital reduced by £1.9m (2022: reduced by £0.2m) comprising a £0.7m reduction (2022: £0.3m reduction) in the reserve for future expenditure on Project Darwin, which was completed in December 2023, and a £1.1m reduction (2022: £0.1m increase) in Risk Margin, which is primarily due to regulatory changes to the risk margin calculation under Statutory Instrument 2023 No. 1346. These movements, along with a proportion of the investment income on excess assets, are attributed to capital in the underwriting performance shown above.

Overall performance has led to the UK GAAP Fund For Future Appropriations increasing by £3.2m in 2023 (2022: decreasing by £4.6m) to £28.1m as at 31 December 2022 (2021: £24.9m).

B. SYSTEM OF GOVERNANCE

B.1 System of Governance

B.1.1 Description of the Board and Committees

The Society's Board of Management ('the Board') is responsible for oversight of the organisation and setting its strategy. As at 31 December 2023 the Board comprised 6 part-time Non-Executive Directors (including the Chair) and 4 full-time Executive Directors. The Chair supported by the Society Secretary, is responsible for leading the Board, whereas the Chief Executive Officer is responsible for leading the Society's operational activity and implementing strategy. Two of the Non-Executive Directors are former police officers, with the remainder having backgrounds in financial services.

The Chair is responsible for the performance of the Board as a whole. This includes appraising the performance of individual Non-Executive Directors and the Chief Executive Officer. The Senior Independent Director ('SID') (a Non-Executive Director) is responsible for leading an annual review of the Chair's performance, taking into account feedback from other directors. The SID also provided a point of contact for Members if they have concerns that they consider not to have been addressed satisfactorily through the normal conduit of the Chief Executive Officer or Chairman. One Non-Executive Director also fulfils the role of With-Profits Non-Executive Director ('WPNED'), leading oversight of the Society's management of its with-profits business and providing independent judgement as required by the FCA.

The governance structure at the 31 December 2023 is shown in the table below, comprising four Board committees whose membership, terms of reference and authority are set by the Board. The Chairs of each committee report to the Board at the next Board meeting following each committee meeting.

BOARD OF MANAGEMENT 2023

Graeme McAusland (Chair)

Annette Petchey (Chief Executive Officer)

Martin Bellingham (Executive Director)

Robert Dagg[1] (Executive Director)

Paul Grimshare (Executive Director)

Rebecca Hall (Non-Executive Director)

Craig Haslam (Non-Executive Director)

Nicola Hayes (Non-Executive Director)

Emma Richards (Non-Executive Director)

Lee Schöpp (Non-Executive Director & SID)

1 Robert Dagg joined the Board on 1 January 2023.

The governance structure of the Committees at December 2023 was:

Audit, Risk and Compliance Committee	Remuneration, Nomination and Governance Committee	Member Committee	Investment Committee
Lee Schöpp (Chair)	Craig Haslam (Chair)	Emma Richards (Chair)	Nicola Hayes (Chair)
Rebecca Hall	Annette Petchey	Rebecca Hall	Graeme McAusland
Emma Richards	Graeme McAusland	Martin Bellingham	Lee Schöpp
	Nicola Hayes		Craig Haslam
			Paul Grimshare

The role of each Committee is summarised in the following paragraphs.

The **Audit, Risk and Compliance Committee** provides independent oversight of the Society's statutory reporting and systems of internal control, as well as ensuring its compliance with the Financial Services and Markets Act 2000 and other relevant regulations along with oversight of the Society's systems of risk and compliance management. The Committee's role includes supervising and monitoring the independence, quality and effectiveness of the Society's external audit auditor, its internal audit function and internal assurance programme.

The Investment Committee purpose is to provide independent oversight of the Society's investment strategy & ongoing management of assets. It will review at least annually the investment strategy with any recommendation for changes taken to Board, review the plans proposed to implement the investment strategy encompassing our ESG & Consumer requirements; and review the investment performance of the funds as a whole and the individual investment and operational performance of fund managers.

The **Remuneration**, **Nomination and Governance Committee** oversees the Society's senior management arrangements and makes recommendations to the Board on matters relating to the appointment of Executive and Non-Executive Directors and individuals performing Senior Management Functions (SMF) roles. It keeps the Board's governance arrangements under review and makes appropriate recommendations to ensure that these are consistent with appropriate and proportionate governance practices. It also oversees and recommends to the Board matters relating to the remuneration of Executive and Non-executive Directors.

The **Member Committee** purpose is to put the Member, and the Police Family, at the centre of what Metropolitan Police Friendly Society Ltd ("MPFS") does, to take every opportunity to improve the trust Members have in MPFS and look after their wellbeing; through member interaction to review the Members' experience and journey throughout the Society, assuring and recommending changes based on feedback, market movements and affinity group plans. The committee is committed to listening to Members, to understanding their needs and creating output and actions that create a stronger brand and product for all Members.

B.1.2 Changes to the System of Governance During 2023

There were no changes to the Board committee structure during 2023. The Board reviewed the structure in late 2022 and moving forward the Strategic Finance and Investment Committee will focus on the investment aspect of the business and be called the Investment Committee. Strategic Finance aspects will be overseen directly by the Board.

B.1.3 Remuneration Practices and Policy

The Society's policy for remuneration is to attract and reward senior managers (including Executive Directors) and staff with annually reviewed fixed salaries that recognise their skill set and responsibilities, with changes to senior managers' salaries subject to review by the Remuneration Committee.

The Society operates a discretionary annual bonus scheme that allow for bonus payment not exceeding 12% or 20% (dependent on role) of annual salary.

The scheme is driven by performance against the strategic objectives of the Society as well as performance against personal objectives and behaviours. In 2023 a number of the objectives were achieved, and the Remuneration, Nomination and Governance Committee approved payment of a bonus. The scheme is reviewed each year by the committee.

All employees and senior managers are entitled to join a defined contribution group personal pension plan provided by the Society with employer's contribution of 9% of salary if the employee chooses to opt into a salary sacrifice arrangement of 2.5%. No early retirement schemes are available for employees or senior managers.

Non-Executive Directors' remuneration comprises a fixed annual amount which recognises the responsibilities held (for instance chairing a Board committee). No contributions are made to any pension arrangements on behalf of Non-Executive Directors.

There were no material transactions between the members of Metfriendly's Board (and its employees) and the Society in 2023. Whilst members of the Board who meet the eligibility criteria for membership are permitted to subscribe to Metfriendly policies and plans on normal terms (on their own behalf and that of close family members), these holdings are monitored with annual confirmation at Board level that none are considered material.

B.2 Fitness and Propriety

B.2.1 Fitness and Propriety Requirements

The Society requires all personnel responsible for the organisation's oversight and key functions to have the requisite skills, qualifications, knowledge and experience to fulfil their roles and responsibilities effectively, through their professional qualifications depending on the role (for instance accountancy, actuarial, legal, HR, managerial); or through their knowledge and experience (for instance holding similar positions elsewhere, or thorough senior experience of working with a police service or other membership based entity). Requirements include ensuring that Non-Executive Directors have sufficient time to fulfil their responsibilities, are independent (and are seen to be independent), have no material conflicts of interest, and demonstrate the character, integrity and behaviours conducive to being regarded as a 'fit and proper' person.

B.2.2 Fitness and Propriety Assessment

The Society assesses fitness and propriety on the appointment of a Non-Executive Director and any other key function holders on appointment (whether they are an existing member of staff or externally appointed) to ensure their honesty and financial soundness. This is done through carrying out background screening using the Disclosure and Barring Service (DBS) checks carried out through an external organisation.

The Board ensures that all those in Metfriendly who are involved in the recruitment process have been suitably trained to identify and assess the relevance and circumstances of offences, and that they have received appropriate guidance and training in the relevant legislation relating to the employment of ex-offenders, e.g., the Rehabilitation of Offenders Act 1974. The recruitment policy provides a further safeguard that these matters are fully addressed.

At interview, or in a separate discussion, the Society ensures that an open and measured discussion takes place on the subject of any offences or other matter that might be relevant to the position. Failure to reveal information that is directly relevant to the position sought could lead to withdrawal of an offer of employment. Having a criminal record will not necessarily bar applicants from working with the Society. This will depend on the nature of the position and the circumstances and background of the offences.

For external appointees references are also sought including information about any outstanding liabilities for commission payments, any relevant outstanding or upheld complaint against the candidate from an eligible complainant, and any information concerning their fitness and propriety to act in the relevant position.

On appointment, all SMF holders and directors are required to complete the Fitness and Propriety declaration which forms part of the CONNECT Application that is submitted for regulatory approval. An annual re-declaration is also required, with affirmations required in respect of the same questions asked on the CONNECT Application; together with confirmation that, taking into account the Society's Conflicts of Interests Policy, the individual is not aware of any personal interests, obligations, or other situations that could conflict with the performance of the controlled functions they perform.

At the start of each Board meeting, those present are also asked to declare whether they are aware of any personal conflicts of interest in relation to the agenda items.

Assessment of fitness and propriety of Board members and those holding regulated positions is also supported by:

- Staff and director appraisal processes
- Annual Board self-evaluation
- Regular (normally triennial) externally facilitated Board evaluation exercise

The Society's Conduct Risk Policy which is owned by the Board applies to all employees and directors, requiring them to observe all relevant FCA principles for business relating to conduct including: acting with integrity, due skill, care and diligence treating customers fairly; and managing any conflicts of interest fairly.

Non-Executive Directors and any other key function holders are provided with relevant training for their roles and are also required to keep their skills up to date including meeting any professional CPD requirements.

The tables below set out the Society's Senior Insurance Management Functions, followed by the Key Function Holders as at 31 December 2023:

SMF	HOLDER
SMF1 Chief Executive function	Annette Petchey
SMF2 Chief Finance function	Paul Grimshare
SMF3 Executive Director	Annette Petchey
	Paul Grimshare
	Martin Bellingham
	Robert Dagg
SMF4 Chief Risk function	Robert Dagg
SMF9 Chair	Graeme McAusland
SMF10 Chair of the Risk Committee	Lee Schöpp
SMF11 Chair of the Audit Committee	Lee Schöpp
SMF12 Chair of the Remuneration Committee	Craig Haslam
SMF 13 Chair of the Nominations Committee	Craig Haslam
SMF14 Senior Independent Director	Lee Schöpp
SMF15 With Profits Advisory Arrangement	Rebecca Hall
SMF16 Compliance Oversight Function	Kara Smith
SMF17 Money Laundering Reporting Officer	Robert Dagg
SMF18 Other Overall Responsibility	Martin Bellingham (Sales & Marketing)
SMF20 Chief Actuary function (outsourced)	Lindsay Unwin*
SMF20a With-Profits Actuary (outsourced)	Lindsay Unwin*
Whistleblowing oversight function	Lee Schöpp

* Lindsay Unwin is an employee of Milliman LLP, with whom the Society has entered an outsourced services agreement.

KEY FUNCTIONS	HOLDER
(1) Risk Management function	Robert Dagg
(2) Actuarial function (outsourced)	Lindsay Unwin*
(3) Internal Audit function	Metfriendly being not classed as a significant firm by PRA or FCA and having outsourced its Internal Audit Function, does not have a SMF5 but has allocated specific responsibilities for oversight of the Internal Audit function to the Chair of the Audit, Risk and Compliance Committee (SMF11)
(4) Compliance function	Annette Petchey (Solvency II) Kara Smith
(5) IT function	David Hurcomb – IT Development
(6) any other function which is of specific importance to the sound and prudent management of the firm	Alan Gray – Overseeing administration function for insurance contracts Rebecca Hall (WPAA)
(7) the function of effectively running the firm	Graeme McAusland (Chair) Lee Schöpp (NED & SID) Craig Haslam NED Nicola Hayes (NED) Rebecca Hall (NED) Emma Richards (NED) Martin Bellingham Paul Grimshare Robert Dagg (CRO/CoSec)

* Lindsay Unwin is an employee of Milliman LLP, with whom the Society has entered an outsourced services agreement.

B.3 Risk Management System

B.3.1 Risk Management Overview

The Society's Risk Policy sets out how risk is managed by the organisation to ensure that risks are appropriately managed. This is supported by the Society's Values which set out values and expected behaviours that underpin culture, including risk culture, within the organisation, and are set by the Board. These include the exercise of prudence and judgement in financial management, including the requirement to manage Members' funds safely and soundly, but avoiding excessive caution which could unduly reduce returns to Members. The Society's Risk Policy recognises that there are natural tensions to consider in relation to risk tolerance, including:

- achieving good levels of new business, including new Members; whilst being mindful that new business can deplete capital, and inappropriate sales would cause reputational risk.
- achieving good investment returns through exposure to assets such as equities and property that can fluctuate in value, and inevitably are a source of risk:
- management of operational risk, whilst recognising that there are points beyond which the cost of further control improvements to reduce risks will be disproportionate as the incremental value of control benefits diminish.

Risk appetite is defined according to coverage for the Society's Solvency Capital Requirement and is set at a conservative level to ensure financial strength is not compromised, and at the same time, does not compromise the ability to achieve good investment returns for Members. This is reflected in the overarching aim of ensuring the coverage for the Solvency Capital Requirement (SCR) under the Solvency II regime is covered within a range which is currently set at 150% to 300%.

A wide target range of coverage is adopted to recognise that the Society's SCR and Own Funds are both sensitive to economic conditions. This SCR coverage ratio is also used to assess annually whether there may be excessive levels of capital such that it is appropriate to distribute some of this capital to with-profits members. An SCR coverage ratio in excess of 300% SCR is regarded as potentially excessive at which point surplus distribution of capital is considered by the Board in consultation with the With-Profits Actuary.

The Society uses the Standard Formula basis to assess its solvency capital requirements and does not use an internal model for any aspect of the capital assessment. It does not use a volatility or matching adjustment and does not use any transitional arrangements. An annual exercise is carried out to verify the continued appropriateness of the Standard Formula approach for the Society. This would be carried out more frequently if required as a result of a material change in the Society's risk profile.

B.3.2 Implementation of Risk Management System

Risk governance is overseen by the Board, with detailed review carried out by the Audit, Risk and Compliance Committee on its behalf, including regular review of the Society's risk register. The Committee reports the results of its review to the Board; and additionally, the strategic and material risks are also further considered by the Board itself. These include risks such as failing to maintain membership levels, succession planning, the ability to ensure expense costs can be covered from income, and the risk of a mismatch between the Society's assets and liabilities. At operational level, the Society's Leadership Team oversees operational risks, as well as reviewing new and emerging risks, and any changes to risk assessment factors or significant controls.

Key risk management information is highlighted within the Society's monthly management information pack received by all Board members and attendees. This includes a dashboard summary of key performance indicators measured against targets and ranges of tolerance. These are focussed on key areas of risk: membership numbers, consumer duty, new business levels, investment returns, expense levels, and the matching of assets against liabilities and solvency coverage. The management information pack also includes details of the latest assessment of the most strategic and material risks for Board consideration, both before and after the application of controls.

Risks are detailed in the Society's risk register by showing inherent risk scores for individual risks by reference to the likelihood of them occurring and the impact should they crystallise. Risk triggers have also been identified to show the point at which management actions would be considered.

Residual risk is assessed by considering the effectiveness of controls in place to mitigate the likelihood and impact of each risk occurring; and those risks with the largest residual scores are reviewed by the Board.

For all risks, Metfriendly seeks to ensure that, after allowing for controls, the likely impact is well within available capital (less than 10% of Own Funds).

Section B4 below provides an overview of how the Society's risk management is implemented and integrated into the organisational structure, and decision-making process, as reflected in its ORSA.

As part of the ORSA detailed in section B4 below, when carrying out required stress and adverse scenario testing, an assessment is made of the most significant risks faced by the Society so that these are used as the basis for testing the resilience of the Society's capital coverage in adverse circumstances. This helps further inform the Society's approach to capital management, including risk appetite assessments and identification of trigger points when management actions would be considered to protect capital coverage should extreme circumstances (for example a severe market crash) occur.

As a small organisation, the Society's management work closely alongside other staff, enabling risk issues to be raised and recognised as they occur. The Society operates a Risk Working Group with the purpose of identifying and assessing new and emerging risks to the Society. The group meets regularly, usually monthly. It carries out regular horizon scanning to identify new and emerging risks arising from both external and operational factors. This enables in depth assessments of new risks to be carried out with input from across the business. All staff are trained in the process of identification and reporting of risks and incidents impacting the society.

Risk is a standing agenda item at Executive Team meetings, which are normally held every 2 weeks. This enables regular consideration of any changes to risk profiles and key controls for existing risks as well as consideration of any new and emerging risks ensuring that risk management is fully integrated into the decision-making process. It also enables follow-up actions, including any changes to the risk register, to be identified and implemented swiftly.

The impact of any potential strategic plans on the Society's risk profile is taken into account, including forward capital projection estimates if appropriate. As an Executive Director, the Society's Chief Risk Officer attends Board meetings (including strategy discussions), as well as meetings of the Audit, Risk and Compliance Committee, ensuring that risk management is integrated into the organisational structure. The Chief Actuary also attends all Board meetings and Audit Risk & Compliance Committee meetings.

B.4 Own Risk and Solvency Assessment (ORSA)

B.4.1 Description of ORSA Process

The Society's ORSA process is conducted throughout the year to ensure integration with decision-making. It comprises several key iterative activities that take part during the business planning and finance and risk management annual reporting cycles. These activities include:

- Preparation and review of a business plan and strategic plan
- Review of the investment strategy
- Review of the Society's expense allocations
- Assessment of the Society's Statutory Solvency
- Review of the Society's risk policy
- Product reviews
- Preparation of the Society's Forward Looking Assessment of Own Risk (FLAOR)
- Reverse stress tests

These activities culminated in the ORSA report itself.

B.4.2 Review and Approval of ORSA

The ORSA process is owned by the Board, with each element of the report being reviewed and approved by it, following review by the executive Leadership team. The Board's own review of each element will normally follow in-depth review by a relevant Board committee. The final ORSA report is also reviewed and approved by the Board prior to annual submission to the PRA. In the event of a significant change to the Society's risk profile or business model, individual elements of the ORSA would be updated.

The ORSA report considers the appropriateness of the standard formula under Solvency II to the capital needs of the Society. The Society has determined that the standard formula results in capital resource requirements which are appropriate to the Society's risk profile, such assessments are reviewed annually.

The ORSA process is carried out throughout the year, ensuring that it is fully integrated with decision-making processes, culminating in the ORSA report which is owned by the Board. The Chief Risk Officer coordinates the relevant processes, with input from the Society's relevant subject matters experts; and ensures that review and challenge is sought and reflected from the Leadership Team, Audit Risk & Compliance Committee and the Board at the appropriate time.

The results of the Forward Looking Assessment of Own Risks and Reverse Stress Test, together with review of the ongoing appropriateness of the Standard Formula ensure that the organisation's solvency needs are appropriately monitored and integrated with the risk management system. The FLAOR is carried out annually, with updates or a refresh should there be material changes.

B.5 Internal Control Function

B.5.1 Internal Control System

The Society has a financial control framework which underpins its financial reporting and regulatory reporting. This includes controls over data and data security to ensure that confidentiality is maintained, whilst also ensuring that policyholder data is accurate and complete so that valuation data used to compute the Society's assets is robust; as well as controls to address the risk of fraud and errors, including material misstatements in its statutory reports. They comprise manual and automated controls, reconciliations, segregation of duties, clearly delegated authority levels, and evidencing that controls have been carried out.

The internal control system is subject to internal audit review, overseen by the Audit, Risk & Compliance Committee. The external auditor also carries out controls testing as part of statutory audit work and reports any recommendations for improvements to the Audit, Risk & Compliance Committee, which follows up the implementation of any actions agreed in response. Key procedures include data reconciliations for the six months to 30 June and 12 months to 31 December to check:

- the integrity of data (e.g., opening and closing policy counts, sums assured and asset shares);
- premiums and controls reconciliations between the policyholder system and the accounting system;
- bank reconciliations;
- investment accounting reconciliations;
- cash flow monitoring against projections;
- reassurance account reconciliations;
- payroll reconciliations;
- outstanding debtor and creditor analysis; and
- variance analysis to inform understanding of any differences between budgeted and actual expenditure.

Valuation results are supported by analysis of movements between opening and closing actuarial liabilities and reserves; whilst components of change for key elements of capital such as surplus are also analysed to provide further assurance.

The Society's financial statements are subject to further controls in their production and review; and actuarial liabilities are assessed using actuarial best practices and are subject to review by the Audit, Risk & Compliance Committee. Following internal reviews and external audit review of the financial statements, they are presented to the Audit, Risk & Compliance Committee for detailed review, prior to final review and approval by the Board.

B.5.2 Compliance Function

The compliance function is carried out by an experienced in-house Compliance Officer who does not have any other operational role within the organisation, avoiding the possibility of any conflict of interest. The Compliance Officer reports to the Chief Risk Officer who in turn provides a report to the Audit Risk & Compliance Committee. The Audit, Risk & Compliance Committee's remit includes ensuring that the Compliance Officer has sufficient resource to carry out their duties and has full access to the information they require to do so. The Committee approves the annual Assurance Plan for assurance activities and monitors progress against the plan.

B.6 Internal Audit Function

The Society's internal audit function is managed by the Society's Chief Risk Officer. Performance of internal audit activity is outsourced, principally to RSM Risk Assurance Services LLP, with a three-year rolling plan of testing which is updated and reprioritised as required, and at least annually, in line with business requirements and risk assessments.

The Audit, Risk & Compliance Committee is responsible for ensuring that the internal audit function is independent and objective. This Committee considers the appointment and remuneration of the internal auditor and meets at least annually with the internal auditors without management present. The Committee is responsible for reviewing and agreeing the internal audit test plan, and for ensuring that the internal audit function is adequately resourced and has access to the information it needs to carry out its role effectively. All internal audit reports are reviewed by the Audit, Risk & Compliance Committee which reviews the appropriateness, timing and implementation of management's responses to any recommendations that are made.

B.7 Actuarial Function

The Society's Actuarial Function is outsourced to Milliman LLP. The roles of Chief Actuary (SMF20 under the Senior Managers & Certification Regime 'SM&CR') and With-Profits Actuary (SMF20a) are outsourced and held by an experienced Principal at Milliman LLP. The holder of these roles is a Fellow of the Institute and Faculty of Actuaries and holds the required Practising Certificates. In carrying out her work she is supported by other qualified actuaries within Milliman.

B.8 Outsourcing

The Society's outsourcing policy requires due diligence to be carried out and appropriately evidenced on all potential outsourced service providers. For new contracts for material outsourcing arrangements (recurring annual fee over £100,000), pre-approval is required, and the Audit, Risk & Compliance Committee will review any proposal and recommend whether or not it should be approved by the Board. This must be supported by an assessment of the impact on the Society's risk profile arising from the proposed arrangement, or from any proposed change in outsource service provider. All outsourced arrangements must also be reviewed annually to ensure they remain fit for purpose.

The outsourcing contract with the service provider must include documented service level agreements, details of management information to be provided, and arrangements for service monitoring, relationship management and escalation procedures in the event of poor performance including arrangements for early termination if necessary.

An appropriate manager is appointed as the individual responsible for overseeing the services provided by the outsourced services provider on behalf of Metfriendly.

The following services that are outsourced by the Society are considered to be important or critical to the organisation:

- Actuarial services
- Internal audit services
- Outbound printing and distribution
- Elements of IT support (including some desktop support, telephony and storage)
- Payroll processing
- SII data reporting fulfilment
- Investment Management
- Web hosting

During 2022/23 we engaged with an external software development firm who supported us in the delivery of a new policy management system. The value of this engagement was material and regular reporting was provided to the Board as oversight. The delivery project successfully completed in December 2023.

All the Society's outsourced services providers operate under UK jurisdiction.

As a small organisation, the Society's senior managers work closely with outsourced service providers. They are therefore well aware of ongoing service levels and quality of service, enabling any issues of concern to be raised and resolved promptly, without needing to invoke contractual escalation procedures which are available should they be needed.

The Society has outsourced the majority of its investment management to three investment managers. The bond funds (including the cash fund) are managed by Royal London Asset Management ("RLAM") whilst equity-like "real returns" are derived from a multi-asset fund managed by Columbia Threadneedle Investments ("CTI") and property funds managed by AEW, CTI and RLAM.

B.9 Adequacy of the System of Governance

The Society's system of governance is considered to be appropriate, taking into account the nature, scale and complexity of the risks inherent in the business. Its organisational structure and reporting lines reflect good practice as set out in the Annotated Corporate Governance Code for Mutual Insurers, against which the Society achieves compliance on an annual basis. Further evidence of the appropriateness of the governance system is provided by relevant reports received from internal audit, compliance and external audit in the course of their work.

C RISK PROFILE

C.1 Underwriting Risk

The most significant underwriting risk faced by the Society relates to its ability to recover its expenses from product margins. The Society is willing to meet limited excess expenditure from its Own Funds (capital). That expenditure is undertaken with a view to covering costs in the medium term.

During 2023 excess expenditure arose from two main elements:

- Activity directed at increasing new Members and acquiring new premiums, where a large part of the resulting product margins emerge over the longer term (e.g. through future margins, or repeat business). 2023 acquisition expenses exceeded expense allowances from new business written in the year by £1.4m (2022: by £0.6m) and this was funded from capital. The increase in the call on capital mainly reflects a reduction in Lump Sum premiums, partly offset by a £0.2m reduction in acquisition expenses. The Society's analysis of total margins expected over the life of the new business indicates that this is expected to exceed total expenses incurred to acquire and maintain that new business.
- Expenditure on Project Darwin, which completed in December 2023 and undertaken to redesign and improve our core operational systems and processes in order to improve Member experience, reduce risks arising from manual processes and key person dependencies, increase our capacity to process new business and deliver operational efficiencies and cost savings. The Board had approved expenditure of £1.9m to be funded from capital and a reserve for the remaining spend was included in Best Estimate Liabilities. In 2023, the Society spent £0.7m (2022: £0.8m) bringing total expenditure to £1.9m (2022: £1.15m). 2023 Best Estimate Liabilities include a £34k (2022: £0.8m) expense reserve.

Lapse rates are reviewed annually with modest and infrequent variations for all significant Society products.

For most of the Society's products, mortality and morbidity risk is minimal. Reinsurance protection is effected for the larger risks arising under protection policies:

- For life insurance policies (including mortgage protection), there are quota share treaties – for new business 70% is currently reinsured with Gen Re.
- For income protection policies, a quota share of 20% is reinsured with Gen Re. The Society can, and does, review the premium rates charged for this business – including for existing business.
- For critical illness policies underwritten from 2023, a quota share of 75% is reinsured with Gen Re.

Protection policies provide sufficient margins from their premiums to cover their expenses and reinsurance premiums, together with a modest level of fluctuations from net claims experience.

With the exception of the impact of lower premiums on expense allowances, there have been no material changes during 2023. Underwriting Risks account for a minor part of the Society's overall capital requirement. The Society considers such risks as part of its ORSA processes, including an ongoing review cycle of the products on offer and their terms. The Society believes that the Standard Formula is an appropriate way to quantify underwriting risks. The aggregate net (after allowance for the loss-absorbing capacity of technical provisions) solvency capital requirement for such risks as at the end of 2023 (before any allowance for diversification benefit between risk modules) is £1.6m (2022 - £2.5m).

C.2 Market Risk

Market risk is the major risk faced by the Society. The Society considers that its Members expect it to seek the rewards associated with investing in real assets, and it does not seek to mitigate the exposure to market fluctuations other than through reducing interest risk by holding fixed income assets of appropriate duration to match its fixed liabilities and by setting the overall level of asset exposure in its investment strategy. The Society does not hedge currency risk on investments.

Market risk derives from the Society's holdings in corporate bonds and risk assets, which are currently all held through pooled funds, thereby avoiding any significant concentration risk. Risk assets are held via a multi asset fund (investing globally in equities, fixed income, commodities and other assets), four UK property funds and a minor residual holding in an insurance linked securities funds. Risk assets are allocated entirely to the asset shares backing the Society's with-profits contracts.

Fluctuations in asset prices are largely matched by corresponding movements in the asset shares; in the case of corporate bonds the Society's capital is also exposed.

When asset shares fall in value, the cost of future guarantees will rise. Most of this guarantee cost is associated with the AWP products. For such business written since 2013, the only guarantee is that applying on death. However, for all AWP business written up to 31 December 2019 and contributions made to ISA business written on recurrent premiums up to 5th April 2020, the Society would expect to enhance asset shares modestly on surrender claims rather than apply a Market Value Reduction (MVR). This MVR subsidy was removed for ISA business written on recurrent premiums from 6th April 2020 and other new AWP business written from 1 January 2020, but remains in place for AWP business written prior to that date.

The Society has exposure to a well-diversified portfolio of assets through the pooled funds in which it invests, and expects that these assets will perform broadly in line with general market movements. The Society recognises that the allowance for equity price stress to accommodate recent market movements (the symmetric adjustment) only provides limited protection in a falling market – accordingly, it expects its capital coverage to fluctuate with market conditions.

There have been no material changes in market risks during 2023, but the amount of risk assumed increases in line with new business levels and changes in the Society's asset holdings from fund manager tactical allocations. The Society considers such risks as part of its ORSA processes, including an annual review of the products on offer and their terms. The Society believes that the Standard Formula is an appropriate way to quantify its market risks.

The aggregate net (after allowance for the loss-absorbing capacity of technical provisions and loss-absorbing capacity of the deferred tax) solvency capital requirement for such risks as at the end of 2023 (before any allowance for diversification benefit between risk modules) is £9.5m (2022: £8.9m).

In the Society's wider consideration of its capital requirements, it tests and considers the effect of:

- Price stresses significantly greater than those underlying the Standard Formula, and/or
- Price stresses in combination, effectively taking no credit for diversification.

C.3 Credit Risk

Credit risk derives mainly from the Society's holdings in Corporate Bond and Liquidity funds; using pooled funds which have investment constraints that avoid any significant concentration risk. These assets are partly allocated to asset shares with the balance held to meet non-profit liabilities (including the residual constituting own funds). Through the pooled funds, the Society holds a diverse mix of sterling-denominated bonds that are suited to matching its liabilities. The funds held are mainly invested in investment grade stocks with only a small proportion below investment grade or unrated, mitigating the potential default risk.

The Society limits its holdings in cash to investment grade and less than 3% of total assets with any one banking group (5% for the Society's main current account).

The bond fund allocated to asset shares has an average duration of about 6 years. To the extent that the fund fluctuates in value, whether due to market or credit movement, this impacts the liabilities in a similar manner. The remaining bond funds have an average duration of about 2 years and are less sensitive to market movements. This is considered appropriate for the funds backing the Society's capital requirement.

The Society believes that the Standard Formula is an appropriate way to quantify credit risk in relation to the Society's holdings in Corporate Bond and Liquidity funds, and this risk is considered a market risk and contributes to that capital requirement (see Section C.2).

Credit risk also derives from the Society's reinsurance assets which form only a small proportion of its total assets. The Society monitors the credit ratings of the 2 reinsurers, one being AA- and the other AA+. The Society considers such risks as part of its ORSA processes, including an annual review of the products on offer and their terms.

The Society believes that the Standard Formula is an appropriate way to quantify credit risks in relation to its reinsurers and other counterparties.

There have been no material changes in such risks during 2023 and the aggregate net (after allowance for the loss-absorbing capacity of technical provisions) solvency capital requirement for such risks as at the end of 2023 (before any allowance for diversification benefit between risk modules) is £0.7m (2022: £0.5m).

C.4 Liquidity Risk

The amount of credit taken for profit inherent in future premiums is immaterial and is not considered to represent any liquidity risk for the Society.

Liquidity risk is considered minimal as the Society limits its illiquid assets to less than 20% of with-profit assets. At 31 December 2023 with-profit assets considered illiquid for liquidity risk management purposes (in the form of property funds) amounted to 7% of with-profit assets and 6% of total assets. Given the size of The Society's own funds this provides ample assurance that assets could be realised to cover any conceivable run on its funds. The Society does not hold assets with material collateral requirements.

There have been no material changes in liquidity risk during 2023.

C.5 Operational Risk

The Society considers reputational risk to be significant. It adopts a highly risk averse approach to safeguarding policyholder data and cyber risk. Transmission of such data is always encrypted, and in the last year the Society has significantly increased controls from our Security Operations Centre & Event Management and through the independent accreditation of Cyber Essential Plus.

The Society assesses the likely maximum quantitative impact of various risks allowing for the effect of the risk controls that are in place – underwriting (error), human resources, compliance, cyber security, conduct of sales, customer care, supplier risk, systems and controls, and business continuity. The quantitative assessment of operational risk excludes any potential loss of future business from reputational damage. However, the Risk Register does include consideration of potential reputational damage.

The Society holds capital as specified under the Solvency II Standard Formula for operational risks and capital required to cover quantifiable operational risks is in the region of £1.3m, a reduction from £1.9m in 2022 due to the lower volume of lump sum business written in 2023 when compared to 2022. The Society has carried out a separate quantification exercise to confirm that the standard formula continues to be appropriate for assessing its operational risk capital requirement.

C.6 Stress Testing & Scenario Analysis

The Society gives due consideration to the main risk drivers when conducting stress testing. It seeks to have sufficient capital to cover market stresses going beyond the amounts specified in the Standard Formula and quantifies combined adverse price movements in equities and property (and bonds when appropriate).

During the year the Society considered a range of stress test scenarios, including but not limited to business volume and mix stress testing, expense scenarios, higher inflation and lower investment return, climate risk scenarios and reverse stress test scenarios.

C.7 Investment Strategy

The Society's investment strategy provides for an appropriate mix of assets to cover the asset shares backing with-profits contracts and for a risk averse asset mix to cover residual assets, and includes appropriate matching of the duration of its assets to its liabilities. The Society monitors the performance of all its funds, and reports this in regular management information. Such reporting includes monitoring actual versus target asset allocation and proportions held in illiquid assets and in unrated or sub-prime bonds.

The Society additionally seeks to avoid concentration by adopting pooled funds operated by three main investment managers, and reputation is a significant factor in choice of managers. Bond funds (including the liquidity fund) are managed by RLAM. Equity-like "real returns" are derived from a multi-asset fund managed by CTI and property fund holdings with AEW, RLAM and CTI.

In 2023, we instigated a review of our investments and investment managers supported by external consultants, Barnett Waddingham. We completed the investment review in late 2023 and, while our existing Fund Managers have served us well and our investment strategy will remain largely unchanged, most of our non-property fund investments will move to Schroders during 2024.

C.8 Management Actions

To manage the product risk associated with with-profits contracts, the Society adopts various management actions, all of which are modelled in the technical provisions.

- Annual Bonuses are determined taking into account investment performance in the year, current long-term interest rates, and the extent to which an investment risk premium has been achieved; an allowance is then made for expenses and a final bonus.
- Asset mix is assumed to revert towards target levels within each year.
- Charges to asset shares for guarantee costs reflect the recent performance of the with profit fund and will rise when market prices are depressed.
- Final bonuses are allowed for by assuming asset share would be the normal pay-out both for maturity claims, and for surrender and death claims under accumulating with-profits products.
- Market Value Reductions (MVRs) are normally only applied to reduce surrender values below the accumulated sum assured after the Society has met the initial impact of a market fall.
- Other management actions modelled include changes in expense charges in stress scenarios and dynamic policyholder behaviour.

D VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

The valuation of the Society's assets as at 31 December 2023 is shown in Table D.1 below calculated on a Solvency II basis which is used for both solvency purposes and on the UK GAAP basis shown in the report and accounts. The comparative figures for the previous year are also shown in Table D.1.

Table D.1 Assets*

Asset Description	UK GAAP as at 31 December 2023 £m	Solvency II as at 31 December 2023 £m	UK GAAP as at 31 December 2022 £m	Solvency II as at 31 December 2022 £m
Liquidity and Bond Funds	**129.9**	129.9	**122.3**	122.3
Multi-Asset Funds	**130.0**	130.0	**122.0**	122.0
Insurance Linked Security Funds	**0.0**	0.0	**0.0**	0.0
Property Funds	**18.3**	18.3	**18.9**	18.9
Cash	**11.9**	11.9	**9.9**	9.9
Reinsurers' Share of Technical Provisions	**1.1**	1.1	**1.1**	1.1
Tangible and Intangible Assets	**1.8**	0.1	**1.2**	0.1
Insurance Receivables	**0.5**	0.5	**0.2**	0.2
Reinsurance Receivables	**0.3**	0.3	**0.1**	0.1
Other Debtors	**0.6**	0.6	**0.4**	0.4
Deferred Tax Asset	**-**	-	**-**	-
Prepayments and Accrued Income	**2.2**	2.2	**1.8**	1.8
Total Assets	**296.4**	294.6	**277.9**	276.8

** - Table might contain differences due to rounding.*

The main bases for determining the value of assets are as follows.

D.1.1 Investments

Units in unit trusts and other pooled fund vehicles are included at published bid prices or single price for single priced fund. For the AEW UK Core Plus Property Fund and AEW UK Impact Fund the Net Asset Value is used. Prepayments and accrued income include dividends due on an ex-dividend basis and fixed interest and bank deposit interest due on an accruals basis.

D.1.2 Deferred Taxation

The Society recognises a deferred taxation liability in respect of timing differences where there is a reasonable probability that such taxation will become payable or recoverable. A deferred taxation asset is recognised in respect of excess expenses and utilised losses where there is a reasonable probability that such taxation will be recoverable from future taxable profits in the foreseeable future.

The Society has unused excess management expenses and tax losses carried forward of £6.7m (2022: £8.4m) that have no expiry date and Deferred capital gains and other timing differences of £2.7m (2022: £1.2m). No deferred tax asset has been recognised for the net £4.0m (2022: £7.2m) of excess losses at 31 December 2022 or 31 December 2023 as it is not considered probable that such taxation will be recoverable from future taxable profits in the foreseeable future. The value of the net deferred tax asset not recognised at a 20% tax rate is £0.8m (2022: £1.4m).

D.1.3 Tangible and Intangible Assets

Depreciation or amortisation is provided on fixed and intangible assets in order to write off the cost of such assets over their estimated useful lives. The Solvency II balance sheet asset of £0.1m (2022: £0.1m) relates to leasehold premises and depreciated linearly over the outstanding lease term to April 2025 and computer equipment and office fixtures and fittings which are depreciated linearly over the lifetime of the equipment.

The Solvency II and UK GAAP valuation of intangible assets are different at 31 December 2023 and 2022. An intangible asset has been capitalised under UK GAAP in relation to £1.15m of software development expenditure ('Project Darwin') incurred in 2021 and 2022, and a further £0.7m incurred in 2023. The asset is completion in stages and cost of each completed stage is amortised over the estimated useful life of the new software and systems. Amortisation commenced in 2023 and £0.1m was charged in the year (2022: £Nil). Under Solvency II, intangible assets are ascribed a value only when they can be sold separately and when there are quoted prices in an active market for the same or similar assets. This intangible asset does not meet these criteria and so is valued at nil on the Solvency II balance sheet.

D.2 Technical Provisions

The Technical Provisions are determined in line with the regulations set out in Article 77 of the Onshored Solvency II Directive[2] and are equal to the sum of the best estimate liabilities ('BEL') and the risk margin ('RM').

D.2.1 Technical Provisions as at 31 December 2023

Table D.2 below sets out the segmentation of Metfriendly's business into lines of business for Solvency II purposes. All lines of business are written within a single with-profits fund and no products span more than one line of business.

Table D.2 Lines of Business

Metfriendly – Solvency II Lines of Business	
Category	**Description**
Life With-Profits Participation	This includes conventional with-profits savings products and accumulating with-profits products (both tax-exempt and taxable), both legacy business and current product lines. A global reserve held in relation to the remaining one-off IT expenses to be paid in 2024 (Project Darwin) has been allocated entirely to the Life With-Profits Participation line of business on proportionality grounds.
Other Life Insurance	This includes the 5 year non-profit savings plan, the 5 year non-profit guaranteed savings bond and level term, decreasing term and mortgage protection business and accelerated critical illness business.
Health Insurance	This comprises a small amount of income protection business, which is not considered material, and the standalone critical illness business.

[2] https://www.legislation.gov.uk/eudr/2009/138/contents. The risk margin calculation is calculated as set out in calculated is set out in The Insurance and Reinsurance Undertakings (Prudential Requirements) (Risk Margin) Regulations 2023 (https://www.legislation.gov.uk/uksi/2023/1346/made).

The technical provisions as at 31.12.23 for each material line of business are given in table D.3 below.

Table D.3 Solvency II and UK GAAP Provisions

Component (£m)	Line of Business	Technical Provisions as at 31.12.23[1] (£ m)	Technical Provisions as at 31.12.22[1] (£ m)
BEL	Life With-Profits Participation[2]	249.3	234.5
	Other Life Insurance	14.1	12.4
	Health Insurance	0.9	1.2
Risk Margin		0.4	1.5
Total Technical Provisions		264.7	249.6

1. Technical Provisions are gross of reinsurance.
2. Total Technical Provisions for 31 December 2023 for Life With-Profits Participation line of business includes a £0.03m global reserve held in relation to remaining one-off IT expenses to be incurred in 2024 (Project Darwin). The comparative value in the Total Technical Provisions for 31 December 2022 is £0.8m. This has been allocated entirely to the Life With-Profits Participation line of business on proportionality grounds.

On proportionality grounds, Metfriendly has no plans to calculate the risk margin by line of business, only at the fund level. The Society uses the simplification permitted under Guideline 63[3] (which continues to apply in the UK) to apportion the risk margin to its three lines of business, this methodology is unchanged from that used as at 31 December 2022.

D.2.2 Best Estimate Liabilities

The best estimate liabilities are determined as the sum of the mathematical liabilities for the with-profits business and the non-profits protection and savings business. These are determined using a cash flow projection model for all lines of business (with the exception of the income protection business which is calculated outside the model and is not considered a material component of the Society's business, comprising less than 0.3% of the total BEL).

With-profits best estimate liabilities as at 31 December 2023 are taken as the sum of:

- the asset shares as at 31 December 2023; less
- the present value ('PV') of future charges for the cost of guarantees; plus
- the present value of the cost of those guarantees; less
- the present value of any surrender penalties; less
- the present value of mortality charges, where applicable.

The PV of charges for, and costs of, guarantees are determined from the projected monthly cash flows associated with the with-profits insurance contracts, based on the average of 1,000 investment return simulations with due allowance for expected management actions, as described in section C8.

The non-profit best estimate liabilities (with the exception of the small amount of income protection business) are based on a projection of future monthly cashflows, at a policy by policy level, using best estimate experience assumptions for future demographic assumptions.

3 https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/tp_final_document_en.pdfhttps://eiopa.europa.eu/Publications/Guidelines/TP_Final_document_EN.pdf

The model discounts monthly cashflows using the risk-free interest rate term structure as specified by the PRA at the valuation date to calculate the BEL; in accordance with Article 77 of the Onshored Solvency II Directive.

In addition, a global reserve is included in the BEL in relation to remaining one-off IT expenses to be incurred in 2024 (Project Darwin).

Projection Basis

Appendix D.1 sets out the basis and assumptions used to determine Metfriendly's Solvency II Technical Provisions as at 31 December 2023.

Mortality Assumptions

Metfriendly's mortality experience is reviewed annually. For a valuation as at 31 December X, the experience analysis is based on experience over the years X-5 to X-1 and considers both the most recent experience, and a rolling four year average, for each line of protection business. Mortality assumptions are set with reference to standard mortality tables, generated by the Continuous Mortality Investigation ('CMI'). These tables are based on industry wide experience for assured lives. Mortality experience in the year X is also reviewed at a high level to ensure that the findings of the analysis remain reasonable in light of the most recent experience emerging.

Morbidity Assumptions

Metfriendly has limited morbidity experience, and any analysis of its own experience would not be statistically credible. Morbidity assumptions are set with reference to industry wide practice and are based on standard morbidity tables.

Expense Assumptions

Metfriendly takes into account all expenses that will be incurred in servicing its insurance obligations in setting the best estimate assumptions, namely:

- The cost of maintenance expenses associated with existing insurance obligations
- The cost of overhead expenses incurred in managing the Society
- The cost of investment management expenses associated with existing insurance obligations

Metfriendly analyses its expenses annually and apportions the non-acquisition expenses between the with-profits, non-profits savings and protection business.

The best estimate assumptions for maintenance expenses are derived from this analysis and take the form of a percentage of office premium deduction for the savings products (both with-profits and the non-profit guaranteed 5 year savings plan) and a per policy expense assumption for the non-profit guaranteed 5 year savings bond and a different per policy expense assumption for all the non-profit protection lines of business except the income protection, for which an expense assumption of 15% of the ICOP reserve plus 30% of the IBNR is used.

A charge for maintenance expenses is applied to with-profits asset shares as a deduction of 1.0% p.a. (1.0% p.a. as at 31 December 2022) to the investment return achieved by the assets backing the with-profits business. An explicit allowance for fund management charges (AMCs) on the bond, equity and property funds of 0.4% p.a. (0.4% p.a. as at 31 December 2022) is also charged monthly to the projected with-profits asset shares.

These assumptions and charges are netted for tax where appropriate for the with-profits business, with the assumptions for all non-profit business remaining gross of tax.

Future acquisition expenses are not included in the cash flow projections, as only the expenses relating to the future management of the existing insurance obligations need to be considered.

Lapse Assumptions

Milliman carried out the 2023 annual review of Metfriendly's lapse experience, at a policy level. Best estimate lapse assumptions for use in the model to calculate the Solvency II reporting figures are derived from this review. The lapse rates used in the model are assumed to vary with duration in-force, and by product type as appropriate. The lapse rates are determined at a policy level, split by duration for all the business in-force based on the persistency experience of those policies written in the last 10 years for whom the experience is likely to be more relevant.

Reinsurance

As the reinsurance recoverables are treated as an asset, the best estimate liabilities are determined and reported gross of reinsurance in accordance with Article 77 of the Onshored Solvency II Directive. The value of reinsurance recoverables are determined in a manner consistent with that used to calculate the gross best estimate liabilities, using the same model, in line with Article 41 of the Onshored Delegated Acts and are included as a separate asset on the Solvency II balance sheet. This figure includes an adjustment for reinsurer counterparty default in accordance with Article 81 of the Onshored Solvency II Directive.

Tax

Metfriendly currently has significant unrecovered carried forward losses such that it does not expect to pay tax for the foreseeable future. To reflect this the non-profit liabilities have been determined using gross of tax investment income and expense assumptions.

D.2.3 Risk Margin

The formula by which the risk margin is to be calculated is set out in The Insurance and Reinsurance Undertakings (Prudential Requirements) (Risk Margin) Regulations 2023[4]. It is based on the capital that a party taking over the business would need to establish to support the unavoidable risks that are being taken on, known as non-hedgeable risks.

Metfriendly assumes that all market risks are hedgeable, and therefore excludes them from the projected SCR used in the Risk Margin calculation. Metfriendly considers the following to be non-hedgeable risks:

- Insurance Risks:
  - Mortality Risk
  - Expense Risk
  - Lapse Risk
  - Morbidity Risk
  - Catastrophe Risk
- Health Risks:
  - Health Morbidity Risk
  - Health Expense Risk
  - Health Lapse Risk
  - Health Catastrophe Risk
- Counterparty Default Risk
- Operational Risk

The Risk Margin is determined by projecting the Solvency Capital Requirement ('SCR') in respect of the non-hedgeable risks set out above. The SCRs for each non-hedgeable risk, with the exception of operational risk, are projected assuming the initial value of SCR runs off in line with appropriate risk drivers (as set out in table D.4 below), making use of the simplified method permitted under Article 58 of the Onshored Commission Delegated Regulation (EU) 2015/35. This approach is consistent with Method 1 of the Hierarchy of Simplifications outlined in the Solvency II Guidelines[5], which continue to apply in the UK.

[4] https://www.legislation.gov.uk/uksi/2023/1346/made
[5] https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/tp_final_document_en.pdf

The operational risk SCR for the Risk Margin is explicitly recalculated at each future year based on projected BEL and premium cashflows. Table D.4 below sets out the risk drivers that are used to project the future SCR based on the initial values by risk module.

With effect from 31 December 2023 the UK Government enacted the following changes to the calculation to the Risk Margin under Solvency II in the UK:

- A reduction in the cost of capital rate applied to the projected SCR from 6% to 4%, and
- The introduction of a risk tapering factor which is applied to the projected SCR.

These changes have been adopted in the calculation of the Risk Margin as at 31 December 2023.

Table D.4 Risk Drivers

Risk	Risk Module	Capital Requirement (£k) for the reference undertaking as at 31 December 2023	Projection risk driver
Mortality	Life Underwriting	398	Non-profit: Capital at risk in-force on term assurance business (net of reinsurance) With-profits: Asset share in-force
Disability – Morbidity	Life Underwriting	9	Capital at risk in-force on term assurance business (net of reinsurance)
Expenses	Life Underwriting	398	Non-profit: Capital at risk in-force for term assurance business (net of reinsurance) With-profits: Asset share in-force
Lapses	Life Underwriting	800	Non-profit: Capital at risk in-force on term assurance business (net of reinsurance) With-Profits: Asset share in-force
Life Catastrophe	Life Underwriting	82	Capital at risk in-force on term assurance business (net of reinsurance)
Disability – Morbidity	Health (SLT) Underwriting	287	Income Protection: Proportion of income protection policy holders in-force Standalone Critical Illness: Capital at risk in-force on standalone critical illness business (net of reinsurance)
Expenses	Health (SLT) Underwriting	161	Capital at risk in-force on standalone critical illness business (net of reinsurance)
Lapses	Health (SLT) Underwriting	50	Capital at risk in-force on standalone critical illness business (net of reinsurance)
Health Catastrophe	Health Underwriting	19	Proportion of income protection policy holders in-force
Counterparty Default	N/A	666	Asset share in-force
Operational Risk	N/A	505	Formulaic calculation based on projected premiums, technical provisions and Basic SCR. No driver used.

D.2.4 Uncertainty in the Technical Provisions

Asset Shares

The asset shares as at 31 December 2023 as determined by the Society, comprise around 94% of the technical provisions. The Chief Actuary carried out an analysis of the movement in asset shares from 31 December 2022 to 31 December 2023 based on information provided by Metfriendly and compared the results with the relevant entries in the accounts. The asset shares, as part of the technical provisions, are also subject to external audit.

Assumptions

A number of scenarios have been considered to illustrate the impact on technical provisions of certain changes in the underlying demographic and economic assumptions as at the valuation date, to highlight that there is a level of uncertainty when setting these assumptions. The results of these investigations are set out in table D.5 below.

Table D.5 Impact on Technical Provisions of different assumptions

Scenario	Impact on Technical Provisions ("TP")	Impact on Own Funds £m
An increase in risk free rates of 1%	Decrease of £11.4m, 4% of TP	Decrease of £1.9m, 7% of Own Funds
A widening of credit spreads of 1%	Decrease of £9.9m, 4% of TP	Decrease of £3.3m, 12% of Own Funds
An absolute increase of 3% in the underlying implied volatility in the equity investments	Increase of £0.2m, 0.1% of TP	Decrease of £0.2m, 1% of Own Funds
A fall in market value of equities by 20%	Decrease of £7.7m, 3% of TP	Decrease of £1.5m, 6% of Own Funds
A 10% deterioration in the demographic assumptions underlying the valuation of the best estimate liabilities for the non-profit business	Increase of £0.7m, 0.3% of TP	Decrease of £0.4m, 2% of Own Funds

Modelling

Further tests have been carried out to assess the sensitivity of the present value of the cost of, and the charge for, the guarantees if full rather than reduced model points are used, and if 5,000 rather than 1,000 investment return simulations are used. This analysis is performed to highlight the level of uncertainty in attempting to model the complexity of estimated future investment returns. The results of these investigations are set out below and show that the difference is not material for the grouping of model points, or for the comparison between the 5,000 and 1,000 investment return simulations. Hence reduced model points and 1,000 investment return simulations have been used to calculate the best estimate liabilities and in the 1-in-200 stress calculations used to calculate the solvency capital requirement.

Model Points

The cost of guarantees and charges in the base run (i.e. to calculate the best estimate liabilities) using reduced model points ('MP') are compared against a base run using full model points in order to determine the impact of using reduced model points. The results are shown in the tables D.6 and D.7 below.

Table D.6 Comparison of Cost of Guarantees using Full or Reduced Model Points

Comparison of present value of the Cost of Guarantees			
	Reduced MP (£ m)	**Full MP (£ m)**	**Difference (%)**
CWP	0.34	0.34	0.14%
AWP	4.08	4.08	0.07%
Total	4.42	4.42	0.08%

Table D.7 Comparison of Charges for Cost of Guarantees using Full or Reduced Model Points

Comparison of present value of the Charges			
	Reduced MP (£ m)	**Full MP (£ m)**	**Difference (%)**
CWP	0.17	0.17	-0.13%
AWP	4.21	4.21	0.14%
Total	4.38	4.38	0.13%

The differences are considered sufficiently small that results from the reduced model points can be used without adjustment.

Number of Investment Return Simulations

The investment returns are modelled stochastically by using a large number of randomly generated economic scenarios. 1,000 such scenarios are used and to demonstrate that this is sufficiently large the base run using 1,000 scenarios is compared against a run using 5,000 scenarios. The results of this comparison are given in tables D.8 and D.9 below.

Table D.8 Comparison of Cost of Guarantees using 1,000 and 5,000 Scenarios

Comparison of present value of the Cost of Guarantees			
	5,000 scenarios (£m)	1,000 scenarios (£m)	Difference (%)
CWP	0.34	0.34	1.13%
AWP	4.08	4.08	0.06%
Total	4.42	4.42	0.14%

Table D.9 Comparison of Charges for Cost of Guarantees using 1,000 and 5,000 Scenarios

Comparison of present value of the PV Cost of Guarantees Charges			
	5,000 scenarios (£m)	1,000 scenarios (£m)	Difference (%)
CWP	0.17	0.17	-0.20%
AWP	4.21	4.21	0.09%
Total	4.38	4.38	0.08%

The differences are considered sufficiently small that results from the 1,000 rather 5,000 scenarios can be used without adjustment.

Risk Margin

The sensitivity of the risk margin to the variability in the initial amounts of the SCRs to be projected and a parallel upward shift in the risk free interest rate curve have been investigated.

A 1% parallel increase in the risk free interest rate curve slightly decreases the risk margin by £0.02m(£0.1m decrease as at 31 December 2022), from £0.42m to £0.40m.

The risk margin is most sensitive to any changes in the SCR of the reference undertaking, an increase of 10% to all the initial SCRs for the non-hedgeable risks increases the risk margin by 10% (10% as at 31 December 2022) from £0.42m to £0.46m as at 31 December 2023.

D.2.5 Difference in Technical Provisions Reported Under Solvency II and Those Published in the Financial Statements

There are no differences between the technical provisions reported under Solvency II and those published in the financial statements (UK GAAP) as at both 31 December 2023 and 31 December 2022.

Adjustments

As at 31 December 2023 and 31 December 2022, the Society does not make use of any of the following potential adjustments: matching adjustment; volatility adjustment; transitional provisions on the risk-free interest rate term structure; or transitional measures for technical provisions.

D.2.6 Reinsurance Recoverables

The reinsured amounts have been separately calculated in accordance with Article 81 of the Onshored Solvency II Directive. The reinsurance recoverables relate to the non-profit protection business, including the income protection business. The reinsurance recoverables have been determined on a basis consistent with the valuation of the gross liabilities.

D.2.7 Material Changes over the Period

There have been two material changes in assumptions and methodology made in the calculation of the technical provisions as at 31 December 2023 compared to those used as at 31 December 2022.

Tax

In normal economic conditions the tax relief on investment losses and expenses for taxable with-profits business is assumed to be recoverable and is credited to asset shares when deriving the asset share liabilities. For the valuation as at 31 December 2022 Metfriendly determined that the tax losses incurred during 2022 were not recoverable and a manual deduction of £1.2m was included in the technical provisions to unwind the tax relief otherwise credited to the taxable asset shares as at 31 December 2022, offset by a manual increase to the present value of the cost of guarantees (net of charges with respect of those guarantees) of £0.2m due to this additional decrease in taxable asset shares.

During 2023 Metfriendly decided that the impact on taxable asset shares for the unrecovered tax losses during 2022 should not be passed on to policyholders in the form of a deduction to asset shares but be met from the Estate. Consequently, there has been no manual deduction to the technical provisions as at 31 December 2023.

Furthermore, Metfriendly does not expect to pay tax for the foreseeable future and the technical provisions for the non-profit business have been determined using gross of tax investment income and expense assumptions (gross of tax for tax-exempt non-profit business and net of tax on taxable non-profit business as at 31 December 2022).

Risk Margin

The methodology and assumptions used to calculate the risk margin have been updated in line with the methodology and assumption changes set out in D.2.3 above.

D.3 Other Liabilities

The other liabilities as at 31 December 2023 and comparatives as at 31 December 2022 are given in the Table D.10 below.

Table D.10 Other liabilities*

Other Liabilities	UK GAAP as at 31 December 2023 £m	Solvency II as at 31 December 2023 £m	UK GAAP as at 31 December 2022 £m	Solvency II as at 31 December 2022 £m
Insurance and intermediaries payables	**2.0**	2.0	**2.3**	2.3
Deferred Tax Liability	**-**	-	**-**	-
Reinsurance payables	**0.1**	0.1	**0.0**	0.0
Accruals and deferred income	**0.9**	0.9	**0.7**	0.7
Payables (trade not insurance)	**0.5**	0.5	**0.2**	0.2
Pension benefit obligations	**-**	-	**-**	-
Other (all taxation)	**0.1**	0.1	**0.1**	0.1
Total Other Liabilities	**3.6**	**3.6**	**3.4**	**3.4**

** - Table might contain differences due to rounding.*

There are no material differences for the other liabilities above between the valuation basis, methodology and assumptions used for the UK GAAP accounts and those used for the Solvency II balance sheet.

D.4 Alternative Methods for Valuation

The Society does not make use of any alternative valuation methods.

D.5 Any Other Information

There is no further material information regarding the valuation of assets and liabilities.

APPENDIX D.1 – BEST ESTIMATE ASSUMPTIONS

Table D.11 below set out the Solvency II best estimate assumptions as at 31 December 2023 and 31 December 2022 for comparison.

Table D.11 Assumptions for Solvency II Best Estimates

<table>
<tr><th colspan="2">Assumption category</th><th>31/12/2023</th><th>31/12/2022</th></tr>
<tr><td>Discounting</td><td>PRA Solvency II Yield Curve</td><td>1-year rate: 4.735% (0.275% increase)
2-year rate: 4.021% (0.449% decrease)
5-year rate: 3.355% (0.707% decrease)
10-year rate: 3.284% (0.426% decrease)
25-year rate: 3.414% (0.035% decrease)</td><td>1-year rate: 4.460%
2-year rate: 4.470%
5-year rate: 4.062%
10-year rate: 3.710%
25-year rate: 3.449%</td></tr>
<tr><td rowspan="3">Decrements</td><td>Mortality</td><td>80% of standard mortality tables:

AMC/AFC00 for with-profits endowment business, G5YSP and G5YB

TMN/TFN00 for term assurance business (non-smokers)

TMS/TFS00 for term assurance business (smokers)</td><td>80% of standard mortality tables:

AMC/AFC00 for with-profits endowment business and G5YSP

TMN/TFN00 for term assurance business (non-smokers)

TMS/TFS00 for term assurance business (smokers)</td></tr>
<tr><td>Morbidity</td><td>100%/120% of standard morbidity tables (non-smokers/smokers):

CIBT93 M/F with 2% p.a. deterioration rate</td><td>100%/120% of standard morbidity tables (non-smokers/smokers):

CIBT93 M/F with 2% p.a. deterioration rate</td></tr>
<tr><td>Lapses</td><td>Lapse rates assumed for all business. In particular:

Decreasing Term Assurances:
9.0% p.a. year 1-6
6.0% p.a. years 7+

Mortgage Protection Assurances:
10% p.a. years 1-6
8% p.a. years 7+

Level Term Assurances:
4.0% p.a. year 1
2.5% p.a. years 2+

Guaranteed 5 year savings plan:
5.0% p.a. year 1
6.0% p.a. years 2-3
5.5% p.a. year 4
4.5% p.a. final year

Guaranteed 5 year fixed income bond (new for 2023):
0.50% p.a. years 1-5

Table 8: 2.5% p.a.
Table 10: 1.0% p.a.

Table 11:
6.0% p.a. years 1-5</td><td>Lapse rates assumed for all business. In particular:

Decreasing Term Assurances:
9.0% p.a. year 1-6
6.0% p.a. years 7+

Mortgage Protection Assurances:
10% p.a. years 1-6
8% p.a. years 7+

Level Term Assurances:
4.0% p.a. year 1
2.5% p.a. years 2+

Guaranteed 5 year savings plan:
5.0% p.a. year 1
6.0% p.a. year 2
5.5% p.a. year 3
4.5% p.a. year 4
3.5% p.a. final year

Table 8: 2.5% p.a.
Table 10: 1.0% p.a.

Table 11:
6.0% p.a. years 1-5
4.0% p.a. years 6+</td></tr>
</table>

Assumption category	31/12/2023	31/12/2022
	4.0% p.a. years 6+ Tables 21 5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 12: 6.0% p.a. years 1-5 4.0% p.a. years 6+ Tables 15 and 16: 5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 19: 3.0% p.a. year 1 6.0% p.a. years 2-3 8.0% p.a. years 4+ Table 26: 7.0% p.a. Table 25: 10.5% p.a. year 1 15.0% p.a. years 2-6 11.0% p.a. years 7-10 8.0% p.a. years 11+ Table 27: 9.0% p.a. year 1 12.0% p.a. year 2 16.0% p.a. years 3-5 13.0% p.a. years 6-7 9.0% p.a. years 8+ Table 29: 7.5% year 1 15.0% years 2+ Table 32: 10% year 1 15% year 2 17% years 3+ Tables 30 and 33: 2.0% p.a. years 1-3 3.0% p.a. years 4-11 11.0% p.a. years 12-13 6.0% p.a. years 14+ Table 24: 2.0% p.a. year 1	Tables 21 and 22 5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 12: 6.0% p.a. years 1-5 4.0% p.a. years 6+ Tables 15 and 16: 5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 19: 5.0% p.a. year 1 8.0% p.a. years 2-5 5.0% p.a. years 6+ Table 26: 7.0% p.a. Table 25: 10.5% p.a. year 1 15.0% p.a. years 2-6 11.0% p.a. years 7-10 8.0% p.a. years 11+ Table 27: 9.0% p.a. year 1 12.0% p.a. year 2 16.0% p.a. years 3-5 13.0% p.a. years 6-7 9.0% p.a. years 8+ Tables 29 and 32: 7.5% year 1 15.0% years 2+ Tables 30 and 33: 2.0% p.a. years 1-3 3.0% p.a. years 4-11 12.0% p.a. years 12-13 6.0% p.a. years 14+ Table 24: 2.0% p.a. year 1 6.0% p.a. years 2-3 8.0% p.a. years 4-6 6.0% p.a. years 7+ Table 28: 2.0% p.a. years 1-2 6.0% p.a. years 3-6 12.0% p.a. years 7-8 6.0% p.a. years 9+

Assumption category		31/12/2023	31/12/2022
		5.0% p.a. year 2 6.0% p.a. year 3 8.0% p.a. year 4 10.0% p.a. years 5-7 6.0% p.a. years 8+ Table 28: 2.0% p.a. years 1-2 6.0% p.a. years 3-6 11.0% p.a. years 7-8 6.0% p.a. years 9+ Stand-alone critical illness : 14.0% p.a. years 1-2 7.0% p.a. years 3+ Table 31 (Lives Aged 18-34 at Issue): 15.0% p.a. year 1 21.0% p.a. years 2+ Table 31 (Lives Aged 35+ at Issue): 8.5% p.a.	Stand-alone critical illness : 14.0% p.a. years 1-2 7.0% p.a. years 3+ Table 31 (Lives Aged 18-34 at Issue): 15.0% p.a. year 1 21.0% p.a. years 2-3 27.0% p.a. years 4+ Table 31 (Lives Aged 35+ at Issue): 8.5% p.a.
Ex	Per Policy (term assurances)	£42.00 p.a.	£50.00 p.a.
	Per Policy (G5YB)	£43.00 p.a.	N/A – new product in 2023.
	Per Premium (AWP and G5YSP)	5.5%	5.5%
	Investment (With-profits)*	1.00% p.a. of asset share	1.00% p.a. of asset share
	Fund Expenses (AMCs)	0.4% p.a. deduction to investment return	0.4% p.a. deduction to investment return
	Expense Inflation	3.50% p.a.	3.50% p.a.
IP			
IBNR		Premiums (net of 30% for expenses) – 68% for 2023, 52% for 2022, 24% for 2021, 12% for 2020 and 4% for 2019.	Premiums (net of 30% for expenses) – 68% for 2022, 52% for 2021, 24% for 2020, 12% for 2019 and 4% for 2018.
ICOP		Best estimate of claims data, additional 15% for expenses.	Best estimate of claims data, additional 15% for expenses.

E. Capital Management

E.1 Own Funds

The Society's Own Funds arise entirely from historical surpluses which have not been distributed to Members. As such the capital is all Tier 1 and there are no restrictions on the availability of those funds to support the MCR or SCR. The Society expects its Own Funds to remain sufficient to cover the SCR and plans its business accordingly – there is no intention to raise capital by other means.

The Own Funds have been quantified as total assets less technical provisions and other liabilities. This amounted to £26.3m as at 31 December 2023 (£23.8m as at 31 December 2022).

Solvency II Own Funds increased over 2023 by £2.5m (2022: decrease of £5.4m). The material contributory factors to this increase in Own Funds in 2023 were:

- Investment gains, mainly from unrealised gains, on Non-Profits and Own Funds investments;
- A reduction in the Cost of Guarantees from With Profits Asset Share movements related to favourable investment gains on With-Profits investments; a
- The benefit of the reduction in the Risk Margin, including due to changes in regulatory requirements;

partly offset by reductions due to:

- new business strain including the cost of promotional bonuses and acquisition costs in excess of current year expense margins from new business;
- a net increase in best estimate liabilities in relation to changes in valuation interest rates; and
- a net increase in best estimate liabilities in relation to changes in relation to carried forward tax losses.

E.1.1 Reconciliation of UK GAAP fund for future appropriations ("FFA") to Solvency II Own Funds

The FFA in the financial statements represents the surplus in the Society's with-profits fund on a UK GAAP basis for which the allocation between participating policyholders has yet to be determined. The FFA is effectively the net assets on a UK GAAP basis.

The reconciliation below shows the differences between the FFA in the UK GAAP financial statements and the Solvency II Own Funds.

Table E.1 Reconciliation of UK GAAP fund for future appropriations (FFA) to Solvency II Own Funds

31 December (£m)	2023	2022
Fund for future appropriations per UK GAAP financial statements	**28.1**	**24.9**
Adjustments to move to Solvency II valuation basis:		
Adjustments to intangible assets	(1.8)	(1.1)
Total Own Funds under Solvency II	**26.3**	**23.8**

E.2 Solvency Capital Requirement and Minimum Capital Requirement

E.2.1 Solvency Capital Requirement ('SCR') and Minimum Capital Requirement ('MCR')

The SCR and MCR as at 31 December 2023 amount to £11.5m and £3.5m, respectively (comparative figures as at 31 December 2022 were £11.8m and £3.4m). The amount of the SCR split by risk module, before any diversification benefit is applied between risk modules, is shown in Table E.2 below. The values shown are after allowance for the loss-absorbing capacity of technical provisions and loss-absorbing capacity of deferred tax.

Table E.2 SCR by Risk Module before Diversification Benefit

Risk Module		SCR £m as at 31 December 2023	SCR £m as at 31 December 2022
Market Risk		9.5	8.9
Life Insurance Risk		1.2	2.1
Health Insurance Risk		0.4	0.4
Counterparty Risk		0.7	0.5
Operational Risk		1.3	1.9

Metfriendly uses the Standard Formula to determine its Solvency Capital Requirement, it does not make use of any company specific parameters or undertaking specific parameters.

The PRA has granted Metfriendly quarterly reporting exemptions through a Modification by Consent. The Modification Directive is effective from 19 August 2020 and ends on the date that the relevant rule within the directive is revoked, or no longer applicable to the Society.

Table E.3 MCR and MCR biting constraint

Date		SCR £m	MCR £m	Linear MCR biting?
Day 1		7.7*	2.7	Linear MCR
Year End 2022		11.8	3.4	MCR – absolute floor
Year End 2023		11.5	3.5	MCR – absolute floor

* The Day 1 SCR figure has been restated (previously £7.2m) to reflect modelling improvements incorporated as part of the 2016 year-end investigations.

A formulaic cap and floor apply to the calculation of the MCR. [As at 31 December 2023 the absolute floor component of the MCR (€4.0m or £3.5m) was biting (similarly as at 31 December 2022).

The decrease in the SCR during 2023 primarily relates to:

- investment gains in 2023 that have reduced the lapse risk capital requirement (Metfriendly is less exposed to a mass lapse event at 31 December 2023 than it was at the prior year-end);
- changes to the with-profits demographic assumptions with respect to lapse rates; and
- lower capital requirements for new business (from the market and life underwriting risk modules, and calculated formulaically in respect of operational risk) due to lower volumes of new business written during 2023 than 2022.

E.2.2 Simplifications

The following simplifications are used in the standard formula when determining the Society's SCR:

Life Catastrophe SCR

For with-profit business, due to low materiality, the formula simplification for catastrophe risk SCR which is based on the capital-at-risk is applied. This is because the run-time for this stress would be unduly onerous for an immaterial contribution, which is estimated to be of the order of £10k to the overall Life Underwriting SCR.

Income Protection

The income protection business comprises less than 0.3% of the total technical provisions (including the risk margin). The number of policyholders in force has been in a gradual decline for some years. As such, it is considered appropriate, given the nature, scale and complexity of this business to determine the approximate level of capital under the 1-in-200 morbidity stress as 100% of the annual premium for the in force business. This amounts to £0.2m as at 31 December 2023.

Loss Absorbing Capacity of Deferred Tax

The actuarial model used to project the cash flows does not allow for any deferred tax benefit following a market stress. Consequently, a manual reduction is made to the capital requirement to reflect the loss-absorbing capacity of deferred tax up to the value of the existing deferred tax liabilities. Further work to demonstrate to the regulator the recoverability of any increases in deferred tax assets has not been commissioned by Metfriendly, on materiality grounds and given their utilisation is dependent on future investment returns.

The loss-absorbing capacity of deferred tax is determined as the proportion of the asset shock that transmits into guarantee costs for that part of the deferred tax benefit that is deemed to be recoverable. The loss-absorbing capacity of deferred tax amounted to £0.0m as at 31 December 2023.

Smoothing

The impact of smoothing is expected to be neutral in the long term and therefore Metfriendly does not hold any additional capital in respect of smoothing.

E.3 Use of Duration Based Equity Risk Sub-Module

Metfriendly does not use a duration based equity risk sub-module in the calculation of the SCR.

E.4 Internal Model Information

Metfriendly does not use an internal model for determining its SCR.

E.5 Non-Compliance with the MCR or SCR

Metfriendly has a MCR coverage ratio of 754% and an SCR coverage ratio of 229% as at 31 December 2023 and is financially strong. It has complied with the both the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2023 by a large margin.

E.6 Any Other Information

There is no other material information regarding the capital management of Metfriendly.

Metropolitan Police Friendly Society Limited

Solvency and Financial Condition Report

Disclosures

31 December

2023

(Monetary amounts in GBP thousands)

General information

Undertaking name	Metropolitan Police Friendly Society Limited
Undertaking identification code	2138004FK1A956D5KT97
Type of code of undertaking	LEI
Type of undertaking	Life undertakings
Country of authorisation	GB
Language of reporting	en
Reporting reference date	31 December 2023
Currency used for reporting	GBP
Accounting standards	Local GAAP
Method of Calculation of the SCR	Standard formula
Matching adjustment	No use of matching adjustment
Volatility adjustment	No use of volatility adjustment
Transitional measure on the risk-free interest rate	No use of transitional measure on the risk-free interest rate
Transitional measure on technical provisions	No use of transitional measure on technical provisions

List of reported templates

S.02.01.02 - Balance sheet
S.05.01.02 - Premiums, claims and expenses by line of business: Life insurance and reinsurance obligations
S.05.02.01 - Premiums, claims and expenses by country: Life insurance and reinsurance obligations
S.12.01.02 - Life and Health SLT Technical Provisions
S.23.01.01 - Own Funds
S.25.01.21 - Solvency Capital Requirement - for undertakings on Standard Formula
S.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

S.02.01.02

Balance sheet

		Solvency II value
	Assets	C0010
R0030	Intangible assets	0
R0040	Deferred tax assets	0
R0050	Pension benefit surplus	0
R0060	Property, plant & equipment held for own use	55
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	278,080
R0080	*Property (other than for own use)*	0
R0090	*Holdings in related undertakings, including participations*	0
R0100	*Equities*	0
R0110	*Equities - listed*	0
R0120	*Equities - unlisted*	0
R0130	*Bonds*	0
R0140	*Government Bonds*	0
R0150	*Corporate Bonds*	0
R0160	*Structured notes*	0
R0170	*Collateralised securities*	0
R0180	*Collective Investments Undertakings*	278,079
R0190	*Derivatives*	0
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	1
R0220	Assets held for index-linked and unit-linked contracts	0
R0230	Loans and mortgages	0
R0240	*Loans on policies*	0
R0250	*Loans and mortgages to individuals*	0
R0260	*Other loans and mortgages*	0
R0270	Reinsurance recoverables from:	1,067
R0280	*Non-life and health similar to non-life*	0
R0290	*Non-life excluding health*	0
R0300	*Health similar to non-life*	0
R0310	*Life and health similar to life, excluding index-linked and unit-linked*	1,067
R0320	*Health similar to life*	167
R0330	*Life excluding health and index-linked and unit-linked*	900
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	2,416
R0370	Reinsurance receivables	289
R0380	Receivables (trade, not insurance)	570
R0390	Own shares (held directly)	0
R0400	Amounts due in respect of own fund items or initial fund called up but not yet paid in	0
R0410	Cash and cash equivalents	11,923
R0420	Any other assets, not elsewhere shown	230
R0500	**Total assets**	294,630

S.02.01.02

Balance sheet

		Solvency II value
	Liabilities	C0010
R0510	Technical provisions - non-life	0
R0520	*Technical provisions - non-life (excluding health)*	0
R0530	*TP calculated as a whole*	0
R0540	*Best Estimate*	0
R0550	*Risk margin*	0
R0560	*Technical provisions - health (similar to non-life)*	0
R0570	*TP calculated as a whole*	0
R0580	*Best Estimate*	0
R0590	*Risk margin*	0
R0600	Technical provisions - life (excluding index-linked and unit-linked)	264,716
R0610	*Technical provisions - health (similar to life)*	974
R0620	*TP calculated as a whole*	0
R0630	*Best Estimate*	869
R0640	*Risk margin*	105
R0650	*Technical provisions - life (excluding health and index-linked and unit-linked)*	263,742
R0660	*TP calculated as a whole*	0
R0670	*Best Estimate*	263,430
R0680	*Risk margin*	312
R0690	Technical provisions - index-linked and unit-linked	0
R0700	*TP calculated as a whole*	0
R0710	*Best Estimate*	0
R0720	*Risk margin*	0
R0740	Contingent liabilities	0
R0750	Provisions other than technical provisions	0
R0760	Pension benefit obligations	0
R0770	Deposits from reinsurers	0
R0780	Deferred tax liabilities	0
R0790	Derivatives	0
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	2,012
R0830	Reinsurance payables	77
R0840	Payables (trade, not insurance)	471
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in BOF*	0
R0870	*Subordinated liabilities in BOF*	0
R0880	Any other liabilities, not elsewhere shown	1,019
R0900	**Total liabilities**	268,295
R1000	**Excess of assets over liabilities**	26,335

S.05.01.02

Premiums, claims and expenses by line of business: Life insurance and reinsurance obligations

		Line of Business for: life insurance obligations						Life reinsurance obligations		Total
		Health insurance	Insurance with profit participation	Index-linked and unit-linked insurance	Other life insurance	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations	Health reinsurance	Life reinsurance	
		C0210	C0220	C0230	C0240	C0250	C0260	C0270	C0280	C0300
	Premiums written									
R1410	Gross	302	24,814		7,104					32,220
R1420	Reinsurers' share	23	0		270					293
R1500	Net	279	24,814	0	6,834	0	0	0	0	31,927
	Premiums earned									
R1510	Gross	302	24,814		7,104					32,220
R1520	Reinsurers' share	23	0		270					293
R1600	Net	279	24,814	0	6,834	0	0	0	0	31,927
	Claims incurred									
R1610	Gross	-9	25,404		5,579					30,974
R1620	Reinsurers' share	-6	0		418					412
R1700	Net	-3	25,404	0	5,161	0	0	0	0	30,562
	Changes in other technical provisions									
R1710	Gross	0	0		0					0
R1720	Reinsurers' share	0	0		0					0
R1800	Net	0	0	0	0	0	0	0	0	0
R1900	**Expenses incurred**	175	4,908	0	777	0	0	0	0	5,860
R2500	**Other expenses**									
R2600	**Total expenses**									5,860

S.05.02.01

Premiums, claims and expenses by country: Life insurance and reinsurance obligations

		C0150	C0160	C0170	C0180	C0190	C0200	C0210
		Home Country	Top 5 countries (by amount of gross premiums written) - life obligations			Top 5 countries (by amount of gross premiums written) - life obligations		Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	32,220						32,220
R1420	Reinsurers' share	293						293
R1500	Net	31,927						31,927
	Premiums earned							
R1510	Gross	32,220						32,220
R1520	Reinsurers' share	293						293
R1600	Net	31,927						31,927
	Claims incurred							
R1610	Gross	30,974						30,974
R1620	Reinsurers' share	412						412
R1700	Net	30,562						30,562
	Changes in other technical provisions							
R1710	Gross	0						0
R1720	Reinsurers' share	0						0
R1800	Net	0						0
R1900	**Expenses incurred**	5,860						5,860
R2500	**Other expenses**							
R2600	**Total expenses**							5,860

S.12.01.02

Life and Health SLT Technical Provisions

			Index-linked and unit-linked insurance			Other life insurance						Health insurance (direct business)					
		Insurance with profit participation		Contracts without options and guarantees	Contracts with options or guarantees		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to insurance obligation other than health insurance obligations	Accepted reinsurance	Total (Life other than health insurance, including Unit-Linked)		Contracts without options and guarantees	Contracts with options or guarantees	Annuities stemming from non-life insurance contracts and relating to health insurance obligations	Health reinsurance (reinsurance accepted)	Total (Health similar to life insurance)
		C0020	C0030	C0040	C0050	C0060	C0070	C0080	C0090	C0100	C0150	C0160	C0170	C0180	C0190	C0200	C0210
R0010	**Technical provisions calculated as a whole**										0						0
R0020	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default associated to TP calculated as a whole										0						0
	Technical provisions calculated as a sum of BE and RM																
	Best estimate																
R0030	**Gross Best Estimate**	249,281					1,329	12,820			263,430		869				869
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default						900				900		167				167
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	249,281					429	12,820			262,530		702	0			702
R0100	**Risk margin**	248				64					312	105					105
	Amount of the transitional on Technical Provisions																
R0110	Technical Provisions calculated as a whole										0						0
R0120	Best estimate										0						0
R0130	Risk margin										0						0
R0200	**Technical provisions - total**	249,529				14,213					263,742	974					974

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Own Funds

	Basic own funds before deduction for participations in other financial sector as foreseen in article 68 of Delegated Regulation 2015/35	**Total**	**Tier 1 unrestricted**	**Tier 1 restricted**	**Tier 2**	**Tier 3**
		C0010	C0020	C0030	C0040	C0050
R0010	Ordinary share capital (gross of own shares)	0	0		0	
R0030	Share premium account related to ordinary share capital	0	0		0	
R0040	Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings	0	0		0	
R0050	Subordinated mutual member accounts	0		0	0	0
R0070	Surplus funds	28,127	28,127			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-1,792	-1,792			
R0140	Subordinated liabilities	0		0	0	0
R0160	An amount equal to the value of net deferred tax assets	0				0
R0180	Other own fund items approved by the supervisory authority as basic own funds not specified above	0	0	0	0	0
R0220	**Own funds from the financial statements that should not be represented by the reconciliation reserve and do not meet the criteria to be classified as Solvency II own funds**	0				
R0230	**Deductions for participations in financial and credit institutions**	0				
R0290	**Total basic own funds after deductions**	26,335	26,335	0	0	0
	Ancillary own funds					
R0300	Unpaid and uncalled ordinary share capital callable on demand	0				
R0310	Unpaid and uncalled initial funds, members' contributions or the equivalent basic own fund item for mutual and mutual - type undertakings, callable on demand	0				
R0320	Unpaid and uncalled preference shares callable on demand	0				
R0330	A legally binding commitment to subscribe and pay for subordinated liabilities on demand	0				
R0340	Letters of credit and guarantees under Article 96(2) of the Directive 2009/138/EC	0				
R0350	Letters of credit and guarantees other than under Article 96(2) of the Directive 2009/138/EC	0				
R0360	Supplementary members calls under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0370	Supplementary members calls - other than under first subparagraph of Article 96(3) of the Directive 2009/138/EC	0				
R0390	Other ancillary own funds	0				
R0400	**Total ancillary own funds**	0			0	0
	Available and eligible own funds					
R0500	Total available own funds to meet the SCR	26,335	26,335	0	0	0
R0510	Total available own funds to meet the MCR	26,335	26,335	0	0	
R0540	Total eligible own funds to meet the SCR	26,335	26,335	0	0	0
R0550	Total eligible own funds to meet the MCR	26,335	26,335	0	0	
R0580	**SCR**	11,475				
R0600	**MCR**	3,495				
R0620	**Ratio of Eligible own funds to SCR**	229.49%				
R0640	**Ratio of Eligible own funds to MCR**	753.58%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	26,335
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	
R0730	Other basic own fund items	28,127
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-1,792
	Expected profits	
R0770	Expected profits included in future premiums (EPIFP) - Life business	
R0780	Expected profits included in future premiums (EPIFP) - Non- life business	
R0790	**Total Expected profits included in future premiums (EPIFP)**	0

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Solvency Capital Requirement - for undertakings on Standard Formula

		Gross solvency capital requirement	USP	Simplifications
		C0110	C0090	C0120
R0010	Market risk	45,194		
R0020	Counterparty default risk	666		
R0030	Life underwriting risk	10,197	9	
R0040	Health underwriting risk	412	9	
R0050	Non-life underwriting risk	0	9	
R0060	Diversification	-7,403		
R0070	Intangible asset risk	0		
R0100	**Basic Solvency Capital Requirement**	49,066		

USP Key

For life underwriting risk:
1 - Increase in the amount of annuity benefits
9 - None

For health underwriting risk:
1 - Increase in the amount of annuity benefits
2 - Standard deviation for NSLT health premium risk
3 - Standard deviation for NSLT health gross premium risk
4 - Adjustment factor for non-proportional reinsurance
5 - Standard deviation for NSLT health reserve risk
9 - None

For non-life underwriting risk:
4 - Adjustment factor for non-proportional reinsurance
6 - Standard deviation for non-life premium risk
7 - Standard deviation for non-life gross premium risk
8 - Standard deviation for non-life reserve risk
9 - None

	Calculation of Solvency Capital Requirement	C0100
R0130	Operational risk	1,289
R0140	Loss-absorbing capacity of technical provisions	-38,880
R0150	Loss-absorbing capacity of deferred taxes	0
R0160	Capital requirement for business operated in accordance with Art. 4 of Directive 2003/41/EC	0
R0200	**Solvency Capital Requirement excluding capital add-on**	11,475
R0210	Capital add-ons already set	0
R0220	**Solvency capital requirement**	11,475
	Other information on SCR	
R0400	Capital requirement for duration-based equity risk sub-module	0
R0410	Total amount of Notional Solvency Capital Requirements for remaining part	0
R0420	Total amount of Notional Solvency Capital Requirements for ring fenced funds	0
R0430	Total amount of Notional Solvency Capital Requirements for matching adjustment portfolios	0
R0440	Diversification effects due to RFF nSCR aggregation for article 304	0

	Approach to tax rate	C0109
R0590	Approach based on average tax rate	No

	Calculation of loss absorbing capacity of deferred taxes	LAC DT
		C0130
R0640	LAC DT	0
R0650	LAC DT justified by reversion of deferred tax liabilities	0
R0660	LAC DT justified by reference to probable future taxable economic profit	0
R0670	LAC DT justified by carry back, current year	0
R0680	LAC DT justified by carry back, future years	0
R0690	Maximum LAC DT	0

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Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

	Linear formula component for non-life insurance and reinsurance obligations	C0010
R0010	MCR_{NL} Result	0

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance) written premiums in the last 12 months
		C0020	C0030
R0020	Medical expense insurance and proportional reinsurance		
R0030	Income protection insurance and proportional reinsurance		
R0040	Workers' compensation insurance and proportional reinsurance		
R0050	Motor vehicle liability insurance and proportional reinsurance		
R0060	Other motor insurance and proportional reinsurance		
R0070	Marine, aviation and transport insurance and proportional reinsurance		
R0080	Fire and other damage to property insurance and proportional reinsurance		
R0090	General liability insurance and proportional reinsurance		
R0100	Credit and suretyship insurance and proportional reinsurance		
R0110	Legal expenses insurance and proportional reinsurance		
R0120	Assistance and proportional reinsurance		
R0130	Miscellaneous financial loss insurance and proportional reinsurance		
R0140	Non-proportional health reinsurance		
R0150	Non-proportional casualty reinsurance		
R0160	Non-proportional marine, aviation and transport reinsurance		
R0170	Non-proportional property reinsurance		

	Linear formula component for life insurance and reinsurance obligations	C0040
R0200	MCR_{L} Result	-5,353

		Net (of reinsurance/SPV) best estimate and TP calculated as a whole	Net (of reinsurance/SPV) total capital at risk
		C0050	C0060
R0210	Obligations with profit participation - guaranteed benefits	80,240	
R0220	Obligations with profit participation - future discretionary benefits	169,041	
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	15,018	
R0250	Total capital at risk for all life (re)insurance obligations		218,686

	Overall MCR calculation	C0070
R0300	Linear MCR	-5,353
R0310	SCR	11,475
R0320	MCR cap	5,164
R0330	MCR floor	2,869
R0340	Combined MCR	2,869
R0350	Absolute floor of the MCR	3,495
R0400	**Minimum Capital Requirement**	3,495