Solvency and Financial Condition Report 2024
Metropolitan Police Friendly Society Limited

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Abbreviations used in this Report

AFH	Actuarial Function Holder
AWP	Accumulating With-Profits
ARC	Audit, Risk & 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
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
WPAA	With-Profits Advisory Arrangement

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.

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 and a few changes have been made to date to the Solvency II regime as it is applied to the UK. All references to "Solvency II" or "Solvency UK" in this document refer to the Solvency II regime as applicable in the UK and incorporated into the PRA Handbook. The document may include references to articles and guidance of the Solvency II Directive where these remain relevant and applicable to Solvency UK.

2. Business Review

Our long-term strategy is defined by our Vision and Mission, which are underpinned by our Values. Our Vision, Mission and Values really mean something to all our stakeholders and are something that all of us at Metfriendly believe in. Putting our Members at the heart of everything we do is embedded in our strategy.

Our Vision: To be the trusted provider of financial solutions relevant to the Police Family.

Our Vision is about our aspiration, where we want to be. It is enduring, inclusive and idealistic. Over time, the way in which we deliver it will change as we seek to remain relevant in the future. The Vision is underpinned by our Values, which describe how we go about our work and what is important to the Society.

Our 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.

Our Values:

- We treat our Members, team and other stakeholders with courtesy, respect, and professionalism.
- We recognise the unique profession of policing and proudly place Members at the heart of our Society.
- We understand the need to continually improve to meet our Members' current and future needs.
- We strive to get things right first time and, where we don't, we say so and put things right.
- We always act with honesty and integrity.

These phrases encompass the values we uphold and are 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.

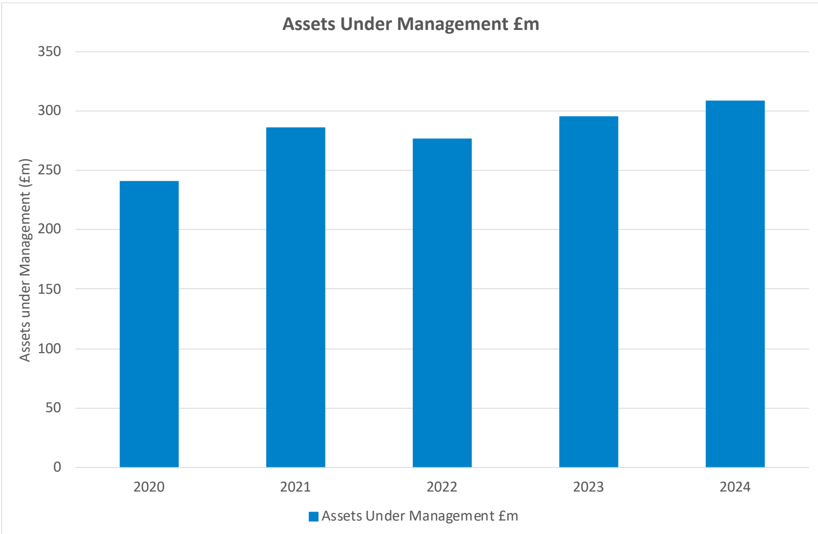
Strategic Objectives and Opportunities

Our strategic focus for several years has been growth, primarily through increased market penetration. Each year, we set objectives so we can monitor our progress. During 2024, we continued to 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 be a focus for us for many years, along with ensuring we position ourselves as a relentless ally of the Police Family.

Review of 2024

2024 was another year of growth for Metfriendly. New and existing Members continued to trust the Society with their investments and protection needs and this enabled it to grow. For the first time in the Society's history, Assets Under Management[1] ("AuM") grew to over £300m (£309m) at the end of the year (2023: £295m) as shown in the graph below.



The £14m increase in AuM in the year (2023: £18m) reflects higher premiums received from Members of £36m (2023: £32m) - these are reported as £26m of Gross Premiums Written (2023: £30m) and £9m of Contributions to Investment Contracts (2023: £2m) - driven by more lump sum new business and another year of positive investment performance that delivered £18m of Investment Income and Gains (2023: £23m). This is partly offset by higher Claims Incurred of £35m (2023: £31m) as more Members realised the benefits of their investments and slightly lower Net Operating Expenses of £5.7m incurred in running the Society (2023: £5.8m).

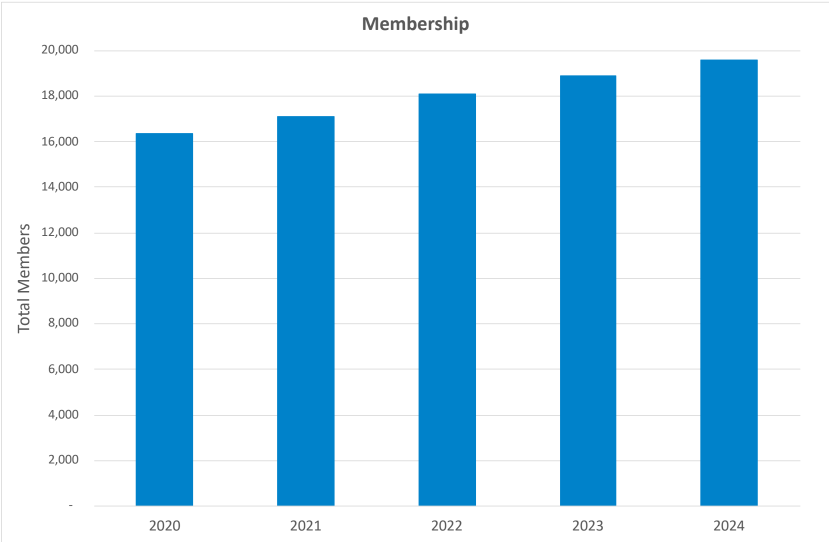
We also grew our membership from 18,916 at the end of 2023 to 19,594 at the end of 2024. We have been able to grow our membership through the Met and beyond. The graph on the next page shows how total membership numbers have steadily increased over the last five years.

As well as AuM and the number of Members, we measure New Business activity using an internal measure, Annual Premium Equivalent (APE), which reflects the relative value of different product sales, as a Key Performance Measure.

APE includes new lump sum investments, new regular and recurrent savings plans, and new protection plans as:

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

[1] Assets Under Management is a Key Performance Measure for the scale of the Society's business and is calculated as total assets, less deferred tax assets and reinsurers' share of technical provisions.

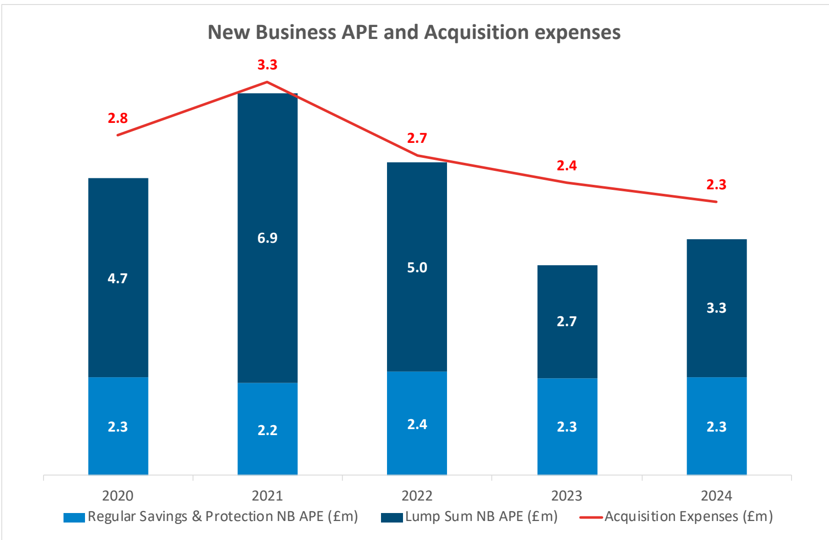


New Business APE was £5.6m in 2024 compared to £5.0m in 2023 (£7.4m in 2022), with the increase mainly due to stronger lump sum investments and in particular the Guaranteed Five Year Fixed-Rate Bond (G5YB) - illustrating that some Members were happy to swap the potential higher returns over the medium to long term from With-Profits investments for a certain return over a shorter, fixed period. The Society achieved this growth whilst also further reducing acquisition expenses incurred to achieve this New Business.

Despite the ongoing financial challenges experienced by many of the Police Family, we were delighted to maintain New Business APE from regular savings and protection business at the same level as 2023.

New Business APE from regular savings grew marginally at £2.2m, with more of the Police Family committing to pursuing and developing positive savings habits. We were particularly pleased with the positive reactions of Members to our Autumn campaign that encouraged them to start saving or increase the amount they saved to help them to achieve their investment goals faster and/or improve their financial resilience. Protection sales also continued at a similar level to 2023, with more than 1,300 Members taking out a new critical illness product in 2024, despite various challenges experienced in Police recruitment.

The following graph illustrates the changes in Lump Sum NB APE, Regular Savings and Protection NB APE, and the Acquisition expenses incurred to achieve that new business over 2020-2024.



2. Develop a culture of continuous change

Following the replacement of our administration system over 2022 and 2023, it was important that we built on that successful delivery by continuing to drive change that delivers great outcomes for our Members.

In addition to a myriad of small changes, often driven by Metfriendly's staff, in 2024 we changed our investment managers, simplified our approach to some of our actuarial work, appointed new external auditors, made various enhancements to certain products, improved straight-through processing rates and modernised our Member annual statements to reflect your feedback.

3. Deliver platforms for growth and lower the cost of acquiring and retaining members

There are two themes that consistently come out of our Members' feedback: "we love that it's a real person who answers the telephone to us" and "send less paper to us". We are committed to keeping the first and have dramatically reduced the second.

Some of our Members prefer to be contacted in paper form and we will continue to do that for them; many others prefer electronic communication, so we have reduced the number of times we post letters and send most of our annual statements by email. Altogether, we sent approximately 31,000 fewer annual statements, AGM packs and administrative letters in 2024 than in 2023. This is on top of the reduction in paperwork we delivered from 2022 to 2023.

Some of our Members faced personal financial challenges in 2024, so we were proud to be contactable when they needed information to help them make important decisions. Our Members know they will not be kept on hold for ages before we answer the phone. In 2024, we answered 96% of Members' calls within 10 seconds.

As shown in the chart on the previous page, in 2024 we increased our NB APE by 12% while also reducing our acquisition expenses. Also, by changing our investment managers, we have reduced our investment expenses by more than £250,000 per year, as well as achieving further savings by agreeing a simpler actuarial valuation modelling approach and completing a tender exercise to appoint a new auditor. The reduction in sending communications by post has also delivered additional savings.

4. Metfriendly remains a great place to work

We know that people who are happy at work and understand how they contribute to delivery of the Society's goals tend to be better at doing so, stay longer and fuel the high satisfaction levels reported by our Members. In our 2024 staff survey, an overwhelming majority said they understood how what they do impacts on the overall Society, and a phenomenal 95% said they were given the tools and support they need to carry out their role to the best of their ability. Of course, there were elements for us to work on, too, which either have been, or are being acted upon.

We trialled a new Employee Forum for our staff to help deliver this and – my goodness – they rose to the challenge! From volunteering in our local community, to fundraising, to quizzes and nights out, they have delivered lots for their colleagues.

5. Be a relentless ally for the UK Police Family, especially in delivering financial peace of mind

This is a part of our DNA and drives all the activities that we undertake to support Members and wider UK Police Family, and to remember those that made the ultimate sacrifice. We have increased our activity across the UK in 2024 and will continue to do so - this strategic priority is a constant for us.

6. Develop a business plan for 2025-2027.

The Society's 2022-24 three-year business plan promised growth for the Society, investment in our infrastructure, greater control on our expense base, and a platform for delivering future growth. The Society's Leadership Team is delighted that our team has delivered on these; they have brought us to a place from which we can build on the firm foundations they have laid.

Our plan for the next three years is to continue our growth journey and to offer across the UK the great support, products and services our Members have enjoyed for so long. We will also evolve our digital offering to those who would prefer to engage with us online and, increasingly, while on-the-move.

All this requires investment, but the work we have done to ensure we are well capitalised and financially strong means we can do this without jeopardising your Society. After significant challenge to ensure this is the case, the Board approved our business plan for 2025-2027 when it was presented in December 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 advice of the With Profits Actuary and her performance is reviewed by 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 2024 to £308.4m as at 31 December 2024, from £294.6m as at 31 December 2023, primarily as investment income and net gains, premiums and contributions received, more than offset claims and expenses.

Global investment markets were impacted by political change, concerns over sticky inflation, the pace of interest rate reductions, and risk of recession in 2024. This resulted in a divergence in returns across asset classes and regions. The Society's diversified investment strategy allowed it to participate in areas of positive performance, such as US (S&P 500 up 27% in GBP) and global equities (up 7% in GBP), while moderating the impact of areas of weaker performance, such as UK Gilts (that lost 4% in 2024). Our strategy performed well in these mixed conditions, delivering a solid 6.0% return on the Society's total investments and cash holdings (2023: 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 £281.2m as at 31 December 2024, from £268.3m as at 31 December 2023, 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 2024 was 252% (2023: 229%) with Own Funds of £27.2m (2023: £26.3m) and a Solvency Capital Requirement (SCR) of £10.8m (2023: £11.5m).

The increase in Own Funds arose primarily as a consequence of investment gains on Own Funds investments, a net decrease in best estimate liabilities in relation to increases in valuation interest rates, partly offset by new business strain, strain from changes to the approach to modelling technical provisions for net cost of guarantees (including the removal of dynamic modelling of charges for those guarantees and annual bonuses), and from zeroising the negative present value of the net cost of guarantees.

The decrease in the SCR during 2024 relates to a reduction in the market risk capital requirement, primarily from changes to the investment portfolio (including a reduction in investment management fees), strong investment returns and higher projected future interest rates and following changes to the cost of guarantee model, all of which make asset shares more resilient to market stresses, and a reduction in the counterparty default risk capital requirement due to a decrease in Type 2 exposures arising from lower accrued investment income, cash holdings and reinsurance exposures.

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 £3.5m (2023: £3.5m). The absolute minimum level continues to be the biting constraint for the Society's Minimum Capital Requirement (MCR) and its MCR at 31 December 2024 is £3.5m (2023: £3.5m). The eligible amount of Own Funds available to cover the MCR is £27.2m (2023: £26.3m), which gives an MCR coverage ratio of 777% (2023: 754%).

The Society continues to be financially strong and has complied with both the MCR and the SCR throughout 2024 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 (Apr 4, 2025 13:03 GMT+1)

By Order of the Board

Name	Graeme McAusland
Title	Chair
Date	4 April 2025

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 firm for external audit purposes" as defined in PRA Rules on External Audit. These Rules define a score based on gross written premiums and best estimate liabilities and require firms to obtain an external audit of relevant elements of their SFCR unless their score for the financial year is less than 100. The Society's score based on its results for the year-ended 31 December 2024 was 14.4, below the limit requiring an external audit.

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 2024.

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 MHA, 6th Floor, 2 London Wall Place, London, EC2Y 5AU. MHA is the trading name of MacIntyre Hudson LLP.

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 include 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 five year savings plan (“G5YSP”) and guaranteed five year fixed rate bond (“G5YB”). 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 2024 the Society had UK GAAP total assets of £309m, 19,594 Members and 39 employees (plus 7 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”), 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 Society’s With-Profits Fund investments.

Metfriendly offers five year regular savings plans with guaranteed returns (G5YSP), 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 G5YSP 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 With-Profits Fund performance.

Since September 2023, Metfriendly has also offered a Guaranteed Five Year Fixed Rate Bond (G5YB) 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, high interest rates, economic and government spending uncertainty, and the ongoing effects of the cost-of-living crisis remains key factors for the Society and its Members in 2025.

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 2024 result analysed by line of business, with Best Estimate Liabilities allocated to each line of business and the Risk Margin attributed to capital.

The 2024 result was an underwriting profit of £0.7m (2023: profit of £3.2m) and arose primarily as a consequence of investment gains on Own Funds investments and a net decrease in best estimate liabilities in relation to increases in valuation interest rates, 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 strain from a net increase in best estimate liabilities in relation to the present value of the net cost of guarantees.

Premiums from AWP business decreased by £3.6m compared to 2023 (2023: decreased by £17.2m), as the cost-of-living crisis impeded some of our Members' ability to invest in Lump Sum premiums and high current interest rates made cash savings more attractive to others.

2024 investment returns were strong but £5.3m lower than 2023 (2023: £50.1m increase), with a strong performance on equities (particularly US equities) moderated by subdued fixed income and UK commercial property returns reflecting ongoing concerns about higher-for-longer interest rates, recession risks, geo-political tension and UK fiscal concerns.

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, increases in risk free rates and other changes.

Table A.1 2024 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 2024 £m**	Total 2023 £m
Net Premiums	19.8	1.5	4.5	0.4	-	**26.2**	29.9
Investment Return	15.4	0.6	0.6	0.1	0.9	**17.6**	22.9
Net Claims	(28.6)	(1.4)	(4.9)	(0.1)	-	**(35.0)**	(30.7)
Expenses	(4.3)	(0.2)	(0.7)	(0.4)	(0.1)	**(5.7)**	(5.9)
Taxation	-	-	-	-	-	**-**	-
Decrease/(Increase) in Net Technical Provisions	(2.4)	(0.6)	0.4	0.2	0.1	**(2.4)**	(13.1)
Total UW Return	**(0.1)**	**(0.1)**	**(0.1)**	**0.2**	**0.9**	**0.7**	3.2

** UW Results are presented on a UK GAAP basis aligned to the Annual Report & Accounts, meaning that Premiums – Other Savings excludes £9.4m (2023: £2.0m) of single premiums written on the Guaranteed Five Year Fixed Rate Bonds, which is accounted for as an Investment Contract under UK GAAP. This has no net impact on UW Performance as there is an offsetting £9.3m (2023: £2.0m) reduction in UW Return from the corresponding Increase in Technical Provisions. The table might contain differences due to rounding. Premiums and claims are shown net of reinsurance.*

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

During 2024, the Society transferred most of its investments into a new investment management agreement with Schroders Investment Management Limited ("Schroders"). The Society has also retained investments in three UK Commercial Property pooled funds and holds cash at bank and on deposit.

Schroders invests the Society's assets in a diversified portfolio of actively traded assets across one with-profits and 3 non-asset share portfolios primarily through pooled funds. Schroders may also enter into equity index futures, government bond futures and foreign currency forward contracts for the purpose of hedging certain risks (in particular, non-GBP foreign currency exposures) and for efficient portfolio management including tactical asset allocation.

Investment management expenses are mainly charged directly to the underlying 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 Society's 2024 investment return is given in the Table A.2 below.

Table A.2 Breakdown of 2024 Investment Return*

Investment Income	Investment Income	Net Realised Gains & Losses	Net Unrealised Gains & Losses	**Total 2024 Investment Return**		Total 2023 Investment Return	
	£m	£m	£m	**£m**	**%**	£m	%
Non-Asset Share Fixed Income Portfolios	1.4	(2.3)	2.5	**1.6**	**3.5%**	3.0	7.5%
With-Profits Public Markets Portfolio	5.7	3.7	5.9	**15.3**	**7.0%**	19.7	9.5%
UK Commercial Property Funds	0.9	0.0	(0.4)	**0.5**	**2.9%**	0.1	0.4%
Insurance Linked Security Funds	-	0.0	(0.0)	**0.0**	**1.1%**	0.0	24.2%
Deposits and Cash	0.2	-	-	**0.2**	**1.6%**	0.1	1.0%
Total	**8.2**	**1.5**	**8.0**	**17.6**	**6.0%**	22.9	8.3%

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

Except for the 3 non-asset share portfolios managed by Schroders, all of the Society's investments are identified to meet Asset Shares of its With Profits business. These With Profits investments returned £16.0m (i.e. investment income, realised gains and unrealised net gains less investment expenses) in 2024, equivalent to an investment return of 6.5% (2023: income of £19.9m, 8.4%).

The Society's non-asset share portfolios comprise primarily of liquidity and bond funds and returned £1.6m in 2024, equivalent to an investment return of 3.5% (2023: £3.0m income, 7.5%).

Investment Income received reduced by £1.3m to £8.2m in 2024, primarily as the Society has invested in accumulation units of Schroders pooled funds whereas it held income units in its previously owned Bond and Multi-Asset funds. Net realised gains & losses increased to £1.5m in 2024, due primarily to gain and losses realised on the transfer to Schroders. Unrealised net gains and losses have reduced £5.4m to £8.0m in 2024, primarily as expectations of higher for longer interest rates and weaker non-US performance moderated market values in 2024.

A.4 Other Factors Affecting Performance

2024 acquisition expenses exceeded expense allowances received from new business written in the year and required a call on capital of £1.3m (2023: call on capital of £1.4m). This was in line with our 2024 Budget and considered an affordable and appropriate investment in growing the business given that total margins from this new business over its life are expected to exceed total expenses from that business.

Project Darwin was completed in late 2023 and there was no expenditure in 2024 (2023: £0.7m). The cumulative Project Darwin expenditure is capitalised under UK GAAP as an intangible asset with a cost of £1.9m (2023: £1.9m) and is being amortised over 15 years with a charge of £0.1m in the year (2022: £Nil); accumulated amortisation at year end is £0.2m (2023: £0.1m). The intangible asset is valued at nil and there is no amortisation expense for Solvency II purposes.

Taxable investment income exceeded allowable expenses during 2024, 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 2023 or 2024, so there is no tax charge for the year (2023: no tax charge for the year).

Technical Provisions attributed to capital reduced by £0.1m in 2024 due to a slight reduction in Risk Margin. Technical Provisions attributed to capital reduced by £1.9m in 2023 due to a £0.7m reduction in the reserve for future expenditure on Project Darwin and a £1.1m reduction in Risk Margin arising from regulatory changes under Statutory Instrument 2024 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 £0.7m in 2024 (2023: increasing by £3.2m) to £28.9m as at 31 December 2024 (2023: £28.1m).

B. SYSTEM OF GOVERNANCE

B.1 System of Governance

B.1.1 Description of the Board and Committees

The Society's Committee 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 Advisory Arrangement ('WPAA'), 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 2024 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 2024

Graeme McAusland (Chair)

Annette Petchey (Chief Executive Officer)

Martin Bellingham (Executive Director)

Robert Dagg (Executive Director)

Paul Grimshare (Executive Director)

Rebecca Hall (Non-Executive Director)

Craig Haslam (Non-Executive Director)

Nicola Hayes (Non-Executive Director)

Katherine Jones[1] (Non-Executive Director)

Emma Richards (Non-Executive Director)

Lee Schöpp (Non-Executive Director & SID)

1. Katherine Jones joined the Board on the 1st of October 2024.

The governance structure of the Committees at December 2024 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	Nicola Hayes	Martin Bellingham	Paul Grimshare
Emma Richards	Graeme McAusland	Rebecca Hall	Craig Haslam
	Annette Petchey		Graeme McAusland
			Lee Schöpp

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 2024

The Board reviewed the Board committee structure in late 2024 and made no changes to it during the year.

A new non-executive director was appointed in October 2024 following a recruitment process led by the Chair of our Remuneration, Nomination & Governance Committee. The successful candidate, as a qualified accountant, enhances the depth of knowledge for our Board and also provides for resilience and succession planning for our future 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 allows 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 2024 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.

In December 2024, the Board approved a recommendation by the Remuneration, Nomination and Governance Committee to implement an additional longer-term bonus arrangement for senior managers (including Executive Directors) with payments to be linked to achieving or exceeding key business targets over the period from 1 January 2025 to 31 December 2027. The terms of the bonus arrangement will be finalised in 2025 and include mechanisms for Board oversight to ensure the arrangement only rewards sustainable growth supported by appropriate behaviours.

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 2024. 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 2024:

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	Annette Petchey – Overseeing administration function for insurance contracts
	Rebecca Hall (WPAA)
(7) the function of effectively running the firm	Graeme McAusland (Chair)
	Lee Schöpp (NED & SID)
	Katherine Jones (NED)
	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.

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 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

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 outsources the majority of its investment management activities to external investment managers.

During 2023, the Society's Investment Committee initiated a periodic review (normally every 5-10 years) of the Society's investment strategy, including reviewing its investment objectives, strategic asset allocation and investment managers The review was led by the CFO, with the support of an external investment consultancy, legal, actuarial and tax advisers, and was overseen by the Investment Committee and approved by the Board.

The culmination of the review was the transfer in August 2024 of management of the Society's c£270m public fixed income and multi-asset investments to Schroders Investment Management Limited, and the appointment of JPMorgan Chase N.A. London Branch as custodian for these investments. These arrangements replaced the Society's previous investments in Royal London Asset Management ("RLAM") pooled bond funds and a Columbia Threadneedle Investments ("CTI") multi-asset pooled fund.

Alongside the Schroders arrangement, the Society has maintained its investment in UK Commercial Property pooled funds managed by AEW UK and CTI. The Society's investment in a RLAM property pooled funds was sold in the year.

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.

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 2024 excess expenditure arose mainly from 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). 2024 acquisition expenses exceeded expense allowances from new business written in the year by £1.3m (2023: by £1.4m) and this was funded from capital. 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.

During 2024 expense charges on in-force business broadly matched maintenance expenses incurred in the year.

There was also no further expenditure on Project Darwin following completion of the project in December 2023. Total Project Darwin expenditure of £1.9m was funded from capital and the Society estimates that net cost savings of £250k have been realised as a consequence of the project over 2023 and 2024.

The Society is also exposed to underwriting lapse risk arising from Members cancelling or surrendering their policies earlier than expected. For with-profits business, the Society targets pay-outs of a 100% of asset shares over the medium term and reserves the right to review final bonuses at any time. Surrender volumes and investment returns are actively monitored, with final bonuses on most of the Society's with-profits business reviewed and updated at least quarterly.

Lapse risks from protection and non-profit savings business are less significant, with protection business risks mitigated through reinsurance and non-profit savings business mitigated through surrender terms.

Lapse rates are reviewed annually with modest and infrequent variations for all significant Society products. The Society annually assesses the impact of changes in lapse rates on new business profitability for its significant product lines.

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.

Except for the higher volume of G5YB premiums underwritten in the year following its launch in December 2023 (2024: £9.4m; 2023: £2.0m), there have been no material changes during 2024.

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 2024 (before any allowance for diversification benefit between risk modules) is £1.7m (2023 - £1.6m).

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.

Most of the Society's investments and all of its liabilities and non-investment assets are denominated in Sterling or effectively hedged to Sterling by the Society's investment managers. The Society holds some non-Sterling equity and other funds that are not hedged as the Society considers the risk to be integral to the nature of assets and a factor contributing to other market risk.

Market risk derives from the Society's holdings in equities, fixed income, commodities and other risk assets that are primarily held through pooled funds, and three UK property funds, thereby avoiding any significant concentration risk. 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 the AWP business written since 2013, the guarantee applies only 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 2024, 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 2024 (before any allowance for diversification benefit between risk modules) is £8.7m (2023: £9.5m).

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 fixed income funds and securities, mainly using liquidity, government and corporate bond pooled funds. The Society has selected these funds with the aim of limiting the proportion of aggregate holdings below investment grade, mitigating the potential default risk, and ensuring the associated credit risk is well diversified, with no material exposure to any one counterparty. Through these pooled funds, the Society holds a diverse mix of fixed income bonds that are suited to matching its liabilities.

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 fixed income investments allocated to asset shares have 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 3 years and are less sensitive to market movements. This is considered appropriate for the funds backing the Society's capital requirement.

Credit risk exposure could also arise from the use of derivative financial instruments within the Society's investment portfolio. However, the residual risk is mitigated by ensuring all futures are exchanged-traded where possible and that other derivative transactions have appropriate margin arrangements and are placed with counterparties that are reviewed and approved as creditworthy by our investment managers.

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 2024 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 2024 (before any allowance for diversification benefit between risk modules) is £0.4m (2023: £0.7m).

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 2024 with-profit assets considered illiquid for liquidity risk management purposes (in the form of property funds) amounted to 8% 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 2024.

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 UK Standard Formula for operational risks and capital required to cover quantifiable operational risks is £1.4m, a slight increase from £1.3m in 2023 due to a slight increase in the volume of lump sum business written in 2024 when compared to 2023. 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 seeks to avoid concentration risks by investing in a diversified portfolio of asset classes, which are primarily held via a range of pooled funds.

Under the new investment management agreement entered into in the year, the Society has authorised Schroders Investment Management Limited to enter into certain derivative transactions on its behalf. This authorisation is limited to equity index futures, government bond futures and foreign currency forward contracts.

These instruments may be entered solely for the purpose of hedging certain risks (in particular, using foreign currency forward contracts to offset non-GBP currency exposures – mainly US Dollar - arising from non-GBP denominated investments) and for efficient portfolio management including tactical asset allocation.

The use of derivatives is not permitted to increase the portfolio's aggregate net market exposure to above 100% of portfolio market value, nor to materially change the long-term risk profile of the portfolio. Futures must be exchange-traded where possible and that other derivative transactions are to be placed with counterparties that are reviewed and approved as creditworthy by Schroders Investment Management Limited.

The Society monitors the performance of all its investments, including derivatives, and reports this in regular management information. Such reporting includes monitoring actual versus target asset allocation, proportions held in illiquid assets and in unrated or sub-investment grade bonds, and significant counterparty concentration exposures.

C.8 Management Actions

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

- Asset mix is assumed to revert towards target levels within each year.
- 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.
- Other management actions modelled in stress scenarios include changes in annual bonuses and expense charges.

D VALUATION FOR SOLVENCY PURPOSES

D.1 Assets

The valuation of the Society's assets as at 31 December 2024 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 2024 £m	Solvency II as at 31 December 2024 £m	UK GAAP as at 31 December 2023 £m	Solvency II as at 31 December 2023 £m
Financial Investment Assets	**297.1**	297.1	**278.1**	278.1
Cash	**9.0**	9.0	**11.9**	11.9
Reinsurers' Share of Technical Provisions	**1.1**	1.1	**1.1**	1.1
Tangible and Intangible Assets	**1.7**	0.0	**1.8**	0.1
Insurance Receivables	**0.1**	0.1	**0.5**	0.5
Reinsurance Receivables	**0.1**	0.1	**0.3**	0.3
Other Debtors	**0.5**	0.5	**0.6**	0.6
Deferred Tax Asset	**-**	-	**-**	-
Prepayments and Accrued Income	**0.5**	0.5	**2.2**	2.2
Total Assets	**310.1**	308.4	**296.4**	294.6

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

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

D.1.1 Investments

The fair value of investments is based on the quoted prices (unadjusted) for identical assets or liabilities in an active market where available, based on market inputs other than quoted prices, or based on an estimate being made of the fair value using a valuation technique. Units in unit trusts and other pooled funds are included at published bid prices or single prices for single-priced funds on the balance sheet date or the last trading day before this date. UK Property pooled fund units are valued at net asset value. The Society's investments in currency forward contracts are determined based on market interest rates and current FX spot rates. 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 £4.8m (2023: £6.7m) that have no expiry date and Deferred capital gains and other timing differences to be taxed in future years of £2.5m (2023: £2.1m). On a UK GAAP basis there is also an accounting deferred tax timing difference arising from the capitalised intangible asset of £0.6m (2023: £0.6m); this does not arise on a Solvency basis as no intangible asset is recognised.

No deferred tax asset has been recognised for the net of excess losses and expenses at 31 December 2023 or 31 December 2024 as the Society's ability to utilise unused tax losses and expenses carried forward to offset future corporation tax payments has been reflected in the valuation of technical liabilities for non-participating business and it is not considered probable that additional taxable profits will arise in the foreseeable future from which residual excess expenses and losses will be recovered.

The value of the net deferred tax asset not recognised at a 20% tax rate on a UK GAAP basis is £0.3m (2023: £0.8m) and on a Solvency basis is £0.5m (2023: £0.9m).

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 £0.05m (2023: £0.06m) 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 2024. An intangible asset has been capitalised under UK GAAP in relation to £1.9m of software development expenditure ('Project Darwin') incurred in 2023 and prior. The asset was completed in stages up to December 2023 and cost of each completed stage is amortised over the estimated useful life of the new software and systems. Amortisation of £0.1m was charged in the year (2023: £0.1m) and accumulated amortisation at the end of the year is £0.2m (2023: £0.1m).

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 the PRA Rulebook's part on Technical Provisions (2. Calculation of Technical Provisions)[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 2024

Table D.2 below sets out the segmentation of Metfriendly's business into lines of business for Solvency UK 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 UK 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.
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.prarulebook.co.uk/pra-rules/technical-provisions/

The technical provisions as at 31.12.24 for each material line of business are given in table D.3 below.

Table D.3 Solvency UK and UK GAAP Provisions

Component	Line of Business	Technical Provisions as at 31.12.24[1] (£m)	Technical Provisions as at 31.12.23 (£m)
BEL	Life With-Profits Participation[2]	252.3	249.3
	Other Life Insurance	23.1	14.1
	Health Insurance	0.7	0.9
Risk Margin		0.4	0.4
Total Technical Provisions		276.4	264.7

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 2024 is nil. 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 31 December 2023.

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 and the present value of the cost of guarantees for the with-profits business).

For the valuation as at 31 December 2024, the present value of the cost of guarantees is determined using a Black Scholes closed form spreadsheet model which is described in more detail in D.2.7. The present value of the net cost of guarantees (being the present value of the cost of guarantees less the present value of the charges for guarantees) was a negative liability (i.e. an asset) as at 31 December 2024, which has been set to zero as the Society would expect to reduce its charges for guarantees if they are expected to materially exceed the cost. The present value of the cost of guarantees amounted to £2.2m as at 31 December 2024, 0.74% of the BEL, before zeroisation of the negative present value of net cost of guarantees.

The income protection BEL 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 2024 are taken as the sum of:

- the asset shares as at 31 December 2024; 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; plus
- an additional liability to the zeroize of the present value of the net cost of guarantees (£1.5m).

The PV of charges for the cost of guarantees is determined from the projected monthly cash flows associated with the with-profits insurance contracts, discounted at the risk free interest rate. The charge for the cost of guarantee remains equal to the charge currently applied to asset shares throughout the projection period, although as noted above the PV of the net cost of guarantees has been zeroised in this valuation to ensure we do not take credit for future charges that exceed the expected cost.

The non-profit best estimate liabilities (apart from 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.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 the PRA Rulebook's part on Technical Provisions (2. Calculation of Technical Provisions).

Projection Basis

Appendix D.1 sets out the basis and assumptions used to determine Metfriendly's Solvency UK Technical Provisions as at 31 December 2024.

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 2023) 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 0.25% p.a. (0.4% p.a. as at 31 December 2023) 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 2024 annual review of Metfriendly's lapse experience, at a policy level. Best estimate lapse assumptions for use in the model to calculate the Solvency UK 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 the PRA Rulebook's part on Technical Provisions (2. Calculation of Technical Provisions). 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 the PRA Rulebook's part on Technical Provisions – Further Requirements (23. Recoverables from Reinsurance Contracts and SPVS – General Provisions) and are included as a separate asset on the Solvency UK balance sheet. This figure includes an adjustment for reinsurer counterparty default in accordance with the PRA Rulebook's part on Technical Provisions – Further Requirements (24. Counterparty Default Adjustment).

Tax

Metfriendly currently has significant unrecovered carried forward tax losses such that it can generate significant future taxable excess profits and not pay tax on those profits. To reflect this the non-profit liabilities have been determined using gross of tax investment income and expense assumptions. Work has been undertaken to confirm the carried forward tax losses are expected to be sufficient to cover the impact of determining the non-profit liabilities in this way.

D.2.3 Risk Margin

The formula by which the risk margin is to be calculated is set out in the PRA Rulebook's part on Technical Provisions (4A. Calculation of the Risk Margin)[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 SS8/24 – Solvency II: Calculation of technical provisions[5]. This approach is consistent with Method 1 of the Hierarchy of Simplifications outlined in the Solvency II Guidelines[6], which continue to apply in the UK.

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.

[4] https://www.legislation.gov.uk/uksi/2023/1346/made
[5] https://www.bankofengland.co.uk/prudential-regulation/publication/2024/november/solvency-ii-calculation-of-technical-provisions-ss
[6] https://www.eiopa.europa.eu/sites/default/files/publications/eiopa_guidelines/tp_final_document_en.pdf

Table D.4 Risk Drivers

Risk	Risk Module	Capital Requirement (£k) for the reference undertaking as at 31 December 2024	Projection risk driver
Mortality	Life Underwriting	284	Non-profit: Capital at risk in-force on term assurance business (net of reinsurance) With-profits: Asset share in-force
Disability – Morbidity	Life Underwriting	8	Capital at risk in-force on term assurance business (net of reinsurance)
Expenses	Life Underwriting	245	Non-profit: Capital at risk in-force for term assurance business (net of reinsurance) With-profits: Asset share in-force
Lapses	Life Underwriting	967	Non-profit: Capital at risk in-force on term assurance business (net of reinsurance) With-Profits: Asset share in-force
Life Catastrophe	Life Underwriting	77	Capital at risk in-force on term assurance business (net of reinsurance)
Disability – Morbidity	Health (SLT) Underwriting	314	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	201	Capital at risk in-force on standalone critical illness business (net of reinsurance)
Lapses	Health (SLT) Underwriting	54	Capital at risk in-force on standalone critical illness business (net of reinsurance)
Health Catastrophe	Health Underwriting	18	Proportion of income protection policy holders in-force
Counterparty Default	N/A	380	Asset share in-force
Operational Risk	N/A	462	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 2024 as determined by the Society, comprise around 91% of the technical provisions. The Chief Actuary carried out an analysis of the movement in asset shares from 31 December 2023 to 31 December 2024 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
An increase in risk free rates of 1%	Decrease of £9.7m, 3% of TP	Decrease of £1.2m, 5% of Own Funds
A widening of credit spreads of 1%	Decrease of £8.5m, 3% of TP	Decrease of £2.4m, 9% of Own Funds
An absolute increase of 3% in the underlying implied volatility in the equity investments	Increase of £0.3m, 0.1% of TP	Decrease of £0.3m, 1% of Own Funds
A fall in market value of equities by 20%	Decrease of £12.7m, 5% 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 £0.5m, 2% of Own Funds

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 decreases the risk margin slightly by £0.02m (also a £0.02m decrease as at 31 December 2023), from £0.36m to £0.34m.

The risk margin is most sensitive to any changes in the SCR of the reference undertaking, with an increase of 10% to all the initial SCRs for the non-hedgeable risks increasing the risk margin by 10% (also 10% as at 31 December 2023) from £0.36m to £0.39m as at 31 December 2024.

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

There are no differences between the technical provisions reported under Solvency UK and those published in the financial statements (UK GAAP) as at both 31 December 2024 and 31 December 2023.

Adjustments

As at 31 December 2024 and 31 December 2023, 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 the PRA Rulebook's part on Technical Provisions – Further Requirements (24. Counterparty Default Adjustment). 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 has been one material change in methodology for the calculation of the technical provisions as at 31 December 2024 compared to that which was used as at 31 December 2023.

For the Solvency UK valuation as at 31 December 2023, the present value of the charges for, and costs of, guarantees for with-profits business were determined from projected cash flows based on the mean of 1,000 investment return simulations[7] with due allowance for relevant management actions, using model points reflecting groups of policies.

[7] The investment return simulations were produced by an Economic Scenario Generator ("ESG") calibrated to market data such as risk-free interest rates and volatilities for different asset classes (e.g. bonds, equities, property).

A simplified modelling approach has been implemented for the valuation as at 31 December 2024, where the calculation of the present value of the costs of guarantees of the with-profits business have been determined using a Black Scholes closed form model.

The existing model has been retained for calculating the present value of the guarantee charges and other Best Estimate Liabilities ("BEL") items for the with-profits business, using a single economic scenario based on the risk free interest rates, rather than the mean of 1,000 economic scenarios.

The updated methodology also included the removal of two dynamic management actions previously modelled:

- Annual bonuses are fixed throughout the projection period in the base projection and each stress scenario projection. The annual bonus levels used in the base scenario have been adopted in all stress scenarios, except for the interest rate up and down stresses, where fixed annual bonuses supportable in these higher and lower interest rate environments have been assumed.
- Charges for cost of guarantees remain fixed throughout the base projection and each stress scenario, whereas previously the modelled charges reflected the recent performance of the with profit fund and increased when market prices are depressed. An appropriate fixed charge level for each stress scenario is investigated. The base projection charge has also been used for each stress scenario in this valuation.

D.3 Other Liabilities

The other liabilities as at 31 December 2024 and comparatives as at 31 December 2023 are given in the Table D.6 below.

Table D.6 Other liabilities*

Other Liabilities	UK GAAP as at 31 December 2024 £m	Solvency II as at 31 December 2024 £m	UK GAAP as at 31 December 2023 £m	Solvency II as at 31 December 2023 £m
Insurance and intermediaries payables	**2.2**	2.2	**2.0**	2.0
Derivative Liability	**1.3**	1.3	**-**	-
Deferred Tax Liability	**-**	-	**-**	-
Reinsurance payables	**0.1**	0.1	**0.1**	0.1
Accruals and deferred income	**0.9**	0.9	**0.9**	0.9
Payables (trade not insurance)	**0.2**	0.2	**0.5**	0.5
Other (all taxation)	**0.1**	0.1	**0.1**	0.1
Total Other Liabilities	**4.8**	**4.8**	**3.6**	**3.6**

** - 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

The Derivative Liability is the aggregate value of futures and foreign currency forward contracts held with a fair market value that is a liability as at the balance sheet date.

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

APPENDIX D.1 – BEST ESTIMATE ASSUMPTIONS

Table D.7 below set out the Solvency UK best estimate assumptions as at 31 December 2024 and 31 December 2023 for comparison.

Table D.7 Assumptions for Solvency UK Best Estimates

<table>
<tr><th colspan="2">Assumption category</th><th>31/12/2024</th><th>31/12/2023</th></tr>
<tr><td>Discounting</td><td>PRA Solvency UK Yield Curve</td><td>1-year rate: 4.457% (0.278% decrease)
2-year rate: 4.263% (0.242% increase)
5-year rate: 4.038% (0.683% increase)
10-year rate: 4.072% (0.788% increase)
25-year rate: 4.296% (0.882% increase)</td><td>1-year rate: 4.735%
2-year rate: 4.021%
5-year rate: 3.355%
10-year rate: 3.284%
25-year rate: 3.414%</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, G5YSP and G5YB

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. years 1-6
6.0% p.a. years 7+

Mortgage Protection Assurances:
10.0% p.a. years 1-6
8.0% 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
6.5% p.a. years 3-4
5.5% p.a. final year

Guaranteed 5 year fixed income bond:
0.5% p.a. years 1-5

Table 8:
2.5% p.a. years 1-10
3.5% p.a. years 11+

Table 10:
1.0% p.a.</td><td>Lapse rates assumed for all business. In particular:

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

Mortgage Protection Assurances:
10.0% p.a. years 1-6
8.0% 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:
0.5% p.a. years 1-5

Table 8:
2.5% p.a.

Table 10:
1.0% p.a.</td></tr>
</table>

Assumption category		31/12/2024	31/12/2023
		Table 11: 7.0% p.a. years 1-5 5.0% p.a. years 6+ Table 21 5.0% p.a. years 1-5 3.0% p.a. years 6+ Table 12: 7.0% p.a. years 1-5 5.0% p.a. years 6+ Table 15: 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 7.0% p.a. year 4 12.0% p.a. year 5 10.0% p.a. year 6 9.0% p.a. year 7 8.0% p.a. years 8+ 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 2-4 16.0% p.a. years 5-6 15.0% p.a. years 7+ Table 32: 13.0% p.a. year 1 17.0% p.a. years 2+ Tables 30 and 33: 2.0% p.a. years 1-2	Table 11: 6.0% p.a. years 1-5 4.0% p.a. years 6+ 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: 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: 10.0% p.a. year 1 15.0% p.a. year 2 17.0% p.a. years 3+ Tables 30 and 33: 2.0% p.a. years 1-3

Assumption category		31/12/2024	31/12/2023
		3.0% p.a. years 3-11 11.0% p.a. years 12-13 7.0% p.a. years 14+ Table 24: 2.0% p.a. year 1 6.0% p.a. years 2-3 8.0% p.a. year 4 14.0% p.a. year 5 15.0% p.a. year 6 14.0% p.a. year 7 12.0% p.a. year 8 7.0% p.a. years 9+ Table 28: 2.0% p.a. years 1-2 6.0% p.a. years 3-6 11.0% p.a. years 7-8 7.0% 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): 16.0% p.a. year 1 20.0% p.a. year 2 21.0% p.a. year 3 20.0% p.a. years 4+ Table 31 (Lives Aged 35+ at Issue): 8.5% p.a. year 1 9.5% p.a. year 2 8.5% p.a. years 3-4 6.0% p.a. years 5+	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 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.
Exp	Per Policy (term assurances)	£42.00 p.a.	£42.00 p.a.
	Per Policy (G5YB)	£43.00 p.a.	£43.00 p.a.
	Per Premium (CWP, and G5YSP)	5.50% p.a.	5.50% p.a.
	Per Premium MS ISA Mk1	2.25% p.a.	2.25% p.a.
	Per Asset Share (with-profits)	1.00% p.a. of asset share	1.00% p.a. of asset share
	Fund Expenses (AMCs)	0.25% p.a. deduction to investment return	0.40% p.a. deduction to investment return
	Expense Inflation	3.50% p.a.	3.50%
IP			
IBNR		Premiums (net of 30% for expenses) – 68% for 2024, 52% for 2023, 24% for 2022, 12% for 2021 and 4% for 2020.	Premiums (net of 30% for expenses) – 68% for 2023, 52% for 2022, 24% for 2021, 12% for 2020 and 4% for 2019.
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 £27.2m as at 31 December 2024 (£26.3m as at 31 December 2023).

Solvency UK Own Funds increased over 2024 by £0.9m (2023: increase of £2.6m). The material contributory factors to this increase in Own Funds in 2024 were:

- Investment gains on Non-Profits and Own Funds investments;
- A net decrease in best estimate liabilities in relation to changes in valuation interest rates;

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;
- zeroising the negative present value of the net cost of guarantees;
- strain from removing dynamic management actions from the calculation of the technical provisions and moving to the Black Scholes model.

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

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

31 December (£m)	2024	2023
Fund for future appropriations per UK GAAP financial statements	28.9	28.1
Adjustments to move to Solvency UK valuation basis:		
Adjustments relating to intangible assets	(1.7)	(1.8)
Total Own Funds under Solvency UK	27.2	26.3

The change in the adjustments relating to intangible assets between 2023 and 2024 relates to £0.1m amortisation charged in the UK GAAP financial statements in 2024.

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 2024 amount to £10.8m and £3.5m, respectively (comparative figures as at 31 December 2023 were £11.5m and £3.5m). 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 2024	SCR £m as at 31 December 2023
Market Risk	8.7	9.5
Life Insurance Risk	1.2	1.2
Health Insurance Risk	0.5	0.4
Counterparty Risk	0.4	0.7
Operational Risk	1.4	1.3

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 Direction under section 138A of FSMA. The Direction is effective from 31 December 2024, until revoked or the requirements cease to apply to the Society. This replaced an equivalent Modification Directive effective from 19 August 2020 until 31 December 2024.

Table E.3 MCR and MCR biting constraint

Date	SCR £m	MCR £m	MCR biting constraint
Year End 2023	11.5	3.5	MCR – absolute floor
Year End 2024	10.8	3.5	MCR – absolute floor

A formulaic cap and floor apply to the calculation of the MCR. As at 31 December 2024 the absolute floor component of the MCR (£3.5m) was biting (similarly as at 31 December 2023).

The decrease in the SCR during 2024 relates to:

- A reduction in the market risk capital requirement, primarily arising from the assets backing the with-profits business following changes to the cost of guarantee model, and changes to assumptions (e.g. reduction to investment management fees), strong investment returns in 2024 and higher projected future interest rates, all of which make asset shares more resilient to market stresses; and

- A reduction in the counterparty default risk capital requirement, due to a decrease in Type 2 exposures (lower accrued investment income), lower cash holdings and lower reinsurance exposures as at 31 December 2024.

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 a result, 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 2024.

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 2024.

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 777% and an SCR coverage ratio of 252% as at 31 December 2024 and is financially strong. It has complied with the both the Minimum Capital Requirement and the Solvency Capital Requirement throughout 2024 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

2024

(Monetary amounts in GBP thousands)

General information

Entity name	Metropolitan Police Friendly Society Limited
Entity identification code and type of code	LEI/2138004FK1A956D5KT97
Type of undertaking	Life undertakings
Country of incorporation	GB
Language of reporting	en
Reporting reference date	31 December 2024
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

-

IR.02.01.02 - Balance sheet

IR.05.02.01 - Premiums, claims and expenses by country: Life insurance and reinsurance obligations

IR.05.03.02 - Life income and expenditure

IR.12.01.02 - Life technical provisions

IR.23.01.01 - Own Funds

IR.25.04.21 - Solvency Capital Requirement

IR.28.01.01 - Minimum Capital Requirement - Only life or only non-life insurance or reinsurance activity

IR.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	45
R0070	Investments (other than assets held for index-linked and unit-linked contracts)	297,116
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*	294,662
R0190	*Derivatives*	111
R0200	*Deposits other than cash equivalents*	0
R0210	*Other investments*	2,343
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:	1,028
R0280	*Non-life and health similar to non-life*	0
R0315	*Life and health similar to life, excluding index-linked and unit-linked*	1,028
R0340	*Life index-linked and unit-linked*	0
R0350	Deposits to cedants	0
R0360	Insurance and intermediaries receivables	101
R0370	Reinsurance receivables	87
R0380	Receivables (trade, not insurance)	539
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	8,979
R0420	Any other assets, not elsewhere shown	481
R0500	**Total assets**	308,376

	Liabilities	Solvency II value
		C0010
R0505	Technical provisions - total	276,419
R0510	*Technical provisions - non-life*	0
R0515	*Technical provisions - life*	276,419
R0542	Best estimate - total	276,060
R0544	*Best estimate - non-life*	0
R0546	*Best estimate - life*	276,060
R0552	Risk margin - total	359
R0554	*Risk margin - non-life*	0
R0556	*Risk margin - life*	359
R0565	Transitional (TMTP) - life	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	1,331
R0800	Debts owed to credit institutions	0
R0810	Financial liabilities other than debts owed to credit institutions	0
R0820	Insurance & intermediaries payables	2,197
R0830	Reinsurance payables	95
R0840	Payables (trade, not insurance)	290
R0850	Subordinated liabilities	0
R0860	*Subordinated liabilities not in Basic Own Funds*	0
R0870	*Subordinated liabilities in Basic Own Funds*	0
R0880	Any other liabilities, not elsewhere shown	856
R0900	**Total liabilities**	281,188
R1000	**Excess of assets over liabilities**	27,188

IR.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					Total Top 5 and home country
R1400								
		C0220	C0230	C0240	C0250	C0260	C0270	C0280
	Premiums written							
R1410	Gross	35,848						35,848
R1420	Reinsurers' share	328						328
R1500	Net	35,520						35,520
	Premiums earned							
R1510	Gross	35,848						35,848
R1520	Reinsurers' share	328						328
R1600	Net	35,520						35,520
	Claims incurred							
R1610	Gross	35,024						35,024
R1620	Reinsurers' share	104						104
R1700	Net	34,920						34,920
R1900	**Net expenses incurred**	5,657						5,657

IR.05.03.02

Life income and expenditure

		Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Premiums written							
R0010	*Gross direct business*	21,198	0	0	0	14,297	352	35,848
R0020	*Gross reinsurance accepted*	0	0	0	0	0	0	0
R0030	Gross	21,198	0	0	0	14,297	352	35,848
R0040	*Reinsurers' share*	0	0	0	0	233	94	328
R0050	Net	21,198	0	0	0	14,064	258	35,520
	Claims incurred							
R0110	*Gross direct business*	30,028	0	0	0	4,989	8	35,024
R0120	*Gross reinsurance accepted*	0	0	0	0	0	0	0
R0130	Gross	30,028	0	0	0	4,989	8	35,024
R0140	Reinsurers' share	0	0	0	0	99	5	104
R0150	Net	30,028	0	0	0	4,890	3	34,920
	Expenses incurred							
R0160	*Gross direct business*	4,625	0	0	0	833	199	5,657
R0170	*Gross reinsurance accepted*	0	0	0	0	0	0	0
R0180	Gross	4,625	0	0	0	833	199	5,657
R0190	Reinsurers' share	0	0	0	0	0	0	0
R0200	Net	4,625	0	0	0	833	199	5,657
R0300	Other expenses							0
	Transfers and dividends							
R0440	Dividends paid							0

IR.12.01.02
Life technical provisions

		Insurance with profit participation	Index-linked and unit-linked insurance	Life annuities	Non-life annuities	Other life insurance	Health insurance	Total life and health
		C0010	C0020	C0030	C0040	C0050	C0060	C0070
	Best estimate							
R0025	Gross Best Estimate (direct business)	252,314				23,055	692	276,060
R0026	Gross Best Estimate (reinsurance accepted)							0
R0030	**Gross Best Estimate**	252,314	0	0	0	23,055	692	276,060
R0080	Total Recoverables from reinsurance/SPV and Finite Re after the adjustment for expected losses due to counterparty default					845	184	1,028
R0090	Best estimate minus recoverables from reinsurance/SPV and Finite Re	252,314	0	0	0	22,210	508	275,032
R0100	**Risk margin**	216				45	98	359
	Amount of the transitional on Technical Provisions							
R0140	TMTP - risk margin							0
R0150	TMTP - best estimate dynamic component							0
R0160	TMTP - best estimate static component							0
R0170	TMTP - amortisation adjustment							0
R0180	**Transitional Measure on Technical Provisions**	0	0	0	0	0	0	0
R0200	**Technical provisions - total**	252,530	0	0	0	23,100	790	276,419

IR.23.01.01

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	28,860	28,860			
R0090	Preference shares	0		0	0	0
R0110	Share premium account related to preference shares	0		0	0	0
R0130	Reconciliation reserve	-1,672	-1,672			
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				
R0290	**Total basic own funds after deductions**	27,188	27,188	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	0				
R0350	Letters of credit and guarantees other	0				
R0360	Supplementary members calls	0				
R0370	Supplementary members calls - other	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	27,188	27,188	0	0	0
R0510	Total available own funds to meet the MCR	27,188	27,188	0	0	
R0540	Total eligible own funds to meet the SCR	27,188	27,188	0	0	0
R0550	Total eligible own funds to meet the MCR	27,188	27,188	0	0	
R0580	**SCR**	10,798				
R0600	**MCR**	3,500				
R0620	**Ratio of Eligible own funds to SCR**	251.78%				
R0640	**Ratio of Eligible own funds to MCR**	776.80%				

	Reconcilliation reserve	C0060
R0700	Excess of assets over liabilities	27,188
R0710	Own shares (held directly and indirectly)	0
R0720	Foreseeable dividends, distributions and charges	0
R0725	Deductions for participations in financial and credit institutions	0
R0730	Other basic own fund items	28,860
R0740	Adjustment for restricted own fund items in respect of matching adjustment portfolios and ring fenced funds	0
R0760	**Reconciliation reserve**	-1,672

IR.25.04.21

Solvency Capital Requirement

Net of loss absorbing capacity of technical provisions

		C0010
	Market risk	
R0070	Interest rate risk	2,172
R0080	Equity risk	3,719
R0090	Property risk	500
R0100	Spread risk	4,405
R0110	Concentration risk	0
R0120	Currency risk	1,288
R0125	Other market risk	
R0130	Diversification within market risk	-3,345
R0140	**Total Market risk**	8,740
	Counterparty default risk	
R0150	Type 1 exposures	238
R0160	Type 2 exposures	168
R0165	Other counterparty risk	
R0170	Diversification within counterparty default risk	-25
R0180	**Total Counterparty default risk**	380
	Life underwriting risk	
R0190	Mortality risk	284
R0200	Longevity risk	0
R0210	Disability-Morbidity risk	8
R0220	Life-expense risk	245
R0230	Revision risk	0
R0240	Lapse risk	967
R0250	Life catastrophe risk	84
R0255	Other life underwriting risk	
R0260	Diversification within life underwriting risk	-396
R0270	**Total Life underwriting risk**	1,192
	Health underwriting risk	
R0280	Health SLT risk	465
R0290	Health non SLT risk	0
R0300	Health catastrophe risk	18
R0305	Other health underwriting risk	
R0310	Diversification within health underwriting risk	-13
R0320	**Total Health underwriting risk**	470
	Non-life underwriting risk	
R0330	Non-life premium and reserve risk (ex catastrophe risk)	0
R0340	Non-life catastrophe risk	0
R0350	Lapse risk	0
R0355	Other non-life underwriting risk	0
R0360	Diversification within non-life underwriting risk	0
R0370	**Non-life underwriting risk**	0
R0400	**Intangible asset risk**	0
	Operational and other risks	
R0422	Operational risk	1,434
R0424	Other risks	
R0430	**Total Operational and other risks**	1,434
R0432	**Total before all diversification**	15,995
R0434	Total before diversification between risk modules	12,216
R0436	Diversification between risk modules	-1,418
R0438	**Total after diversification**	10,798
R0440	Loss absorbing capacity of technical provisions	0
R0450	Loss absorbing capacity of deferred tax	0
R0455	Other adjustments	0
R0460	**Solvency capital requirement including undisclosed capital add-on**	10,798
R0472	Disclosed capital add-on - excluding residual model limitation	
R0474	Disclosed capital add-on - residual model limitation	
R0480	**Solvency capital requirement including capital add-on**	10,798
R0490	Biting interest rate scenario	increase
R0495	Biting life lapse scenario	mass

IR.28.01.01

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	-6,011

		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	72,516	
R0220	Obligations with profit participation - future discretionary benefits	179,798	
R0230	Index-linked and unit-linked insurance obligations		
R0240	Other life (re)insurance and health (re)insurance obligations	23,747	
R0250	Total capital at risk for all life (re)insurance obligations		224,585

Overall MCR calculation

		C0070
R0300	Linear MCR	-6,011
R0310	SCR	10,798
R0320	MCR cap	4,859
R0330	MCR floor	2,700
R0340	Combined MCR	2,700
R0350	Absolute floor of the MCR	3,500
R0400	**Minimum Capital Requirement**	3,500